



**G4S**

**2017 Full Year Results Presentation**

**8th March 2018**

**G4S**

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**Tim Weller, Chief Financial Officer**

**Helen Parris, Director of Investor Relations**

**Questions From**

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## ***Introduction & Key Highlights***

### **Ashley Almanza, Chief Executive Officer**

Good morning ladies and gentlemen and welcome to G4S's full year results presentation. I'm, Ashley Almanza, I'm the Chief Executive and I'm joined by, Tim Weller, our Chief Financial Officer. We also have with us today, Helen Parris, our Director of Investor Relations, who I think, most, if not all of you know already.

We are joined also by participants on our webcast and they will have an opportunity to ask questions later on as well.

So before we get started can I please draw your attention to the customary legal notice, it's on our website, it's in your books, and please do read it at your leisure.

We have a pretty simple agenda for today, we're going to start with highlights of the 2017 results and then Tim will take us through the financials in some detail, I'll come back to give an update on our businesses, principally Security and Cash and there will be plenty of time for Q&A afterwards.

So results highlights, hopefully you've seen the audited results that we put out at seven o'clock this morning. This slide shows the key figures from our core businesses, revenues of £7.4bn, up 3.2%. We saw our profit margin increase slightly, coming in at 6.7%, versus 6.6% last year. Earnings per share, 17.9 pence per share, up 5.9%.

A healthy cash conversion again, not quite at the impressive level that we saw last year, I think Tim flagged at the half year that 2016 was quite an exceptional year in terms of operating cash conversion, but nevertheless a healthy cash conversion at 106%.

Strong cash generation generally across the Group meant that we were not only able to continue to invest in our growth and productivity programme, but also bring net debt down in absolutely terms and strengthen our credit metrics, so net debt to EBITDA coming in at 2.4 times.

We think we enter 2018 with much stronger foundations and the company is well set to continue a strong performance, not just during 2018, but we believe over the next planned period, three years. And taking that into account the Directors are recommending an increase, a 5% increase in our final dividend, meaning we're recommending a final dividend of 6.11 pence per share. So those are the highlights.

Now 2017 for us was an important year, it's the fourth full year since we set out our strategic plan to transform the company in 2013. I'm going to take a moment just to share with you some of the highlights of the changes that have taken place and what effect those have had on the financial performance of the company.

So over the last five years, including 2013, we've generated operating cash flow of £2.5bn. Over the four years using 2013 as the base year, we've increased underlying earnings per share by 48%. Those of you who prefer the statutory measure, the growth rate is even strong than 48% on earnings per share. And this has been driven by an extensive programme of change across the company. We have had a very substantial portfolio programme, which is largely now complete, giving the Group not only sharper strategic focus, but also improving our profitability and of course releasing capital of around £0.5bn.

We've been investing very heavily in bringing new products, new services to our customers. And I'm delighted to say these are now starting to play a significant role in the financial performance of the company and we'll talk more about that later. Financial strength I've mentioned already, not only improving our credit metrics, bringing the absolute level of debt down.

And finally, very importantly, we are now seeing the results of an intensive, relentless health and safety campaign. Thanks to the efforts of literally thousands of employees across the Group I

believe our safety culture is changing, changing significantly. We work in an inherently hazardous industry, it's protection services, security services, unfortunately that means virtually every day one of our employees will be attacked somewhere around the world. And we have to equip ourselves and train ourselves to deal with that risk.

I'm really pleased to say that over this period we have more than halved the number of - the level of fatalities across our company. We employ 570,000 people across the Group; we have more than halved the fatalities. Now, that's terrific progress, we're not satisfied with that, obviously, we still suffered 25 fatalities in 2017. So we know that we have got a long way to go to achieve our goal of zero harm. Nevertheless I think it's entirely appropriately for me publically to acknowledge the efforts of the many thousands of employees, this is being driven from the bottom up and at a supervisory level in our company, the terrific progress and to thank them for that.

You've heard me say before this is not just ethically important to our company, it's commercially important. Companies that are well run typically have better health and safety records. I regard this as an important leading indicator of a broader culture change that's taking place in our company. So extremely important and there is more data on our website about this, we're making advances, not just in relation to attacks, but also road traffic accidents, lost time incidents, high potential incidents. So terrific progress and my thanks to all of the employees who have participated in that programme.

I mentioned that the portfolio programme is largely complete, that is the programme that we set up in 2013. Portfolio management will always be a healthy discipline in any well-run company, I believe, but the programme that we set out is substantially complete and we now have a much more focused business.

This slide gives you a snapshot of our core business, the revenue composition, 77% of our revenues come from our Security business, 16% from Cash and Care and Justices Services now make up 7% of our business. We think that as we roll forward over the next three years the growth in Secure Solutions and Cash Solutions will probably outstrip growth in our Care and Justice Services. So our focus there is on operational efficiency and cash generation. We think that our Care and Justice Services are going to become more cash generative in the next three years. Not least because some of our legacy contracts, which are pretty onerous - the end is in sight for the most difficult of these contracts. Some of these will begin to roll off in the next 18 to 24 months and that will improve the cash generation of our Care and Justice Services.

