G4S plc

Capital Markets Update

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G4S

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QUESTIONS FROM

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Introduction

Ashley Almanza, Chief Executive Officer
Good afternoon ladies and gentlemen and a very warm welcome to our Capital Markets Day. It's terrific to see such a full turnout and of course we have people joining us via webcast as well and we extend to them also a warm welcome.

Now, before we get started I have to draw your attention to the standard legal disclaimer and I'm going to ask you to read it in your own time after the presentation.

Now the formal part of the presentation will last about an hour so we'll have plenty of time for questions and discussion afterwards.

We're meeting at a time of great positive change for our company. And that change began with the changes on our Board of Directors. We have a new chairman, I am the new chief executive and we have in the audience today and presenting later Himanshu Raja, our new CFO. We also have three new non-executive directors on our Board, so six out of eleven of our directors are new since June of last year.

Now we're fortunate to have in the audience today our Chairman John Connolly, John would you make yourself known? Thank you very much. And also sat next to him, Mark Seligman, our Vice Chairman. So please take the opportunity to see them afterwards and say hello.

The changes on the Board are very important and have also resulted in changes in the management team, me and Himanshu to name two. There have been other changes to the management team. I'll start with Himanshu who joined us in October as CFO. He's had a long and successful career in the services industry with BT, Logica and most recently Misys. He's already making a significant positive contribution at G4S.

In the past fortnight we also announced that Eddie Aston, who joined us as COO in July, would take up the position of Regional Chief Executive UK and Ireland. Eddie you will remember joined us from DHL after a distinguished career spanning 13 years there and he's now playing a vital role in restructuring and reenergising our UK business.

With the change in Eddie's role we took the opportunity to bring risk management, service excellence and financial management together under one umbrella reporting to Himanshu. And Himanshu will touch on each of those areas later today.

Yesterday we announced the Graham Levinsohn, a serving executive at G4S with over 20 years' experience in the security industry has taken up the position of Chief Executive of our European business.

And we've now established Africa as a standalone separate region; previously it was a sub-region under the UK umbrella. And Andy Baker, the President of our Africa region has joined our Group Executive Committee, to ensure that this rapidly growing market is properly represented at the executive table.

Last month in Latin America we strengthened our leadership with the addition of Martin Alvarez who came from Dell Corporation. Martin has lived and worked in ten Latin American countries. He will be based in Latin America and lead our Latin American business which is a change, Latin America was previously run out of North America.

We've also strengthened our risk management capability; in September Alastair James a former Deloitte partner joined us as Group Head of Risk and Programme Assurance. There are many other changes taking place in the management cadre, so as you can see the changes at both Board and executive level are pretty fundamental.

Against that backdrop of significant change I'd like to just take a moment to pay tribute and give thanks to the skill and commitment of each and every one of our more than 620,000 employees who do an outstanding job for our customers each and every day. They are an enormous asset to our company, we're proud of what we do and they are at the heart of everything that we do.

So with that introduction let's turn to the agenda, we're going to start with strategy and markets, then we're going to spend a bit of time on our core service lines and talk afterwards about strategic execution, alongside changes to the Board and management changes in the way we're executing our strategy represent the biggest change that we'll talk about today.

Strategy and Markets

The core of our strategy is unchanged, G4S is the world's leading global integrated security company, specialising in the provision of security products and services to customers in around 100 countries across six continents. And of course what's distinctive about this company is its outstanding exposure to rapidly growing emerging markets.

Our strategy is market led, everything begins with the customer. We set about seeking to understand our customers' strategic or commercial objectives and from there we design and deliver solutions which support those objectives. Our aim is simple and it's clear, it's to create sustainable shareholder value through the consistent delivery of excellence in three areas, customer service, operational performance and financial management.

Now in financial terms the creation of sustainable shareholder value will, we believe, drive long term growth in earnings and free cash flow in support of our progressive dividend policy. And that growth prospect is underpinned by a strongly growing global security market.

This is third party data which many of you will have seen. It's produced by Freedonia and it projects strong growth in the global security market. Indeed it projects growth in all regions across the world in the security market. And you'll notice that out to 2016 which is the reference for the CAGRs growth is projected to be between 9 and 10% per annum compound in emerging markets. That of course is where we have a very strong presence and a distinct competitive advantage.

Over the last five months we've performed a bottom up assessment of our markets and our business and our own assessment suggests that the market potential is greater than that shown here, even though this is not modest at £190bn.

Freedonia projects that by 2021 the market will be £190bn, or our assessment suggests that it will be that size by 2016, or 2017. And we believe the difference in our analysis is that this does not include some of the newer products and services that are being developed across the industry, but also in G4S, which means that customers are buying new higher value solutions, not captured by this research.

Indeed as this next slide shows, it's a bit busy and I hope you can see it more clearly in your books, but the point really is that G4S has been busy diversifying its products and services and developing value adding services that meet our customers' needs. We have three core service lines, each of which has a diverse array of products and services. Secure Solutions and Cash Solutions today comprise 92% of our revenues. However, we believe that the capability products and services that we have developed in our Care and Justice business will continue to have wider potential and wider application around the world. And for that reason we regard them as a core service line.

Now the diversity of our service lines is matched by the diversity of our geographic footprint. As you can see on this slide we have a truly global business in G4S, with large and established market positions in developed markets and rapidly growing positions in emerging markets. Our emerging market businesses account for about a third of Group revenues today, and that is expected to growth to about 40% by 2016. Our developing markets will continue to grow, but clearly our emerging markets will comprise a larger proportion of the business since they are expected to grow more quickly.

Overall we believe that the scale and the quality of the market opportunity supports an organic growth rate of between 5 and 8% per annum for the foreseeable future.

So our core strategy, our core services coupled with our markets and diverse customer base represent a powerful source of competitive advantage and they will endure, so what then is changing?

This slide summarises the very important changes that are now taking place in G4S. We've already talked about the Board and management and the other changes fall broadly into two categories, strategy and execution of that strategy. Let's begin by looking at strategic focus. This is one of the outputs of the business review that we've been conducting over the past five months. We've looked at each business in every country assessing its market potential, its competitive position and its business performance. We've looked at the materiality of its contribution to the Group over the next three to five years, organic growth, profit, cash generation. And we've also considered its market value and its risk profile.

Now on the vertical scale what we have here is cumulative profit and on the horizontal scale the number of countries in which we're operating. And from a profit perspective what the analysis shows, clearly, is that 62 countries contribute 95% of our projected profits in 2016. Of course this doesn't mean that those 62 countries are the only material or important businesses in our portfolio. There are some acorns on the right hand side of that chart that will grow into big oak trees in our business and we're going to continue to invest in those businesses and grow them. We know they have great potential.

However, some of our businesses are underperforming and do lack materiality. And these businesses you won't be surprised to hear typically absorb a disproportionate amount of management time. We've identified 35 businesses which are going to be subject to a further detailed review to determine whether we're able to grow, restructure, or failing that recycle the capital through a disposal programme. You can see that they in aggregate amount to £425m of revenue today at an average margin of 3%.

Turning now to the next theme under strategy which is organic investment, the industry as a whole and this company as well has to some degree relied upon acquisitions to drive growth and that's been perfectly sensible at different times in the cycle and depending on the quality of the opportunity. However, given the scale and the quality of our organic opportunity set we're shifting the balance more towards organic investment.

We face structural demand for our products and services around the world and today our pipeline stands at about £5bn per annum. We know from our analysis that we've under invested in some of our resource and capability in core markets that have strong organic opportunities.

Now as part of the rebalancing of our investment programme there will no longer be a ring fenced budget of £200m per annum for acquisitions. Instead we've established a single capital pool for all investment. And all investments will need to compete for funding in that single pool. This will be subject to stringent economic, financial and risk evaluation and Himanshu will have more to say about this later on.

Now acquisitions will continue to offer an important opportunity from time to time and will play a part in our strategy I'm sure. However, they'll need to be consistent with the strategy and they will need to compete for capital against our best organic opportunities.

I'd like to move on now to discuss the role of technology and innovation in our company. The technology opportunity we believe is very material in this company and it can be seen as falling into three areas, customer solutions, operations and infrastructure. This slide deals with customer solutions, Himanshu will touch on operations and infrastructure technology where there is an enormous opportunity to improve efficiency and reduce cost.

As part of our business review we've tried to assess technology systems innovation in each part of our business around the world. And what we found has been very interesting and very encouraging. The key findings are summarised on the left hand side of this slide. We found real pockets of excellence in our company where people often very quietly have been working away without great fanfare and have come up with some brilliant ideas. We've not exploited those ideas to the extent that we should do and now will do.

The capability is fragmented and it's isolated. So a brilliant piece of technology in market A is only to be found in market A. And we lack a global approach, a technology strategy and a technology plan to make the best of what we own already and to develop new technology.

The right hand side of the slide summarises what we are beginning to do and I stress initial actions, it's early days, there's much to do still. Our first job is to assemble what we know and build a group wide technology strategy and plan. Our second job, alongside that is to ensure that we technology capability in each of our regions. There are markets today that we believe have strong opportunities, where we have no technology capability.