Through the rest of our presentation we're going to focus on Secure Solutions and Cash Solutions. Not only are we now more focused, but the investments that we're making to take advantage of our market positions I believe have been instrumental in driving 17% revenue growth in our core businesses since 2013. That's an average of just over 4%, 4.25%, you will have seen from this morning's numbers that that growth rate was 3.2% in 2017. Growth won't be linear, but we remain confident that we have the potential to keep growing our revenues and more importantly our bottom line.

So before I hand over to Tim just a few words on the outlook, the combination of our investment in sales and operations, but also in technology enabled services, combined with our productivity programme, these things we believe will continue to drive our margin, will continue to drive top line growth, and together of course what we're trying to do with a combination of growth, revenue mix, and productivity is strengthen our earnings and continue to deliver strong cash flow. Always in a financial framework of keeping our net debt to EBITDA at 2.5 times, or less. So we enter 2018 I think well positioned to deliver a sustained strong performance over the next planned period, that is 2018 to 2020.

So with that outlook I'm going to handover to Tim who will take us through the financials in a bit more detail. Tim.

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**Financial Review**

**Tim Weller, Chief Financial Officer**

Thanks Ashley, good morning everyone. As Ashley has outlined we've delivered another year of profitable growth and good cash generation and made significant progress delivering our portfolio strategy and achieved our leverage reduction target.

Now let me know turn to the results, starting as usual with the statutory numbers. Statutory revenues for the year were £7.8bn, up 3.1% at actual rates. This reflects growth from our core businesses of 3.2%, the favourable impact of exchange rate movements of 4.5% offset by the impact of a reduction in revenues from portfolio businesses of £300m as the portfolio programme draws to a close.

PBITA grew by 6.5%, reflecting the performance in our core businesses, coupled with the small impact from favourable exchange rate movements. Specific and other separately disclosed items including investment in restructuring, profit on disposals of businesses and amortisation in respect of historical acquisitions resulted in a net gain of £10m after last year's charge of £59m, with the main reason for the year on year swing being the £74m profit on disposal of businesses, which we recorded in the year.

As a result statutory earnings improvement from £198m in 2016 to £236m in 2017. With EPS increasing by 19% to 15.2 pence, whilst cash generated from operations decreased in line with our expectations to £488m.

Net debt has reduced by £183m over the last year, resulting in a net debt to EBITDA ratio of 2.4 times at the end of December 2017, compared with 2.8 times in 2016.

Turning now to the bridge from core businesses to our statutory results, as set out on page four of today's release. The presentation here is consistent with the component analysis we adopted in 2016. I'll take you through the core business results in a minute, but first looking at the other components.

During the year we recognised onerous contract costs, net of tax, of £15m, primarily reflecting an anticipated increase in expected losses on a small number of UK contracts. Our overall onerous contract provision now stands at £62m and given that one of the large contracts concludes in the next 18 months we expect that around 60% of this provision will be utilised by 2020, with the balance being spread over a longer period, out to the mid 2030s.

Our portfolio businesses generated revenues of £282m and a post tax loss of £15m in the year, with revenue down significantly as a result of the disposals completed in 2016 and 2017.

Since 30th of June there have been no transfers into or out of our portfolio operations. And given that the programme is coming to its natural conclusion we do not expect any transfers in 2018 or beyond.

Restructuring cost of £16m after tax relate mainly to strategic efficiency programmes in the UK and Ireland and Europe regions.

Finally, acquisition related amortisation and other of £5m after tax reflects the £74m pre-tax profit on disposal of businesses, this is what I mentioned earlier, offset mainly by provisions of £9m, mostly for labour related claims in the Americas, £6m for sub-contractor claims, a £10m non-cash charge for amortisation of acquisition related intangibles, losses from discontinued operations of £6m, and tax charges related to these items of £18m.

In addition, we recognised a £19m tax charge arising from the re-measurement and impairment of deferred tax assets arising from the reduction in US Federal tax rates, substantially enacted in December 2017.

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I recognise that that's quite a long list and the detail on these items is provided on pages 10 and 11 of today's release.

So turning now to the performance of our core businesses. Overall Group revenues grew by 3.2%, in line with the guidance provided in November 2017, reflecting good growth across all regions, except Middle East and India.

PBITA was £496m, up 4.2%, and our resulting PBITA margin was 6.7%, up 10 basis points on last year.

The interest charge was £113m, £12m higher than 2016. The increase was mainly a result of a temporary step up in gross borrowings, following the €500m Eurobond issued in November to pre-finance the March and May 2017 debt maturities, as well as minor increases in interest charges relating to overseas tax settlements, unwinding of pension liability discounts and exchange differences.

The effective tax rate for the year was 24% and earnings were up 5.7% to £277m, with earnings per share of 17.9 pence.

Operating cash flow after pension deficit payments of £40m was £527m, down around 17%, in line with our expectations. Operating cash flow in 2016 was particularly strong, reflecting the beneficial impact of better terms and conditions negotiated with a large number of suppliers and the recovery of weak cash flow performance in the last few months of 2015. Operating cash generation in 2017 has reverted to a more normal pattern, with cash conversion over the year of 106%, in line with our medium term guidance of over 100%.

This slides looks in more detail at the year on year trends in revenue and PBITA for each of our geographical regions. Today's announcement includes details of the regional growth drivers and the main point to be drawn out from this slide is that whilst the Group as a whole delivered growth of 3.2% and PBITA growth of 4.2% these growth rates were constrained by the sharp downturn we saw in our Middle East and India region.

Revenue and PBITA growth rates for the Group, excluding the Middle East and India were 4.4% and 10.9% respectively.

Our businesses in the Middle East and India region have been adjusting to the challenging trading environment and we expect trading to begin to stabilise during 2018.

This slide looks in more detail at the cash flow trends over the year, where we saw a £53m working capital outflow, compared with the unusually strong inflow of £87m in 2016, which I talked about earlier.

Receivables movements resulted in a working capital outflow of £95m, primarily reflecting the year on year growth in revenues, coupled with the reversal of the beneficial impact of early customer settlements that we saw in the latter part of 2016, primarily in our North America region.

An increase in payables over the year resulted in a working capital inflow of £41m, whilst this continued to reflect our focus on supply chain management the impact was not as large as that seen in 2016. Our resulting OCF conversion was 106%, in line with our medium terms expectations.

Our portfolio programme continues to benefit the Group in terms of strategic focus and balance sheet strength. To date we've sold 41 businesses and have raised proceeds of over £0.5bn, of which £166m arose during 2017, including the completion of the sale of G4S Israel, US Youth Services, and UK Children's Homes.

As you can see from the last bullet point the businesses that remain classified as portfolio now account for around 2% of the Group's revenues and are currently delivering a modest loss. We

made no business transfers into or out of the portfolio in the second half of the year and don't expect to do so in 2018 as the programme draws to its natural conclusion.

Let me now turn to cash flow and net debt, the full movement on net debt is shown on this slide, starting with the year end 2016 net debt of £1.67bn, operating cash flow was £527m. In terms of investing activities we invested £107m in capex and finance leases in line with the guidance we gave at the half year.

The £19m restructuring outflow is mainly in respect of the restructuring investment in our Europe and UK and Ireland regions.

We received net cash consideration of £156m from disposals and made no significant acquisitions. Looking at the use of funds of £362m, we paid net interest of £78m. Cash tax paid was £86m in line with previous guidance. Dividends paid to equity and minorities were £179m and we finished the year with net debt £183m lower at £1.49bn.

On the financing front we've very strong liquidity with access to unutilised but committed funds of £1bn from our revolving credit facility, which has been extended to 2022 during the year. The seven year €500m Eurobond that we launched in June was heavily oversubscribed and matched the November 2016 bond with a coupon of 1.5%.

We have achieved our leverage reduction target with net debt to EBITDA finishing the year at 2.4 times compared with 2.8 times at the last year end. And since 2013 the disciplined approach we've taken to cash flow, portfolio and working capital management has enabled us to invest in growth, pay equity and minority dividends of more than £700m and at the same time strength the Group's financial position with a reduction in net debt to EBITDA from 3.2 times in 2013 to 2.4 times over the period.

So having achieved our leverage reduction target this is an appropriate moment to reiterate some principles we apply in relation to financing and capital allocation. We intend to remain soundly financed, with net debt to EBITDA of less than 2.5 times.

Our priorities for excess cash generation will be investment, where we'll continue with our disciplined approach to ensure any investments are aligned with our strategic aims and clear our financial hurdle rates. Dividends, where following the 5% increase in 2017's final dividend, moving forwards we expect to grow the dividend in line with the long term growth in earnings. And in the near term further leverage reduction as we build on what we've achieved to date. And with that I'll now hand back to Ashley.

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***Business Review***

**Ashley Almanza, Chief Executive Officer**

Thank you Tim. We're going to turn to a brief business review and before we look at our two principal segments, Secure Solutions and Cash Solutions just a snapshot of the Group's overall shape now that the portfolio programme is nearing completion. And this is a picture of our revenue mix, analysis of our revenue for 2017.

As I mentioned earlier we continue to enjoy a global footprint, we leading market positions across that global footprint and substantial revenues. Very focused in terms of business segment, but we continue to have a very well diversified business in terms of customer segment and market segment. And that diversification, we believe continues to provide us on the one hand with significant access to growth opportunities and at the same time resilience. As Tim mentioned when one part of our geographical markets slow down the rest of the Group performs strongly enough so that the whole Group continues to deliver profit growth and strong cash generation.