We also have to incentivise, commercialisation beyond local borders. In some cases within regions we have countries that have developed world class products and by world class what I mean is a product that has a commercial application in a blue chip global company, we have a paying customer on the end of that technology. And even within region that technology is not being distributed.

We've got much work still to do to define the full plan, but the promise we believe is very, very substantial.

Before we move on to execution, strategy execution, I'm going to take a few moments to run through our core service lines starting with Cash Solutions. Now given the heightened interest in this business in the last few weeks we thought we'd spend a little bit more time on this business segment than others.

Core Service Lines - Cash Solutions

We'll start first by reminding ourselves of the market and the market characteristics. Our Cash Solution business provides a wide range of services from cash transportation to bullion management, through to the full outsourcing of the cash management cycle. Once again we believe that the external data does not include all of the products and services that we deliver to our customers today and it therefore understates both the size and the potential of this market.

The Cash Solutions markets as you know tends to be consolidated on the supply side with one, two or sometimes three major players in each market and it's typically disaggregated on the demand side.

G4S is number one or two in 61 of our 66 markets where we operate. Our Cash Solutions business is integrated into our wider organisation and its processes, particularly in emerging markets and the business today has revenues of around £1.2bn and growing. There are substantial barriers to entry in this market, it's typically regulated, often by central banks, and the business requires complex infrastructure and significant expertise. And that market structure and those barriers to entry are reflected in the returns, typically north of 10% in developed markets, I should have said margins - net margins, and north of 12% in emerging markets.

The market as a whole looks set to grow and that growth is being driven by a rising value of cash in circulation. What this slide shows is the rate at which the value of cash in circulation has been growing in markets where we operate, divided into developed and emerging markets. And you can see in developed markets over the last five years compound annual growth rate approaching 7% and in our emerging markets over 12%.

Now the reasons for this growth are many and they are complex, but there are two important drivers here, firstly rising per capita GDP and secondly, very importantly the role of innovation in cash services which is reducing the cost of using cash and increasing the ease of doing so.

Now against this market backdrop how has our Cash Solutions business been performing relative to the competition? And the answer is displayed on this next chart which shows that our cash business has delivered a strong competitive performance, measured on both organic growth and net margins. Now our market exposure, G4S's market exposure and our sales mix gives us an advantage, given the weight of high value service lines in our portfolio and our exposure to emerging markets.

What you can also see from the slide on the right hand side is that our UK and Ireland Cash business, there performance there has diluted the overall group performance. We know this, we talked about this at the half year and we announced then that we were embarking on a restructuring programme in both the UK and Ireland. And this slide gives you an up to date report card on that restructuring.

The restructuring is underway and it's making very satisfactory progress. In Ireland we've agreed a wage settlement with the unions and we've agreed price increases with our major customers and we're now setting about reducing our branch network by about 20%.

In the UK we've started with a fleet and headcount reduction programme to be followed by a reduction in our branch network, also around 20% and we're introducing modern solutions for route planning and optimisation, and also setting about agreeing price increases with customers.

All of this is designed to create sustainable businesses, businesses that by being sustainable will convey benefits to employees, customers and shareholders.

Now it's not all about cost cutting and restructuring. We think there is ample opportunity to grow the top line as well. This slide shows the services that we offer in our company and compares that to our competitors. So on the far right you have a description of those services, from entry level services, secure transportation through to the most sophisticated and highest value services of outsourcing. And the left hand vertical scale represents increase in complexity, sophistication, longevity of revenue stream and typically higher margins.

The numbers within the coloured ovals represent the number of countries in which we and our competitors deliver those services. And you'll notice that relative to our competitors we have two clear and very important advantages. Firstly we're in many more markets than our competitors, typically with higher emerging market exposure.

And secondly we have much greater penetration of high value services in our portfolio. Nevertheless even with those advantages when you look at the distribution of our services across our portfolio it's obvious there is still an enormous opportunity to increase the penetration of high value services across our businesses. Only 13 of our 66 markets today have capability to deliver our most sophisticated services.

This is not the end of the story; we continue to innovate in the Cash business through the use of technology and know-how. And I'd like to share with you a few examples of that work.

This is a product, it's a proprietary G4S product which some of you will have heard about. It's called CASH360. It's a proven product that's deployed across our markets and customer segments; we have over 4,000 devices installed today. It simplifies the cash management process typically for retailers. It goes from effectively till, to box, to bank and it enables the customer to track the cash throughout that process and in some markets achieve earlier credit at bank.

It's growing strongly in South Africa, the Netherlands and in Belgium. And we've now launched a US version of this product in the United States. We were delighted last week to launch US CASH360 with Bank of America to serve one of the world's largest retailers.

This is a synopsis of the US retail proposition. On the left hand side we have our customer objectives and on the right hand side we have our response to those objectives. Everything begins with the customer, retail customers in the US are looking for efficiency, reducing overhead cost, increased use of cash technology. They want to focus their time, effort and attention on sales, building brand and customer satisfaction and they want to spend rather less time on back office functions such as cash management.

US CASH360 reduces cash transportation costs, provides greater visibility of cash through the cash cycle, provides faster funds for value, earlier credit at bank, reduces cash on hand and generally reduces handling time and cost. So once again a piece of innovation that meets the customers' commercial objectives.

So in summary our Cash Solution business is growing, it's growing on the back of rising value of cash in circulation, we're very strongly positioned being number one or two in 61 or our 66 markets. The business is typically integrated with Secure Solutions in emerging markets and that business has been delivering competitive margins and growth rates. It's a leading provider of value added services, developing customer focused technology solutions through long term partnership with blue chip global customers. It's a unique integrated business and we believe it has excellent prospects.

Secure Solutions

I'm going to move on now to our second core service line, Secure Solutions. Starting again with the overall market; it's a market, as you know, that's characterised by a highly fragmented supply side and a highly segmented demand side where services range from entry level manned security products and services, to more sophisticated solutions using integrated system and software technology.

G4S is a global player with top three positions in 80 of the markets in which we operate. There are few global players and the larger players in this market typically have much greater technology integration capability. Barriers to entry can be low for entry level services in low markets. But these are higher where global coverage or technology is required by customers.

The market structure and the barriers to entry are reflected again in the margins, 2 to 7% in the developed markets and 5 to 12% in emerging markets. The market is very large; £71bn is the Freedonia estimate. We again believe that that underestimates the size of the market and it's set to grow according to Freedonia at around 7.5% per annum out to 2016.

Now this next slide focuses on our market positions and we've selected two of our services from our core service line, manned security on the left hand side and systems on the right hand side. And the first obvious observation is the manned security business is much, much larger than the security business, which is not a small business at £800m but we believe it still has significant potential to grow. You can also see that this is a global business with strong emerging market positions.

This next slide is similar to the one we looked at for Cash Solutions. It's a hierarchy of products and services with the entry level products and services shown at the bottom, rising up to the more sophisticated higher value add products and it's got the same vertical scale of increasing complexity, longevity of revenue and margin.

Now once again we can see that of the 104 countries where we deliver secure solutions a rather small proportion deliver high value, complex sophisticated products and that is clearly an opportunity for us. We're addressing that opportunity by increasing the investment in sales and business development and that's a subject that we're going to return to shortly.

So in summary our Secure Solutions business is large, it's in a growing market - rapidly growing in the case of emerging markets. We're increasingly combining manned security and technology to move up the value scale. And this is a business that's integrated with cash solutions in our emerging markets.

We're starting to use our scale and we are restructuring to embed cost leadership. Although we're a global company and a very large company we don't today leverage our scale. We're using innovation to address market segmentation and again to drive product and service development up the value chain. And our coverage and our capability, I should add our brand is a differentiator, for multinationals in emerging markets.

Care and Justice Services

Our final core service line is Care and Justice Services. This is a highly specialised multi billion pound market. And we estimate that the market is set to grow at high single digit growth rates. The market today is geographically highly concentrated in the UK, USA, Australia and New Zealand. But we're seeing increasing interest from emerging market countries as they too address the question of fiscal management and efficient delivery of services.

The market structure is typically consolidated on the supply side and the demand side quite obviously is government, central government, local government, government agencies. We have a leading position in the UK, we're number two in Australia and you can see the global competitors on the slide.

The barriers to entry are quite high in this market because the service is highly specialised. And the complexity of those services is reflected in the margins, typical first generation contracts have net margins of more than 15% and second generation contracts typically around 10%, 8 to 10%.

Now what this slide illustrates is that G4S has established over time real capability and a diverse service offering. Today we deliver a wide range of services from secure transportation, through to immigration and border control, custody and rehabilitation, technology and equipment provision, and police support services. This capability we believe has wider application in other markets and we believe it can also be extended in our existing markets. And that is what we plan to do by leveraging this capability.

This slide summarises our Care and Justice Services, I won't repeat all of the points, the key points here really to make are that it must be obvious to everyone that we are setting about rebuilding our reputation in the UK under new leadership in this market segment. And alongside that we're taking steps to strengthen our risk management and our controls right across the Group but in this business as well. Our objective therefore is to consolidate and from there to grow this business.