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So to our first segment, which is Secure Solutions, starting as usual with a picture of the market. This is Freedonia data, you've seen it before, it's 2017 data their 2018 data is not out yet, it shows a familiar picture, which is that the world's security markets, the global security market is projected, not only by Freedonia, but by most analysts, to continue to have structural demand growth in all of the regions in which we operate.

Perhaps more importantly is the picture on the right hand side of this graph, which is the supply side of our industry is highly fragmented, that's well known. There are a small number of large players and the largest of those players is G4S. And we think that is critically important given the changes that are taking place in the industry. We think that those changes play to the strengths of large players and in particular we aim to take advantage of the changes that are taking place.

What are we talking about? Well going from that macro down to a customer level we conduct regular customer surveys, we purchase third party research asking the most important question for a service company - what matters to your customers, what are their priorities. Again, I think this is a picture we showed at the half year or last year, and what you can see is that for a typical chief security officer in a mid market or large enterprise organisation your security priorities have become more complex. There has been huge change in the industry over the last ten years and today our customers face a complex set of security threats and consequently they need more sophisticated solutions to address those complex needs.

Of course we have been investing in developing the resource and capability to meet those more complex needs and to provide our customers with solutions that go beyond today's needs, but anticipate future needs.

When we look back five years ago the company possessed, in some measure, most of the ingredients and the capabilities that we needed to serve our customers. But a very, very important feature of our company five years ago was that these capabilities typically resided in autonomous, or semi-autonomous business units, to use the vernacular there were strong vertical silos in our company. There was very little lateral communication, coordination, and there certainly were very few examples of a coordinated go to market strategy, bringing all of our capabilities in a coordinated way to our customers.

We've changed that. Certainly over the last four years not only have we invested in building capability in our company, bringing in new talent, many coming from a technology or logistics background. We have also developed new products and services and we've changed the way in which we organise the resource in our company, so that we are more readily able to bring together our people and technology and to offer our customers a combination of our services according to their needs. And this has been a very important factor in driving the growth in our technology related revenues. It will continue to be an important factor we think going forward.

We have not rested there, we've taken the organisation of our resources and the development of our marketing to the next level, recognising that for our larger customers, so the top end of the mid market segment and the large enterprise segment they typically have the most complex security needs and they need something more than simply a multiservice combination or a bundled offering. And we've developed the capability and the go to market approach to offer that market segment what we describe as integrated solutions.

And typically this engagement starts with our specialist risk consultants, whether it's an existing customer or a new customer. We start of course by assessing or updating our assessment or analysis of the threats and risks faced by that customer. We work hand in glove with the customer to agree those threat levels and risks and then we bring in subject matter experts, a multidiscipline team to work with the customer to develop a solution.

Today G4S possesses the capability to not only conduct that assessment, but to design and build an integrated solution. Ideally then to go on to operate and maintain the Security Solution, a combination of people and technology and ultimately to optimise that solution.



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Now we know that this approach is finding favour in the marketplace, it's helping us to not only win new business, but to retain key accounts and to grow those accounts. And why is that? Well, quite obviously customers value these integrated solutions where they have complex needs.

On the left hand side of this chart we have set out some of the important drivers of demand for integrated security solutions. We know that in many of our markets labour costs have been rising, we can see full employment, or near full employment in some of the markets in which we operate, that will bring wage inflation. At the same time technology costs have been coming down. So the arbitrage between technology and labour is clear to see in these markets.

Not only has the cost of technology been coming down, but the power and the functionality that technology offers us and our customers has increased dramatically, real time data is taken almost as a given, you know the pervasiveness and the capacity of data networks that support our security systems has improved to such an extent that we can provide real time data, those networks have greater resilience.

We also are able to collect a lot more data, so there is a proliferation of data collection points. These can be remote sensors, CCTV, mobile sensors, handheld devices, external data feeds, proprietary data feeds. And we today at G4S have proprietary software tools that pull all that data into a single repository. We have security analysts who can then work with the customer to analyse that data. We can apply algorithms to the data. And the whole goal is to develop a proactive security programme, which helps our customers to identify risks and threats and deal with them before they materialise.

All of these features are highly valued by our customers. So it's clear to see why it's attractive to them. On the right hand side of the chart what's in it for G4S? Well, it's valuable to us as well, because the development of these solutions offers us the opportunity to earn a higher margin. These solutions are built in close partnership with our customers and we think that also creates the opportunity to develop a longer lasting commercial relationship, so increasing the average longevity of our contract portfolio.

Having developed that capability, principally in North America and Europe of course we now looking to deploy that right across the Group. This picture is a familiar picture, it shows our global infrastructure and our capability in both traditional, or conventional security services, as well as our technology footprint.