Strategy Execution

We're going to move on now to strategy execution. An area where there are many changes taking place in the company. Those changes can be summarised in five themes, people and values, performance management, investment in customer service and organic growth, service excellence and disciplined financial management.

I'll deal with the first three and then I'm going to hand over to Himanshu who will take us through service excellence and financial management.

So people and values first, we've talked about the Board and management already, six new Board members, five changes to the Group Executive Committee and a number of other important changes already in place and others underway.

The other two areas are reinforcing corporate values and developing our resource and capability through a systematic process to ensure that we have the right people lined up against the best opportunities.

Let me start with Group values, now hopefully these will all be familiar to most of you, customer focus, expertise, best people, team work and collaboration, integrity and performance. Our goal is to ensure three things, firstly that the values are consistent with and support our strategy, they do. Secondly that our employees understand and are committed to these values and thirdly that we consistently apply these values in everything we do.

In this respect I've been enormously encouraged as I've travelled around the five regions of our business. Our employees are clearly committed to our company's values and to customer focus in particular. However, at times in the recent past our focus on short term objectives has caused us to take our eye off the ball and the result has been that our customer service has suffered. We must and we will provide the leadership and the support to our employees to ensure that our values are reflected in everything we do.

Now these values when you look at them are designed to be mutually reinforcing. So I'm confident that by focusing on these values we will improve our long term performance and I'd like to take a moment to address some of the changes we're making in performance management.

We are at G4S putting in place a new performance management framework. This slide summarises some of the key elements of that framework. Across the Group we will conduct detailed monthly performance reviews at the region, business unit and where applicable down to branch level. And every quarter the Group Executive Committee will conduct an in depth quarterly performance review that will focus on earnings quality and sustainable cash flow.

We will make extensive use of internal and external benchmarking to ensure that we're making the most of best practice, both inside and outside the Group. And we will pay more attention and put more resource into health and safety. I should pay tribute to our HR Director who is not here today who has made an enormous positive difference to our health and safety performance, it's come a long way, but it has much, much further to do.

Finally we're going to strengthen the link between performance and reward. The budget will be set in the context of the long term business plan, which of course supports our strategy. And by the 1st of January each year, each and every member of our leadership team will be able to hold in his or her hand a performance contract, for him, for her and their team. And this will clearly describe the role they have to play in contributing to the success of the company. Taken together I am confident that all of these measures will strengthen our performance management culture.

Now our ability to perform is of course only as good as the resource and capability that we have across the Group. And that's the next theme that I'd like to address.

A key part of our bottom up business review of the past five months has been to conduct a structured assessment of the resource and capability in each of our businesses. It's focused on business critical positions, mapping our capability and our capacity against the market opportunity and the business plan requirement to address that opportunity.

At this stage it's focused on sales, business development, finance, HR, general management and operations, so pretty broad, pretty far reaching. What we've found is that we have clear strengths in many of the businesses that we operate, but we've also identified a significant number of areas where we have under invested in business critical positions. And we need to now address that and invest to grow.

As a result we're putting in place these plans to strengthen our capability on all of these areas. Let's take a look at one of those areas, sales and business development. The aim here is to invest in customer service and organic growth. This to remind you is our sales pipeline at the end of the September, around £5bn per annum; it's a large growing pipeline.

To capitalise on that pipeline we need to ensure that we have the resource and capability in sales and business development right across the Group. Our review identified a number of important findings which are summarised on the left hand side of this chart. First of all our sales systems are not being consistently used for active deal capture or customer account management.

We also found that our sales leadership and sales resource is significantly underweight in some of our core markets. Finally in some businesses our sales performance framework is underdeveloped and our cross border incentives do not always promote the sale of global products. All of these things are missed opportunities. The clarity of these findings enables us to put in place clear actions to address the findings.

Firstly we're introducing incentives for effective pipeline management, secondly and very importantly we will be making a significant investment to strengthen our sales and business development teams, with additional talent and training complemented by a revised sales performance framework and revised incentives to promote global sales lines. Overall we'll be investing £15m to £20m in 2014 in this area.

I'm going to hand you over to our new CFO Himanshu Raja who will take you through most of the rest of the presentation.

Financial Framework

Himanshu Raja, Chief Financial Officer
Thank you Ashley and good afternoon everyone. I've been with the business for around five weeks and it's been a time when there's plenty been going on as you can imagine. We've had the preparation for the strategy review; I've also had the opportunity to do an initial review of all of the budgets on a worldwide basis, country by country. And of course I've been immersed in understanding the real drivers of value in the Cash Solutions business.

What I'm going to take you through today is the new financial framework that we're putting in place, and above all that is focused on disciplined financial management. Before I do so I just want to share with you some early impressions and one of those early impressions is actually that there's been a lot of work done over the past 12 months in bringing together best practice tools, processes, and available systems. And that the process to start to roll those out consistently on a global basis has begun.

It's also an early impression that there's a lot more to do in order to roll that out rigorously everywhere, and I'm going to try and draw those things out as we go through today.

So the agenda for this afternoon is going to start at the top of the P&L, focused on contracts, risk management and delivery assurance. We'll then talk about service excellence, and service excellence fundamentally is about driving margin management and margin improvement whist at the same time driving improvement in customer service.

I'll talk about cost leadership, including the investments that we're making in restructuring and then focus on free cash flow, capital discipline and balance sheet.

So with that let's start by looking at the revenue line. You'll recall that late last year the Board decided to strengthen the risk management and delivery assurance capability around the Group. And today there are clear reserve powers in place for major complex contracts that are subject to review by the Group Executive. Coming new into the organisation I've already participated in several of these. And I've also had an initial look at the list of larger contracts in some of the major territories. Generally there is good understanding of the performance and returns on contracts.

At the regional and country level there is a new process being put in place to assess contract risk at a number of dimensions below that Group level, to look at financial, commercial, legal, delivery and reputational risk. The idea being that the contract risk assessment happens more rigorously before we commit and then is an ongoing part of the contract life cycle. And again the journey to roll these things out has begun, what we need to do is accelerate and embed that in every region and in every country and in every business unit as quickly as possible.

Now in terms of risk management there are some outstanding examples of effective risk management every day in the business, for example in border protection, in cash processing, in cash in transit and so on. But of course as a group we recognise that there are areas where we have more to do.

To address these Alastair James, our recently appointed Head of Risk Management is putting in place a risk management and programme assurance framework, which looks at both mobilisation and delivery life cycle. And amongst other things what that will do is put a traffic lighting system in place that says, what were the commitments that we made at the time of contract and how are we doing those in life, as well as to look at customer satisfaction, commercial, and financial performance; in other words a 360 degree view of contract performance.

Let's now look at service excellence, as I said this is about improving customer service and improving margin at the same time by driving consistent operational excellence through the business. And this agenda I'm personally very excited by because it gives me the levers to bring financial performance together with the operational interventions we can make to drive those improvements.

Last year the company invested in creating Service Excellence Centres for both Secure and Cash solutions. And in essence what the SECs comprise are a number of experts who previously held roles in the line. And over the past 12 months working with their colleagues in the business it is they who've brought together the best practices, tools and the available systems today, which we know when implemented have a proven positive impact on gross margin. And this matters, and it really matters because we have considerable variability in the range of gross margins across the Group and this is what the next chart shows.

Just to orient you, the chart shows the range of gross margins in the business, Cash Solutions on the left and Secure Solutions on the right. The dots show the difference between the highest gross margin business, within each region at the top, the line across is the average and the lowest performing gross margin business is shown by the black dot at the bottom.

Of course this variability in part is a function of the market and the market structure, you'd expect that. But it is also a function of how efficient and effective we are at service delivery. There is clearly scope to help the lower performing businesses to improve their margins. And this is where the SECs come in, because below this top level the SECs have performed a detailed benchmarking of selected businesses against the best practices. And the next slide shows you a real example.

Shown here is the Secure Solution service line within one of our emerging markets businesses, and this was a business that was forecast to make a loss approaching £400,000 in 2013. But working hand in glove with the SEC it is now forecast to deliver a profit of over £400,000 in 2014.

And the spidergram on the left hand side represents the detailed diagnostic across 13 dimensions. In this case it's more efficient deployment of direct labour that will drive more than £500,000 of the margin improvement and it is fundamentally about better managing labour utilisation, shift patterns, overtime as well as unrecovered overtime and sickness levels. And then there will be other interventions such as training and process changes that will deliver the balance of the improvement. And it doesn't stop there. This is a continuous programme whereby scheduling, service improvements, contract management will then form part of an ongoing margin optimisation programme into 2015.

Using the same approach our Cash SEC is working with the business in driving margin improvement also in many of our Cash businesses.

So to summarise there's a codified set of best practices systematically being rolled out across the business in both Secure and Cash Solutions.

As we then introduce more strategic operational systems this will give us better management information and control and drive even further margin improvement.

Let's now turn to cost leadership. As with gross margin many similar businesses, sometimes even in the same region have markedly different overhead structures. And this slide again shows the variability in the range of overheads as a percentage of revenue, between the lower performing units, the average and the best in class. And on the far right hand side to a different scale is showing the range of regional overheads. And naturally this chart is inverted with low being good on this chart and the black dots being high overheads as a percentage of revenue.