Our next slide gives you a closer look at where we have grown our technology related revenues. And unsurprisingly most of the growth and most of our revenue base, which is technology enabled, technology related today is in the Americas and in Europe, Middle East, Africa, principally North America and Europe. Because of the way that we have reorganised our resource to encourage collaboration across the company, not just the way in which we've organised our resource, but also our incentive plans, our goal is to promote that technology more broadly across our global footprint. And we can see the first signs of that in Asia and Africa, we firmly believe that in time this will become as important as our developed markets.

In the meantime our developed markets themselves we believe will continue to see strong growth in our technology enabled, technology related revenues going forward. So we saw an 11% increase in our technology related revenues in 2017.

So to round up on Secure Solutions, a recap on our priorities, we've just been talking about customers, technology, innovation, all of that supporting our growth programme. The goal of course is not only to generate top line growth, but to change our revenue mix and give ourselves the opportunity to earn higher margins. Alongside that we have a well-defined productivity programme that's underway and on track. We continue to continuously drive efficiencies into our operations, our overhead and our procurement programme. And all of this within a framework of commercial discipline.

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There is more to do but it's very clear that commercial and capital discipline is starting to become part of G4S's cultural DNA. And that means that we're focused not just on top line growth, but the bottom line. Everything we're doing is designed to improve our margins, grow our earnings and sustain strong operating cash flow. And with that we're going to turn now to our Cash Solutions segment.

Hereto we're going to start with a snapshot of the market, a familiar picture. In very simple terms the global cash market is bifurcated with emerging markets continuing to show growth in cash utilisation and developed markets clearly now mature, some growing at low single digits and indeed some markets contracting in terms of growth rates. But overall still, we believe, an attractive market.

Very interesting, our Cash businesses are growing faster in developed markets and this, I think, demonstrates you know a well-known principle that you can have a strong growth business in a mature market if what you are doing is changing how that market functions.

Two very important trends for us in the Cash market, the first is the trend that is already visible and one that we're pushing very hard and we think we'll continue to see in the market, which is reducing the unit cost of existing networks, so conventional Cash services, CIT cash processing, ATM services. This is important to us because it's important to our customers and it's important because it extends the competitiveness of cash as a form of payment.

The second trend, where we see ourselves very well positioned, particularly at the larger end of the market is cash technology. And that is transforming the way in which cash is handled, it enables us to handle cash more efficiently and to convey greater value to our customers.

So moving from the macro picture to customers, what do they regard as important? Well unsurprisingly some of the trends that we see in the market are actually responses to customer priorities, unit cost, very important to customers. Control over cash management, this is still very important to customers and there is still opportunity to improve control and as a result derive economic benefits for our customers; working capital efficiency, clearly very, very important for customers like large retailers, and convenience, ease of use.

So in response to these customer priorities we have very clear strategic priorities which I believe align very well with our customers' needs. Volume aggregation that not only generates top line growth, but it of course helps you to drive unit costs down. They are two obvious sources of volume aggregation, typically one would think of taking market share from your competitors in the industry. We always look forward to that opportunity, but actually the biggest opportunity in the industry is to get our customers to outsource more of their cash handling.

If you think of the two obvious groups, commercial customers - typically retailers, leisure and so on, and banks - we know that their core business is not handling cash, that's not why they set up shop. It's a cost, it's a necessary activity and a cost. Some of our customers have already started to outsource, wholesale their cash handling to G4S and that is a trend that we think is going to gather momentum in our business, but across the industry as a whole.

As I mentioned earlier we continue to drive very hard our productivity programmes and the combination of productivity enhancements and volume aggregation will drive our unit costs down.

And then finally technology, this is an area where we think we have today an advantage in some critical market segments and it's an advantage that we're looking to extend and we're looking to extent it by investing in further technology developments. Perhaps the best known is our Retail Cash Solutions service in North America, we're now using that in Europe and we're taking a version of that to Africa and Asia.

G4S Pay is a new service that we've launched in the Netherlands, this enables retailers with our solution to process not only cash payments, but electronic payments with the same software platform.

And then on the banking side of the market, bank branch automation, we now have a fully commercialised bank branch automation programme in Africa in over 200 branches, automating bulk teller operations. It delivers very significant benefits to our customer and we believe that there is significant potential to take that to other markets, not only in developed markets, but in principle this should be a more valuable service in markets with high wage structures, such as North America and Europe.

And then bank branch outsourcing, we have now commenced in Europe our first multibank branch pilot, where we're getting together with three banks and looking to provide services that support a branch serving multiple banks.

So this trend of outsourcing we believe will gather place and at the same time our technology is going to enable us, we believe, to stimulate that and capture more market share.

So if those are our priorities what have we been doing to develop our capabilities and how do those capabilities compare to our competitors? This chart shows the classic resources and capabilities that you would see in a typical cash management, or cash handling company along the bottom. On the right hand side we've segmented the industry from all players up to large players. And we also segmented this into bank and commercial markets.