As you know I spent the best part of the last year in the private equity environment. Well from the initial rounds of budget reviews I can tell you we can and have more to do on costs and cost reduction.

The primary performance measure to date has been overhead as a percentage of revenue, rather than cost and absolute cost reduction. And that this means is that for businesses that have been growing they focus on the overhead percentage and they can keep adding costs provided that the percentage of overhead to revenue either stays flat, or falls. And for businesses under gross margin pressure a focus on overhead as a percentage of revenue has meant the costs have not come out fast enough to make those businesses competitive.

I've therefore asked the business to work to a new paradigm, to zero base the overhead costs and to focus on absolute cost reduction. I want to give you a few examples of the types of opportunities that we have on cost reduction.

Just recently in the UK we were able to reduce headcount by around 100 people by implementing a more optimal organisation structure. In my own finance organisation in the UK there are three separate accounting organisations, three separate accounting platforms and the team is spread across nine different locations. Now I'm pleased to say our former CFO Mr Almanza sponsored a shared service initiative to bring together all the back office finance functions in the UK over the next 18 months that will deliver annualised benefits of £2m to £3m.

And there are other shared service type opportunities across the Group, but there are simpler ones as well. For example when I look back to discretionary costs our discretionary costs across the Group over the last 12 months have remained broadly flat. That cannot be the right answer.

So in summary on cost leadership we'll take a zero based approach to overheads and functional costs. We'll drive for operating leverage wherever possible, through more optimal organisational design at the country and regional level. We will look at share services and procurement and invest in strategic systems like the UK SAP program. We'll look at property rationalisation and of course the discretionary costs.

And there is no one silver bullet and some of these things may be long dated due to long term property leases or supplier contracts. But just going back to the previous chart getting the lower performing units up to the average through zero basing will bring further improvements in profitability year on year.

Before I leave cost leadership let me turn to restructuring. At the half year we outlined the restructuring of our UK and Ireland Cash business and Ashley updated you on our progress on that today. We also talked about the need for restructuring in some of our European businesses with a combined investment of £30m to £35m, delivering tangible benefits in FY'14.

Well the teams are getting on with it, the top half of the chart shows those restructuring investments that have been costed, satisfy the new hurdle rates, and are in execution and delivering. The bottom half of the chart shows that we also have a significant number of opportunities that are under evaluation. And we will be disciplined about this evaluation, as we will on all investments. A clear case is one that will deliver a 10% post-tax internal rate of return and meet a payback hurdle of between 12 and 36 months that we have set for restructuring. The 36 months is driven by the reality of payback periods in some of our Continental European locations.

So I'd like to change gear now and let's talk about cash and in particular free cash flow. Naturally free cash flow ultimately creates choices and options for G4S and drives value for shareholders - that's clear. Operationally we are committed to measuring and driving the business to deliver free cash flow after working capital and capital expenditure. And this is being reflected in the FY'14 budgets and will be a key performance target across the business.

And when I look at the drivers of working capital actually there are some businesses where the DSO isn't bad, but at the same time there are an equal or more number of businesses where there are opportunities for improvement. At the more detailed level we need to improve the monitoring of cash and cash forecasting from monthly to weekly and we need to look at opportunities to be more disciplined, about commercial terms for receivables, to drive better terms from our supply chain and to reduce the time from event to billing.

And where there are milestone based contracts we'll need to ensure that any work in progress is tied to the value delivered to the customer so that we can trigger both billing and of course cash. That's operating cash flow.

For shareholders we need to ensure that we can fund our tax, service our debt, meet our pension obligations and continue to invest in the business in a disciplined way so that we can generate sustainable cash flow and pay progressive dividends. And it's early days for me, but when I look back as far as I can see our use of cash can be improved. And it's in light of this that we've set new capital disciplines across the Group and I'd now like to turn to these.

For capital allocation we've set a new hurdle rate, the 10% post-tax IRR that I talked about earlier and for revenue investments we'll additionally look at payback of between 12 and 36 months for all investment in sales, marketing and restructuring. And then there's capital expenditure, last week I chaired and all day review of the Group's capital budgets from around the world. And it was an early opportunity for me to put my stamp on capital rationing by bringing in the new process.

I asked the finance and operational teams around the world to prepare their capital submissions on a different basis. For example to look at branch and root level profitability for infrastructure investments, or where there was a request for capital to ask what the margin improvement or cost reduction would be from the deployment of that capital.

I was genuinely delighted by the response I got and the level of detail behind the submissions. But there was something different last week and what was different is that we took a Group wide view of the allocation of capital; a single pool of capital across the Group. I'm confident we have a new process and that the change has begun, but there remains much to do and I look forward to updating you on our progress in this area.

What I have yet to see is the in life review of capital programmes and that's important because we should be assessing what we should be accelerating. And we should also be assessing where we need to make early interventions to help and support businesses to deliver the promised returns. So I'll also be looking at that. And lastly as Ashley has mentioned, we will be rebalancing our organic and inorganic investment with the plans that we've talked about today largely focused on organic growth.

So finally let me turn to the balance sheet. The Board remains committed to maintaining a strong balance sheet with a net debt to EBITDA target of less than two and a half times. The placing at the half year was the first step to repair the balance sheet. And together with the divestment of our businesses in Colombia and Canada we will generate cash inflows in excess of £450m.

On the 31st of October you will have seen that we have signed an agreement to sell our business in Norway, and subject to the customary approvals we expect to receive net proceeds of around £32m.

Our unutilised but committed facilities at the end of September were £960m, with no major refinancing due until 2016.

So let me now bring together some of the moving parts of today's presentation before handing back to Ashley. There are a set of best practices and frameworks that have been developed and new ones that are being introduced. They have not always been rolled out and that is what we're doing now.

The Service Excellence Centres are focused on operational excellence and together with the investment in strategic systems will drive improvement in margin and in customer experience. On cost leadership we have significant opportunities to drive operating leverage and to reduce cost.

We will be disciplined about investments, including investments in restructuring and in 2014 we will be investing £15m to £20m in sales and business development in our technology businesses. But beyond 2014 further investment will progressively be funded through overhead reductions. And it is these investments that will underpin our growth target of 5 to 8% compound.

We've talked a lot about capital discipline and portfolio management so I won't repeat those again.

Above all the message I'd like you to take away is that we will be driving a disciplined financial management across the business and through that drive sustainable growth in profits and cash flow. So with that I'd like to hand you back to Ashley.

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Summary

Ashley Almanza, Chief Executive Officer
Thanks very much Himanshu. Right ladies and gentlemen a quick summary before we open up for questions. So we have now established that we have strong demand for our products, services and solutions across the world. We're addressing that demand from a position of very strong market positions, especially in emerging markets. We have a clear and focused strategy and that strategy is underpinned by our resource and capability which we're strengthening. We're also putting in place plans to leverage technology and innovation across the Group.

We're investing very significantly in customer service and organic growth. And running through all of this we're reinforcing Group values. Alongside that we're introducing a new performance management framework, focusing on cost leadership, cash flow, capital discipline and health and safety. All of these things taken together we believe give great confidence, should give great confidence in the delivery of sustainable, profitable growth from this business.

Thank you very much indeed we're going to take questions and answers - we're going to take questions and give answers. If you have a question could you raise your hand, you'll be handed a roving microphone and if you could state your name and your affiliation when asking a question that would be much appreciated.

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Questions and Answers

Robert Plant, JP Morgan
I know Ashley you've stepped away from giving margin guidance, but should we think of that £15m to £20m investment as something that's going to have come out of 2014 margin expectations? Or has the underlying business in terms of say UK cash management restructuring performed well enough that you think it will net out?

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Ashley Almanza, Chief Executive Officer
Thanks Rob, it will be a charge to 2014 profits, clearly. The degree to which that affects net margin remains to be seen, the rate at which we can generate offsetting savings, Himanshu touched on this, is to be determined really. We're starting out now on this

restructuring programme, it's very, very early days. We know we've got a clear plan, we're resourcing that plan and Himanshu gave a range on the payback period; so some of those benefits will show up in 2014.

We're very focused on the bottom line, so that's not to diminish the importance of margin, but you know at the end of the day we're looking at profit. And really all of the things we talked about today are designed to enhance profitability; whether it's an improvement in sales mix by driving higher value products through the sales book, or the things that Himanshu talked about, taking cost out of the business. They all have the same objective really, grow the top line, and increase our efficiency. The net effect of which will be to make the business more profitability.

But you know giving you pinpoint guidance this quarter, next quarter, or even the full year next year we don't think is sensible for us to do. Do you want to add to that Himanshu?

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Himanshu Raja, Chief Financial Officer
I would simply add you know with respect to 2014 it's all about a timing difference, you know we've said that progressively the investments we need to make in sales and marketing will be funded through a reduction in overhead and of course we'd seek to generate cost reductions over and above those investments to benefit the bottom line. So what you see in 2014 is that timing difference.

Ashley also mentioned that you know the investments that we make are very targeted. They're based on going through the pipeline and looking at the cover that we have to address you know real opportunities in that pipeline. So it's a very targeted and systematic approach to that investment.

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Andy Chu, Deutsche Bank
Good afternoon, a couple of questions if I may please. We've heard a lot about cost reduction, we've heard a lot about cash flow improvement, is it just early days in terms of a sort of three year view to wrap some sort of the financial targets around cost reduction and cash flow. I mean in the past we've had a cash flow conversion target, are we likely to get that a bit further down the line as you get a chance to dig deeper?

And secondly we didn't have a call after the IMS today, but maybe you could if possible give us a flavour of sort of current trading. We saw that maybe the growth rate into Q3 has slightly softened with a divergence of emerging market growth being stronger and developed market growth being slightly weaker and maybe a little bit more detail around that please? Thank you.

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Ashley Almanza, Chief Executive Officer
Thanks Andy, I'll ask Himanshu to talk about the IMS in a second. I mean my only comment just to reinforce a comment you've made is we've been delighted with the

performance in emerging markets really going strongly. And it's our view that greater performance is possible. We're underinvested in many of those markets.

Before passing IMS over to Himanshu let me just comment on is it early days and can we scale the opportunities and put targets and OCF and so on. It is early days. And we see substantial opportunity really everywhere, in the revenue line, the gross margin line, overhead, cash conversion. You know one of the great things of having Himanshu on the team over the last five weeks is that we're able, with the horsepower that he brings we're bringing some order to all the choices, literally prioritising what we do is a big part of our challenge at the moment. There are so many things to go after.

So we think the opportunity set is very rich indeed. We know though that if this was an easy thing to do it would have been done, we're not naïve - not all the time. And so we have to go about this in a structured carefully planned way. That will take a bit of time, but I am very confident that once we get some momentum and we get into the habit of doing this there's a lot of runway in front of us and there's a huge opportunity.

I'll let Himanshu talk about cash - OCF in its old form is not coming back, I don't know whether some other measure will be considered appropriate at some point. But as you know I think I like to look at the whole cash flow statement. But we've got a new CFO so he might have a different view.

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Himanshu Raja, Chief Financial Officer
Well you know Ashley we agree wholeheartedly on that. The danger with OCF in the past is that it hasn't been properly managed and defined. So it's important that we give the businesses the operational levers that they need, which is largely about the cash flow they generate from operations, including the change in working capital and the capital that they're drawing from the single pool of capital.

So each of the businesses will have you know a cash flow target, not a percentage but a hard number and then variability around that number like you'd expect, so that as operational managers they're incentivised to go and do the right thing, which is to drive cash for the business. So we're agreed on that. And of course it's free cash flow that really matters and we're joined as an Executive Team and as a Board in driving for that number.

Andy, just on IMS the IMS today really reflected, as Ashley said, continued strong growth in emerging markets. And we saw that across all of our emerging markets, in Latin America, in Africa, in Asia and the Middle East. The headline number of 4.8 where you note a slowdown in the headline number we really talked about in the statement this morning, which is in some of our European markets actually market conditions remain challenging. But actually it wasn't even in Central Europe, where you know we've got some of our bigger engines. It was largely in Eastern Europe where we saw some of the softness in the market.

And then of course we talked about lower US Federal Government spending. It's early days to see how that's going to play out and I'm not talking about the short period of shut down, but actually I'm talking about the US Federal Government looking at the major capital programmes, which in large parts affect our systems business, they affect our Secure Solutions business also, but underneath that the US business is managed extremely well and actually overall that business showed growth. So there were just those two small areas that brought down that overall growth rate. Thanks Andy.

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Kean Marden, Jefferies
Can I ask on two different areas please, first of all on Service Excellence Centres, we first started discussing those in about May 2012, the last Capital Markets Day and obviously a series of initiatives were put in place and also we talked around some of the potential profit benefits to come through from that; have those generally delivered? Are you happy with how the performance has panned out? Or are you really looking to push those to a greater degree?

And I've got some further questions on the 35 countries, but I'm conscious this mic is rather loud?

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Ashley Almanza, Chief Executive Officer
Kean thanks, I'll ask Himanshu to comment again in a moment but let me offer you my perspective on this. Himanshu said in his presentation that he's found coming into the company many of the tools that you would look for in driving service excellence and operational performance. And I think really that's what's been doing on principally, that's been the principal activity over the past 12 months is developing those tools.

Have the tools been deployed across the company? Has our management cadre across the company become adept at using those tools? No. So I think we've got the beginnings of what the Service Excellence Centre can offer the company and that is starting to happen, it's not like there's no activity out in the field, we've started out with some pilots and those pilots have been very encouraging.

But I think you know with Eddie moving, where is Eddie, Eddie would you mind standing up, that's Eddie Aston who is our new Chief Executive of our UK and Ireland business, thanks Eddie. So Eddie moved it on a bit further in the time since he joined us and this is an area that Eddie had lots of experience with in his previous employment and we're very fortunate that so did Himanshu have this experience, so we're collecting a lot of experience around this.

There's a lot left to do to really get this up and running, I don't know if you want to comment on it.

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Himanshu Raja, Chief Financial Officer
I'd just add two small comments, where I see it is in the intersect between the countries preparing their budgets and the SECs having prepared improvement plans. And therefore if I can see that handshake between the two being locked into budgets where therefore both the SEC and the country or service line is committed to deliver them I know that there's going to be actions and interventions take place. And it actually is

thanks - I've only been here for five weeks, it's thanks to all the hard work of Eddie and his team that all of this has occurred.

So the other commented I wanted to add is that Eddie is going to be in his UK role the showcase for the Service Excellence Centre so I've also got people in the business now pulling the equity, so I look forward to that Eddie.

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Ashley Almanza, Chief Executive Officer
You probably know this, but Service Excellence Centres are well established in the oil and gas industry and a lot of it is about developing habits, good habits across an organisation. And we're just learning to use the tools now.

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Kean Marden, Jefferies
Can I ask a few quick questions about the 35 countries on slide nine as well? First of all could you let us know whether any of those 35 also sit within the top 25 G4S countries by revenue, i.e. they're one of the large countries that you've disclosed revenue or EBIT on in the past?

And then secondly do any of them have business mix where it would be difficult for them to get to a Group average EBIT margin?

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Ashley Almanza, Chief Executive Officer
On the first question the answer is no, it does include our Norwegian security business, that's the one that's been identified. Clearly we're working through a programme now where we'll either find a way to grow those businesses, and be confident that they will make a material contribution or alternatively that the business can be economically restructured against the criteria that Himanshu mentioned in his presentation and deliver acceptable profitability.

Failing either of those and providing there's a sufficiently attractive market we'll sell the asset and recycle the capital. So for that reason we're not producing a long list of these, we want the businesses to keep working, we're going to be working with them over the next six to 12 months. And I would not be at all surprised if some come out of that - a few come out, we find a way to reenergise the business, restructure it and keep it moving forward and others are added to that category.

I think an important thing to take away from today is that's not a sort of one shot exercise. This is a healthy part of capital discipline to have an active portfolio management process. It's not to say that we're going to have constant friction in the portfolio, but that you're always considering the question - do the assets in the portfolio earn their place, are they earning their keep, is there more they can do?

The second part of your question?

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Kean Marden, Jefferies
Do any of them have ...

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Ashley Almanza, Chief Executive Officer
Oh mixed characteristics, no not really. typically these assets have got a number of things in common, they're subscale, or they're in a market where the market structures fundamentally require some sort of consolidation to take place, we have to be a buyer or a seller in those circumstances, or the market has gone through a change and we've not responded to that change, typically we've not taken cost out of the business, or our cost base doesn't allow us to take cost out of the business easily. And that's again where a consolidation opportunity can create better economics for the business.

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Andrew Ripper, Merrill Lynch
I've got two questions, first of all on slide 48 you've listed a number of cost initiatives and I just wanted to clarify the 30 to 35 million aggregate spend. Are you talking about the three boxes in execution and if so I'm just wondering how significant the items under evaluation are? And then on the in execution pieces, if you could give us a sense of timing and materiality that would be useful? Thank you.

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Ashley Almanza, Chief Executive Officer
I'm going to ask Himanshu to address that question.

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Himanshu Raja, Chief Financial Officer
Thanks Ashley. Yes the 30 to 35 is in the top half, Ashley talked at the half year about the restructuring of UK and Ireland Cash which you see there. He also talked about restructuring Europe and what you see in the big shaded box that that's underway. I talked about the UK Shared Service Centre which is the programme that Ashley sponsored when he was CFO and UK regional overheads is that initial hundred that I gave in my example in my text.

Under evaluation these are at the early stage of evaluation so we are not yet sitting on submissions from the business units. We just know that for example in our businesses in Belgium and the Netherlands, if I use that to illustrate they have run as independent businesses in Cash and Secure Cash businesses have run on an integrated basis across those two territories, but Secure Solutions haven't. So it's on the list to say, what are the available opportunities, how quickly can they be realised and what's the investment that we'll need?

Equally when you look at some of the shared service initiatives we have a reference point of a shared service in finance for example in the US. The whole of the US is there. What I need to evaluate is whether I can drop the Latin America finance organisation into the US shared service organisation. So they really are under evaluation and we'll go through and appropriately phase them and make sure they give us the right returns.