So to explain, along the bottom pretty much all of the players in the industry would have, to a great or lesser degree, some capability in those services, CIT, cash processing and so on. Once you go up to the next level more sophisticated service, fewer players, typically mid and large sized players. Go up to the third level and now you are starting to talk about very significant operations, cash utilities, complete bank branch outsourcing and smart recycling, some with same day value, some without same day value. And typically, not exclusively, typically this part of the market is where the big four operate, the big four being of course G4S, Loomis, Brinks and Prosegur.

Where G4S, we believe, has unique capability in the market is in the large enterprise space, where we have end to end Cash Management Solutions, Cash360, Retail Cash Solutions, some of our Deposita offerings now in bank branch automation and more recently G4S Pay, which gives our customers the ability to process not only cash, but electronic payments. We intend to not only maintain, but to extend our leadership in that area of the market.

So hereto what we're endeavouring to do is to take new products and services, extend them across our existing market footprint of 42 countries. Of course the question we've been asking ourselves is what is the size of the prize. So we have commissioned a piece of research and we think we have our first estimate of the ultimate size of the prize. It's a pretty heady number. In our existing markets we believe that the size of the market, the potential size of the market for our new products and services is around £10bn.

Now, we're not suggesting for a second that we're going to capture the entire market, we don't need to. A modest proportion of this market would clearly have a very, very significant beneficial impact on our revenues, profits and cash flow. And that is what we aim to do, we aim to claim at least our fair share and ideally more than our fair share of this market.

I think in the appendices of the presentation we've also got some data, we've looked beyond our existing markets, we're starting to think about adjacent markets, the reason for this is quite obvious. Our fastest growing business and our biggest business in terms of new cash technology is the United States, we didn't have a Cash business in the United States five years ago. We didn't have a dollar of revenue in Cash Services in the US, without the truck and vault business, we've built a very successful business and there's no reason in principle why we can't do that in some other new markets.

So we've started to assess the potential there. That generates even more exciting numbers. We think that the adjacent markets - this is not the total global market, so we've excluded some very large markets where we don't think there's a near term opportunity to take our products. But there

is another £15bn out there we believe, so combined £25bn. Our focus though is very much on the markets in which we operate in the near term, but we are starting to think about adjacent geographies where we can take our new products and services.

Now, it's become something of a tradition at these annual presentations to show you a short film about something interesting, exciting, or important that's happening in the company. And it's our pleasure today to introduce you, by film, a colleague by the name of Brian McCabe, Brian McCabe is our President of Retail Cash Solutions for the Americas and he's going to talk to us, share with us something about the Retail Cash Solutions business in the Americas and how that might have wider application across G4S. Could we please start the film.

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***Video Played***

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**Ashley Almanza, Chief Executive Officer**

Brian, if you're on the webcast thank you very much. I hope you share our enthusiasm for the potential of our new products and services in Cash Management.

So to wrap up before Q&A, the Group is now much more focused, our Cash Solutions and Secure Solutions businesses are addressing structural demand growth. Even in Cash Solutions, in our mature markets we're growing and growing profitably and quickly.

We have a global footprint and across our global footprint we have leading market positions that give us the opportunity to leverage our Integrated Security Solutions and our new Cash Solutions as well.

Now we are increasingly combining our people and our technology to bring solutions to our customers that add value to their organisations.

The execution of our strategy has clearly conveyed financial benefits to the Group. We have grown - since 2013 we have grown our revenues from our core businesses by 17%, earnings per share by 48%, strong cash generation, we've strengthened our balance sheet and we've paid dividends of £700m.

We are going into 2018, we've come into 2018 standing on much stronger foundations and we believe very well positioned to sustain a strong performance over the next three years, all within the framework of a strongly financed business.

Thank you very much, we'd be delighted now to take your questions. As I mentioned earlier if you're joining by webcast you can ask your questions, I think Helen will ask the question in the room on your behalf. Can we ask please if you do have a question when you ask it could you give your name and your affiliation. Thank you. We have roving microphones so if you raise your hand we'll come to you and you can ask your question.

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***Questions and Answers***

**Bilal Aziz, UBS**

Good morning everyone, just three quick questions from me please. Just two on North America firstly, clearly a lot of focus still on Cash Solutions, you've previously flagged about eight pilots that you're running in the US, can you perhaps give us an update on where you are in that process? Have any customers chosen not to go ahead, or equally the opposite?

Separately just on wage inflation which you flagged in the release today as well, can you perhaps give us an indication of your staff turnover in the US as well and how you expect to manage that without any sort of negative spill over in the margin as well?

And lastly on working capital, I appreciate in 2016 there were a few exceptionals, what perhaps should we expect for like a normalised run rate, i.e. has the low hanging fruit largely been addressed in overdue receivables? Thank you.

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**Ashley Almanza, Chief Executive Officer**

Thanks, Bilal, quite a few questions there, we'll see if we can remember those and answer them. I'll ask Tim, if you don't mind, to address the working capital question.

Pilots, we have more than eight running now, we have about a dozen pilots running in North America. Since we last spoke one of those has converted into a full commercial programme and we've added more to the, if you like, funnel of pilots. Without a doubt some of those will make a decision in 2018.