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Ashley Almanza, Chief Executive Officer
You asked also about phasing or timing on the inflight programmes Andrew. UK and Ireland the objective is to get most of that done by the end of next year, some of it will run into 2015, a small portion of it will run into 2015 in the UK. We have to go about that quite carefully it's operationally critical infrastructure. And these all meet the thresholds that Himanshu described in his presentation. So typically we're looking here at 18 to 24 months. Northwest Europe as Himanshu highlighted, a different environment and it takes a bit longer, typically 36 months.

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Andrew Ripper, Merrill Lynch
Okay, and then maybe briefly just the second question I had concerns slide 39 and the incremental investment in sales and business development. And a similar sort of theme really, I'm just wondering in terms of the extra money you are spending, how much is about extra resource and where is that going to go across the business? So you mentioned in your presentation Ashley I think there's a number of areas which the Group haven't exploited as well as it might have done, so where are you putting the extra resources? And then in terms of doing the things more efficiently how's the balance of the £15m to £20m where is going to be spent please?

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Ashley Almanza, Chief Executive Officer
I'll ask Himanshu to address the second part, the efficiency aspect. The sales and business development and the investment in customer service on this initiative is focused principally in the Middle East and some of our Asian markets, Africa we're heavily underinvested in this capability in parts of Africa and Latin America, so essentially the developing markets or emerging markets.

The other area, quite surprisingly, is in parts of Europe where we're underinvesting in sales and business development capability. Specifically I think in systems and technology deployment.

We're not saying all of this will be plain sailing, we know it's going to take time, but you know Europe is an example where we've got in pockets really excellent management teams, great innovation offering products and services to customers which we're just not offering in other parts of the region. And that we have to change.

Graham Levinsohn who's taken up the position of Regional Chief Executive is going to be based in Amsterdam in Europe and he knows this market well, he knows our business extremely well and this is going to be one of his key objectives. He was actually instrumental in setting up salesforce.com across our company and institutionalising our sales and business development process. And that's just in a short period of time that he's applied himself to that and he's made a huge impression.

But what we've found through this sort of systematic capability audit if you like was we had big gaps. So those are the areas that we're going to be focusing on. The second part of the question.

Himanshu Raja, Chief Financial Officer
Sorry could you repeat it because I was writing down the first part of the question?

Andrew Ripper, Merrill Lynch
No I just wondered in terms of £15m to £20m how much of it is extra resourcing and how much of it is spending money on stuff so that you can sell smarter? You know for example how many extra sales people might you add over the next 12 months as opposed to what you might spend on systems to help the existing sales force to become more productive?

Ashley Almanza, Chief Executive Officer
The majority of this is people cost.

Himanshu Raja, Chief Financial Officer
Mostly people.

Andrew Ripper, Merrill Lynch
So mainly extra heads?

Ashley Almanza, Chief Executive Officer
Yeah.

Andrew Ripper, Merrill Lynch
Okay and presumably they'll go in over the course of the '14 financial year?

Ashley Almanza, Chief Executive Officer
Yes, correct they won't - if we're lucky we'll get them all in through the year.

Himanshu Raja, Chief Financial Officer
If you're trying to do your model don't drop them all in on the 1st of January because I'm not going to allow that.

Andrew Ripper, Merrill Lynch
But the 15 to 20 mil I mean that's incremental cost sort of '14 versus '13, or is that an annual number that will go in over the course of the year?

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Ashley Almanza, Chief Executive Officer
Well again it's certainly an incremental cost and as Himanshu pointed out in his presentation we think it's sensible to just at this stage highlight the cost in '14. We know that we've got other initiatives running already to drive efficiency, Rob referred to UK and Ireland restructuring. By the time we get to '15 this cost has to start to be self-funding and certainly by the end of '15 it has to be self-funding. And you know we feel pretty confident given the cost opportunity that we can see in the business.

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Andrew Ripper, Merrill Lynch
Thank you, very clear thanks.

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Ed Steele, Citi
Two questions please, the first about this medium term objective to get to 5 to 8% organic growth, you've talked about putting extra sales investment into the rest of the world businesses and you've also highlighted that Freedonia might be under clubbing the opportunity in emerging markets. Does that suggest that the returning to the 5 to 8% rate of growth won't just be recovery in Europe and bits of America, you can see the potential for the rest of the world doing better than the 14% you've announced today?

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Ashley Almanza, Chief Executive Officer
No, I think it would be a combination of things actually and in any portfolio I think you have to recognise that you can't predict precisely you know which variable is going to contribution - what weight it's going to have in the overall contribution, a bit like a Monte Carlo simulation, you get lots of potential outcomes and you get an expected outcome.

I think we will see our business start to recover in Europe at some point, can we say precisely when? No we can't. Can we see examples of where our teams are adapting to sort of a long tough period and starting to make some headway? Yes we can. So yes we'd expect some contribution from Europe, we'd certainly expect some contribution from the UK and I'm optimistic about the United States, I might regret saying that at some point, but I think this is a country that's got massive competitive advantage and that economy will perform. And I think as Himanshu said, our business there is quite impressive, it's not perfect, none of our businesses are perfect, but when you go there you can't help but be impressed with the management team. So I think they also will make a contribution.

We are very excited by the growth that we're seeing in emerging markets and in some of those emerging markets, as I said earlier, we've underinvested or certainly at this point we are underinvested. So be fair to what's gone before the market opportunity was such that it sort of came to us almost. But if we want to move up the value chain and start offering some of our higher value services in those markets and we do those opportunities won't come to us, we have to make them happen. And that's where some of the sales and business development investment is going.

So we're not going to rely on any one market, one of the strengths of this company is its diversity and the fact that we're in so many markets that we don't have to say we need emerging markets, just emerging markets to come good in order to generate the growth that we think is out there.

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Ed Steele, Citi
Thank you. The second question is about capex, you've talked about no longer using the £200m of acquisition spend pool, but rather a consolidated investment pool. Have you got as far as working out the sort of number that will be attached to that? And given you're taking about high organic growth and less acquisition spend, but a pool that is organic and acquisition, is it logical to think that capex to sales will rise over that medium term forecast period - or projection period please?

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Ashley Almanza, Chief Executive Officer
Well Himanshu do you want to?

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Himanshu Raja, Chief Financial Officer
I think directionally that's right and they'll be two drivers of it. We've talked about areas of the business where we're underinvested and that may be in branch networks, it may be in infrastructure so we have to address those areas of underinvestment. And then they'll be new areas of growth, for example, you know in response to the previous question the growth will come from both geographic growth, but also sales mix. And as we roll out some of our technology products which we're very excited about then we have yet to assess the capital implications of those things.

So it will be different in nature, but the capital expenditure that you're used to will creep up as a percentage of revenue. I'm not yet in a position to quantify how much that will be.

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Ed Steele, Citi
Thank you.

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Ashley Almanza, Chief Executive Officer
I think just to add to that, of course we look at the total cash spend in investment, so in aggregate if we were to look at capex plus acquisitions we might get a slightly different answer to that question.

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Laurent Brunelle, Exane BNP Paribas
Thank you. Two questions if I may, first on the ongoing portfolio reshuffle, can you maybe update on the timing of the US disposal process? And if not sold will you decide to keep it?

And second on cash flow, can you explain to us how the top managers will be motivated to focus on cash generation and working capital management? And did you change something in terms of the incentives please?

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Ashley Almanza, Chief Executive Officer
So on the disposal process we've separated RSS and US Government Solutions in the process now. We think that that will deliver a better outcome for us overall. We're still talking to - actively talking to a potential buyer on US Government Solutions. But one of the reasons, those of you who either attended or listened to our presentation at the half year, one of the virtues of strengthening the balance sheet is that we don't have to sell things. We sell things if it makes sense to do so.

So that's another way of saying that we're working through this process in a way to maximise value and if we don't see the value we don't have to sell RSS in the meanwhile - one of the reasons we separated it is the business started to perform, during this process its performance started to pick up, indeed to picked up another significant contract at RSS and that's the reason for splitting them. So it's going slowly, but it's going slowly for, in my view, the right reasons.

On cash flow I think Himanshu mentioned that each manager will have an absolute number a hard target. So that will come through the budget process we will come to an assessment of what we think each business can deliver in terms of cash flow and that will represent part of the managers' objectives in their performance contracts and incentives will be weighted against that.

Precisely how the weighting of incentives might change is still being worked one by our HR team in collaboration with our line managers, but we will resolve that or clarify that before the end of the year so that at the start of the year not only do you have your performance contract but you know what the relative weight of objectives and what the incentives look like against each of those objectives.

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Laurent Brunelle, Exane BNP Paribas
Thank you.

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George Gregory, UBS
Good afternoon, a couple please. Firstly just on your chart showing the dots and the averages I'd be interested to know what we should infer from those charts, how much of it is structural - those ranges, how much of those ranges are structural and how much of

those are due to perhaps contract specific issues that you can narrow down, just what we should be drawing from those charts?

And secondly in terms of cash, I'd be interested to know what your findings are as to why and how cash in circulation has continued to grow in an increasingly digital world? Thanks.

Ashley Almanza, Chief Executive Officer
So maybe if I could take the second question first and ask you to respond. In a world where there's digital distribution usage and penetration increasing it's important to sort of dive deeper - on the surface you'd say well that's going to reduce the value of cash in circulation, whereas what we see is the opposite. And what we're finding and you know this work is ongoing, but what we're finding is that actually it varies considerably from market to market. The market characteristics are very important.

So for example in Scandinavia we've just sold a Scandinavian business, not cash as it happens, but in Scandinavia I think you have a confluence of a number of things, very high technology literacy, very high internet penetration - virtually everyone has a bank account, it sounds like an obvious thing to say but that isn't the case in all markets, there's a very high level of sort of bank to consumers. And you also have a concentration of banking on the supply side in some of the Scandinavian markets.

And what that means is that the banks can drive behaviour in the markets, because they know their customers have access to the internet, they're technology savvy and they all have bank accounts. So you've got all the essential ingredients. You also, I would say, have in relative terms a smaller informal economy, which can be very important in some markets.

You compare that to the experience in other markets, let's pick sort of two to contrast, let's pick the United States, which is a very sophisticated market, technology savvy, pervasive use of the internet, so you might expect to see a very similar outcome. Whereas what you see if you look at data put out by the Federal Reserve is that cash in circulation is rising. Partly that's because retail sales are rising. Partly it's because retail are adopting - whereas you've got in the first example banks, I think, playing a very important part in driving the outcome you've got retail playing a bigger role in the United States. And they have for now at least, pursued and continue to pursue a different solution as far as we can assess. And one of the technology examples we showed addresses that sort of trend in the market.

So you know the product that we've launched and the customer that we're working with - and by the way it's not just one customer we've got a pipeline of customers interested in this product. They are interested in a different outcome, they want to lower the cost of cash usage and increase the ease of cash usage for their customers. Partly because you know there are many Americans who are un-banked, who don't have bank accounts, 40% of Americans don't have a credit card, 17 million don't have a bank account. So the use of cash culturally is still pervasive in that economy.

I mean to just sort of draw a parallel you might wonder why America doesn't make itself energy independent because it has all the means to do so. Well it's because there are social reasons, cultural reasons and structural reasons in the market why it doesn't. And we see some of the same reasons in cash.

And then if you go over to emerging markets it's very interesting in some emerging markets, take Africa for example you see some technologies sort of just leapfrogging a developed economy's technologies. But even they require cash in many cases. So you know you can make a peer to peer payment, but typically what that requires you to do is go to an agent, hand cash over and then they credit your mobile device with the cash that you've given them and then you send that cash to your friend, you know for a friend to friend payment for example, or a peer to peer payment.

And then you've got a vibrant and thriving informal economy in a lot of these countries. And we think that particular aspect of the market is going to take a long time to work out in many of these emerging markets, the informal economy, which of course relies on cash.

The contrast would be, you know, North Western Europe, the social model is much more conformist if you like and tends towards a formal economy where there's total transparency on the flows in the economy. That's just not the case in many other parts of the world and we think it will take a long time for that to change.

Dots averages and margins?

Himanshu Raja, Chief Financial Officer
On those charts, you know they're the start of a process of enquiry on benchmarking. Ashley talked about benchmarking internally and externally, and I've started by looking within a region because you typically get similar cost structures and wage rates within a region. And the contracts that you reference are a function of the pricing competitiveness within the region.

But actually it's what lies beneath it that I've tried to highlight and illustrate. And some of it is you get what you measure, and that's why I talked about, you know, some of the old measures. If you measure overhead as a percentage of revenue on the one hand, and you measure operating cash conversion, and I know there are many proponents with this today that are like that I've measured, but you measure those two things together, it doesn't encourage and drive a behaviour around operating leverage. It doesn't encourage you, for example, if you've got margin pressures or top line pressures in your business, to invest the capital that you might need in order to put a system in place to get more efficient, in order to meet an operating cash conversion number.

You've got to tease those things apart and actually look at how many pounds are we spending, what are the people actually doing day to day, and that's my reference to zero basing, and how can you improve that. And the SECs give the operational insight as to the levers that we need to pull based on the tools and processes and available systems that exist today.

And then there'll be another wave, Ashley talked about it not being in our DNA. What we have to do is we have to get a cost matters and a cash matters culture into the DNA of this business, so that every business year on year on year has a relentless focus on its cost base. And that's the journey that we're starting on. So net net there's room for improvement everywhere on gross margin and on cost.

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Ashley Almanza, Chief Executive Officer
George, the other point you touched on was sort of contract specific issues, and this is something else that we're working through this disaggregation of performance in all areas; profit, cost, cash and disaggregating down to branch level but also down to contract level. Because again, you know, if one is focused for example solely on margin, net margin, EBITA margin, you can come to the view that okay those businesses are fine, I'll put them over there and I'll focus on these businesses, but actually when you then disaggregate profit margin down to contract you can find a business that has two wonderful contracts and 200 lousy contracts. And then you come up with a different set of management actions in response to that sort of analysis.

So we've got, as I said earlier, there's just a huge runway of opportunities in front of us to get after.

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Himanshu Raja, Chief Financial Officer
And Ashley just to that point, the spidergram that I've put up was a service line within a business. So if you looked at the geographic P&L only for that business, on the face of it it's a healthy, profitable business. It's by going underneath it, as Ashley said, and focusing in on that Secure Solutions service line, that we're able to drive the operational improvement.

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Ashley Almanza, Chief Executive Officer
Can we come to this gentleman at the front who has been very patient? I'm sorry to have kept you.

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Paul Checketts, Barclays Capital
I've got two as well please. The first one is on if we look back at the last few years, and there have been some major problems, and in particular cases the Olympics, there are ongoing situations in the UK and South Africa now, from the outside it looks like there's been a lack of control, a loss of control. What's your appraisal of those and what are you doing to try and improve that? And are we actually at the stage where some of these really high profile, front end delivery contracts are really not worth you putting shareholders' money into?

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Ashley Almanza, Chief Executive Officer
Let me start with the last point first. We don't think that's the case. We still think, to take for example Care and Justice where, you know, there are high profile matters let's say, in the media at the moment, we've developed really, I think, fantastic capability. When you go and you meet the teams and you talk to them, you can't help but be impressed with their knowledge, with the understanding of the client, with their operational expertise. So we've developed real capability and we know that that capability can be deployed in other settings profitably.

Equally a lot of the things we do are difficult things. We do difficult things sometimes in difficult places, and they're high profile things. Usually most high profile right here in our home market where it tends to be that we get sort of most of the coverage. And it's the nature of the business that we can, in the course of a year, hit the ball out of the park for 364 days of the year, and on the last day of the year something goes wrong. We're very unlikely to get press coverage covering the first 364 days of the year. It's the nature of the business I'm afraid.

So there's a degree of understanding and in understanding that equipping yourselves, ourselves, to deal with it, which really I think the other part of your question about control, I mean you know the reasons for some of the events like the Olympics are well documented. I won't rehearse them. Our Chairman commissioned a study and a report and I think those are well understood. But one aspect of it I think that I would comment on is a general matter. It's one that I referred to in the presentation, which is our values and striking a balance between short term objectives and long term gain. And I think at times in our desire to achieve short term objectives we've overreached and in the end it hasn't paid off really, the long term damage can be greater in those circumstances.

Are we doing things to address that? Yes. You know, the previous management team had started and we're continuing with, you know, energy and purpose. We brought people in, we talked about Alastair James, he's not the only person that is going to be affected by the changes we're putting in place. Himanshu talked about the process that we have in place for evaluating contracts, but evaluating them perhaps in a slightly different way, just to pick contracts for a second. And putting a lot of attention into the upfront analysis. So really understanding the risks and asking, you know, elementary questions. Do we have the capability in the right place to address this?

So in the last month or so we had an opportunity that just surfaced very suddenly, big contract, very attractive, but with lots of operational and reputational risk. And so we had an opportunity really to address some of the issues that you're raising. And we took good time to work through it, but what we did in the end was we reached into various parts of the company and we found people who were expert in that contract. Not just evaluating the contract but actually mobilising it. So much of the risk is in mobilisation. If you start well you tend to, in general, continue well.

And so we got people from different parts of our business around the world to fly in and spend a month, two months, with the team on the ground helping them to mobilise a bid for the work and be - mobilise the contract. And then around that Eddie chaired a weekly review of that contract through the mobilisation phase, with people from different disciplines, operations, commercial finance, legal, participating in that. The reason for the sort of slightly long winded anecdote is to say I think one of the things that we learned from some of the events such as the Olympics is that when we bring, you know, our best people together we generally are better equipped to find the right way through these things and find the right answer, and maybe we haven't always done that in the past.