I think it's important to repeat that what we're providing is a software platform and a service, so actually you saw a picture of our service centre in Florida in that short film, and that requires our customers to make fundamental changes to the way that they operate. And so typically in the pilot we will be working with store operations and with the treasury team and with IT. So there are a number of stakeholders that have to get comfortable, not only with the - I mean frankly you don't get to a pilot unless the business case works on a desktop basis, but they need to be comfortable that it works operationally. So these pilots can run for a while. It's obviously critically important to our customers that the mobilisation and the operation is flawless. But I expect a good number of those pilots will come to a decision one way or another in 2018, we hope the right decision, obviously.

Wage inflation, was it North America particularly? Yeah, so obviously the US is one country but there are many markets in the US and we see quite different characteristics in different markets. Some markets showing full employment and clear wage inflation, other markets we have no trouble, we have very low turnover, no trouble getting staff. So it really is location by location across the US.

We did see wage inflation in 2017, I mentioned a couple of times in the presentation commercial discipline. This is something that I think we now have embedded in our management thought processes and bidding across the company. I think in the release we indicate that our growth rate, we grew about 6% in North America, was constrained, it was if you like self-restrained.

What do we mean by that? Well one way of dealing with wage inflation is sometimes declining to write business. So we saw a number of contracts in 2017 come to market where procurement was looking for a three year fixed price deal in locations where we could either see today wage inflation, or as we look down the road we could anticipate wage inflation. And in some cases we declined to write that business. So that's the most obvious way of dealing with wage inflation.

Of course you don't expect to do that everywhere and I'm pleased to say that most of our customers, particularly in the large enterprise segment, understand the need to change prices so that we can attract the labour necessary to deliver a good service. So that's the other way of managing it and we have an active account management programme, we engage with customers, we explain what's coming and we seek price adjustments to offset wage inflation. I think that's a well-run programme in North America, it has worked well and we think will continue to work well.

Turnover was around 30%, which is quite high; it's not high actually as an industry benchmark. And I think what that tell us is that we continue to offer overall good compensation to our security officers. We do like to position, particularly again, in the top end of the mid market in the large enterprise space, position our offering as a premium offering. Typically we have a greater training

period, in some cases more than twice the period than our major competitors, that's a cost, but it's of benefit to our customers and it enables us to position ourselves slightly differently in the market and we hope therefore to deal with wage inflation pass through.

And the final comment is that I think this is also going to stimulate more demand for our technology enabled solutions, we're absolutely seeing that. We're proactively including it in our bids on larger contracts, showing our customers how if instead of just buying one service, or two services, if they buy an integrated solution we can not only reduce their total cost of ownership, but improve their security management across their estate.

So quite a lot to say there, it's obviously an important topic, it's an important thing for us to manage, but I think in North America, we've got a good programme to manage that. Working capital?

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**Tim Weller, Chief Financial Officer**

On working capital I'd say that the lower hanging fruit had been grabbed, but there's still fruit on the tree. When we started the journey of real drive on working capital, overdue receivables were north of 4% of Group revenues. They are still over 3%. That's just over £250m. There is still work to be done. I would say it's a harder grind, it's a relentless focus, it is a subject of discussion not every single day, but most days; in this organisation we are very focused on the receivables side of the balance sheet.

Clearly we've done a lot on supply chain as well, so much work has been done there. We had a big benefit in 2016 from renegotiated terms with the supplier base and we saw a continued benefit in cash flow terms during 2017. There is still more to be done, but you're right the lower hanging fruit have been taken, which is what sits behind the guidance of over 100% of PBITA in terms of operating cash generation.

You know the 106% we delivered in the current year, that's probably on or around the normalised rate I would say, a stretch target would push you up to almost 120% of cash conversion and that would be a really good year in terms of working capital delivery. But somewhere between 100 and 120% would be a reasonable outturn in terms of operating cash flow divided by PBITA.

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**Ashley Almanza, Chief Executive Officer**

I think our average for the last four years is about 110, 112%, something like that. Thank you.

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**Sylvia Barker, Deutsche Bank**

Good morning, three questions please. Firstly, just maybe if you can talk about the run rates in Europe and the UK, obviously the UK still seems quite strong, how much of that is maybe pricing versus specific contracts? And then Europe it's slowed down a little bit, maybe if you can give us some colour by region, or again if any contracts have driven that?

Secondly, just as you subcontract the CIT services in North America and we're seeing a lot of driver wage inflation, how does the pass through work, what are the clauses with your subcontractors please?

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**Ashley Almanza, Chief Executive Officer**

Thank you Sylvia. So to deal with CIT in North America typically the way this works is that our customer has the contract with the CIT operator and we manage that on their behalf. In some cases we will contract directly with the CIT operator and it's a commercial negotiation, you know,



just like any other supplier we expect value for money of course, so that would be a commercial negotiation. But in most cases we have a very large customer standing behind us to help us with that negotiation and we have choice in the marketplace.