So look, these are just examples. There's a lot of work going into it. We're very, very conscious of the sort of high profile events. But nobody should be under any illusions. We do difficult things in difficult places and some of them are, by their nature, high profile. So, you know, I expect us to not only work hard at avoiding those things, but hopefully over time establish a dialogue with our customers, and importantly with commentators, which enriches their understanding of the good work that the more than 600,000 people do every day. They do remarkable things and we don't get an opportunity, I'm taking the opportunity now, but we don't get the opportunity very often to talk about that, and we are going to make sure that we do get the opportunity to showcase some of the brilliant things that are being done by our people all around the company.

Probably a longer answer than you wanted but there you go, that's part of the bargain.

We have a question, gentleman in the middle of the room.

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Rajesh Kumar, HSBC
Hi, good afternoon. Just in terms of understanding slide 39 where you talk about how you're going to restructure the sales force commission plan sector, are you moving to a different metric like a gross profit metric or contract retention? Or are you involving them with the delivery team more? And if we could get some colour on what changes you're making to the sales remuneration and how it's structured. That would be interesting to know.

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Ashley Almanza, Chief Executive Officer
Sure. So again I'm going to ask Himanshu to comment in a moment. As some of you will know, coming from a service background Himanshu has got a lot of expertise in this area. But some of the things, so the first thing is targeting which is an obvious thing to say but isn't consistently done across the business. So to ensure that our sales plan is properly disaggregated and we've got appropriate targets and those are not just a single number, go get the sales. Those targets are set by reference to the opportunity we see. So that where we see a segmented market, that the sales targets reflect that market segmentation, so that a salesman is properly incentivised to go after high value customers where those exist in a marketplace for example.

The second thing is looking at the quality of the sale, the duration, longevity, the gross margin potential, the extension potential so the addition to on sell in that contract and what sort of participation sales may have in that. So these are all areas that are being reviewed as part of our commission sort of plan design. And we won't get this right in the first go, I'm sure of that. You know there's not long to go before 1 January. So this will be an incremental process and, you know, refinement through learning, but it's very clear that in some areas we're starting from a fairly elementary position, and in other areas of the company we've got a fairly sophisticated arrangement in place. Do you want to add anything to that Himanshu?

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Himanshu Raja, Chief Financial Officer
I think you've captured it. I think it will be an evolution and a journey. My impressions are really good sales disciplines where, you know, in some parts of the organisation sales productivity is measured and monitored. Sales commissions are structured to drive the right behaviours, and they can be simple things. Typically a salesman will not update Salesforce.com. Not just in this company, in a lot of companies. So how you structure the sales commission plan for example to create a part of the commission plan, that we might think is paying those sales people to do their job, which is actually to update Salesforce.com. But actually their job is to be out with customers engaging and selling and creating the value add, and you know their very nature is to want to be out and to do that. So it's not unusual to see a small proportion of their on target commission, to be on activities. And one of those activities is updating Salesforce.com.

At the other end when they complete a sale you can put controls and structures in place to say if it wasn't in Salesforce.com then we dock your commission, because we don't want heroes coming out with deals from their briefcase at the end of a month in the sales organisation. We want real visibility, because in having that visibility it allows us to resource place across the company, and that goes back to the mobilisation point and we think end to end. Because the earlier visibility we have we can assess the skills and resources and capabilities we need to bring early mobilisation to bear and to make that contract a success. So lots and lots of levers, it will be an evolution, it will be a journey, and the journey will go at different speeds in different regions of the world.

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Rajesh Kumar, HSBC
But feels like a spider chart, lots of moving parts in it. If most of the sales people have my intelligence level they'll get confused. What I was just trying to work out, is it gross profit driven or sales driven, in very simple terms, typically?

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Ashley Almanza, Chief Executive Officer
It needs to reflect both of those measures, sales and gross margins.

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Rajesh Kumar, HSBC
Thank you.

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Ashley Almanza, Chief Executive Officer
That was my quality point. Sorry, I wasn't clear.

Gentleman at the back left please.

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Andy Grobler, Credit Suisse
You've talked a lot about the opportunity around gross margin and you've given the charts on slide 44. How do you balance that against a trend over many years of gross margins in the industry coming down?

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Ashley Almanza, Chief Executive Officer
Sorry, Andy, the microphone is fading a bit. Could you just repeat the last part of your question?

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Andy Grobler, Credit Suisse
How do you balance the opportunities that you've talked about for gross margin against many years of industry gross margins coming down?

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Ashley Almanza, Chief Executive Officer
Well, I mean, if I've understood the question correctly, I think it sort of reinforces the need for this programme of work in a sense, the fact that there has been price pressure in some markets for some time. Do you want to?

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Himanshu Raja, Chief Financial Officer
I'd answer it two ways. The first is we need cost leadership and there's a danger in the language that we sometimes use that somehow cost of sales is different from overhead, and we talk about gross margin. Actually it's total cost and that's where cost leadership comes in, to look at the effectiveness and efficiency of the direct costs as well as overhead.

But your question on margin and margin erosion is also about, you know, where we are in the value chain with the customer. You saw both in Cash Solutions and in Secure Solutions that we have many businesses that operate higher up the value chain. And what we need to do better in, you know, those businesses that operate lower down the value chain is transport that knowhow, that knowledge, that IP, and engage in different conversations with our customers. Because if you just compete on price, particularly in the Secure Solutions business, there will be local operators. And customers come to G4S because of the training, the respect that we give to local labour laws, local wage rates and so on. But actually margin will be a function of also changing that conversation and changing the sales mix with that customer, getting the longevity as well. And we need to operate both of those levers.

Ashley Almanza, Chief Executive Officer
Thanks.

Andy Grobler, Credit Suisse
Okay, thank you.

Ashley Almanza, Chief Executive Officer
Good, we'll I think we've - oh we've got some via the web link. Thank you very much indeed.

Facilitator
One question was looking for clarification around the gross margin for the opportunities for price increases, improvement in gross margin, all about cost or about price increasing as well?

Ashley Almanza, Chief Executive Officer
No I think you - I mean we have to take the opportunity to use every lever at our disposal. And obviously price is going to be a function of market structure, competition and so on. But we've just shown two examples today, live examples in the UK and Ireland, where we've successfully negotiated price increases. And that's possible for a number of reasons. One, it's in the interest of customers to have a viable competitor in the form of G4S in the marketplace. And secondly it's possible because we can also, you know, offer services or innovate to give customers a service which over the long term or the medium term will give them some efficiency. So it's gain share, if you like, where we can get an improvement in price for a better product that over time gives them efficiency. So CASH360 was an example where we would expect that product to command a premium given the benefits it conveys.

So it's a combination of both. Himanshu talked in some detail about the work that has only just begun in the service excellence centres, and it's not just the SEC by the way, this is a small group of people. It's all about collaboration and getting the businesses to participate in that process. And very often the best ideas will come from a business. That's not surprising; this is what they do all day every day. So the opportunity in cost for improving gross margin is substantial. Himanshu talked at length about some of the initiatives. None of this, I'll repeat, none of this is you know all easy stuff to do because otherwise it would have been done. But it is achievable and the opportunity is material.

Is that the only one?

Sorry, couldn't see you in the dark there.

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Stephen Rawlinson, Whitman Howard
Sorry about that, we had a bit of traffic trouble getting here with, not just on my own. Just one question. You've pointed to 5% to 8% growth in your markets. You've included the fact because you've got a better sales team that you'll have to come to some share gain, and you've pointed to new services. So that points to a pretty punchy rate of revenue growth and may beg questions too about control which has been raised earlier. Can you just give us some impression of where the trade-offs might occur at the board level between the sort of rate of growth of revenue that you might expect and maintaining control of the business, not only in terms of that growth but also in terms of the change programme?

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Ashley Almanza, Chief Executive Officer
Actually I don't think it is a trade off. We have to achieve both, don't we? I mean I think achieving controlled growth, disciplined investment, is what we are required to do. The trade off might be that you moderate the rate at which you take things on. So I mentioned earlier that one of the things that Himanshu is helping us with is to prioritise all of these opportunities. Having prioritised them we've then got to resource them and we've got to resource them properly. You know, the very worst thing we could do would be launch a whole lot of initiatives, revenue improvement, cost reduction, all at once, under resource them, it won't be long before we regret doing that. So, you know, if there's any trade off it's the pace at which we take them on. If I understood your question. I'm afraid the microphone is not…

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Stephen Rawlinson, Whitman Howard
Maybe my mouth was too close. But no, what I was trying to say was that with the sort of rate of growth and your market you've got, the share gain and the new services, we could be looking at very punchy, double digit percentage year on year revenue growth. Quite clearly in any organisation the scale and size that you've got, that's going to be a difficult thing to manage on its own, coupled with the other initiatives that you have.

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Ashley Almanza, Chief Executive Officer
Well, you know, we'll be thrilled if that's the outcome. And I think 5% to 8% is a respectable and appropriate aspiration for this organisation. You know, we've tried to pitch that at a level which is challenging but achievable, that's the objective. You know, we're trying to create a performance culture here and I think we're working, you know, on fertile ground if you like. The organisation is receptive, so we're creating a performance culture which is energetic, driven, but controlled.

I think that's satisfied your thirst. Thank you very much indeed for coming along and for participating actively. There are refreshments available afterwards so please feel free to stay and chat to colleagues.

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