Run rates, UK and Europe, we did have a good year, particularly in our Security business in the UK, a very good year for sales. Some of that was evident in our revenues in 2017, some of it will come through in 2018.

On the flip side if you're thinking about the UK holistically I think we have quite a cautious view on Care and Justice, we don't see a strong pipeline for the industry as a whole in Care and Justice Services. So on balance I think you know steady as she goes in the UK.

In Europe you know I think growth will continue to be lumpy, we're pleased that it grew very well in 2017 as a whole, not just top line but obviously bottom line very good growth in our bottom line in Europe.

We've got I think a strong sales team in Europe, our service levels are good, so I think there's lots of reasons for us to feel good about our position in Europe and our ability to keep growing. We are definitely pursuing some large contracts in Europe, typically those have longer gestation periods, so we don't know quite when the customer decides and once the customer has decided what the mobilisation period will be. But I think in broad terms we remain positive on the outlook for our business in Europe, indeed more positive than UK. Thank you.

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**Sylvia Barker, Deutsche Bank**

The microphone has been taken but the large contracts, airport contract win?

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**Ashley Almanza, Chief Executive Officer**

We did have a large airport contract win, Zeventem, which was a keep actually, but a keep that - where again we're bringing more technology to bear. But we have a strong aviation business in Europe. Thank you.

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**Andy Grobler, Credit Suisse**

Hi, three as well if I may. Just on Cash technology you've talked about the market sizes of £10bn in your existing and £15bn in the adjacent, how much of that do you think is currently outsourced and what are your expectations really for that changing over the next two, three, five years?

Secondly, on India and the Middle East, still pretty tricky markets. You've talked about them stabilising through this year can you just talk through in terms of the margin decline, how much of that is just natural operational leverage versus price? And when you talk about stabilisation is that both revenue and margin, or just one or the other?

And then thirdly, just on interest what's the guidance in terms of interest charges, cash and P&L charges for this year please?

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**Ashley Almanza, Chief Executive Officer**

Did you catch the question? You can answer that then, I missed that. Thank you Andy, how much is outsourced, very little, actually there's very low penetration in this market. So you know the point I made earlier is that most of our large customers still do great - most retailers use a conventional cash management process.



Large retailers will typically have a back office in each store, you know count up at the till, take that to the cash office, count up and balance at the cash office, truck and vault company, or armoured truck company comes along, takes the cash, takes it back to a cash pro centre, counts it again, counts it again and so on and so forth. And the cycle repeats itself, it could be two three days, it's longer in some markets before the retailer sees value in their bank accounts. So that is pretty much the picture that we see in most markets, there's very low penetration of this.

Where we do see greater penetration, still very low, is in what you might call smart safes in developed markets. If we look at our own situation we have just under 20,000 solutions deployed across our market today, 20,000 locations if you like. Around 6,000 of those are what we would call big box, end to end solutions. We've got some mid market solutions and then we've got a large portfolio of smart safes out there and that's growing rapidly. But that is not really what we mean when we talk about outsourcing, that is typically applicable to small box formats. It might be a big retailer but they've just got lots of small stores so they have low cash volumes.

For us outsourcing is when the customer really gives you all the substantial parts of managing their cash cycle end to end. And what Brian was saying on the film was what we uniquely in the cash industry are able to offer customers is a software platform that connects a store to the corporate treasury department to the bank account, and provide with that a service that manages that process, optimises CIT, optimises change orders, reduces working capital, reduces leakage, reduces the cost of the service. That's what we mean by outsourcing. Very low penetration in the global market. So most of that £10bn we would regard as addressable.

Middle East, India, a big chunk of it in the Middle East is - let me step back. When we look ahead I think we see India normalising ahead of the Middle East, that's a current view. We think trading conditions in the Middle East remain very difficult. We know this not just from our own business but talking to other participants in the marketplace, talking to other industry players, our customers. Oil prices might be slightly up, they're still half of what they were at the peak, severe physical pressures, a lot of money being spent on conflicts in the region and so on, and this has affected government departments and commercial customers. There is a good deal of operating leverage in those businesses so the difference between the revenue change and the profit changes is a good deal of operating leverage.

An additional factor in the case of the Middle East has been effectively in the Gulf wage increases, so statutory or regulatory wage increases. And in some markets the domestication policy, i.e. policies designed to increase local content when it comes to employment, has also manifested, not just our business but across the piece in the oil services sector, in all industries that bring ex pats in, the cost structure has gone up. Historically that has been fine, you would go to your customer, have a sensible discussion and pass that on. Obviously if your customer base is facing the same sort of economic picture as you that becomes a more difficult process and we saw some of that in the Middle East during 2017. As Tim said we think that that will begin to stabilise in 2018, India first, Middle East second half of the year.

And the third question, interest for Tim.

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**Tim Weller, Chief Financial Officer**

Interest. The 2017 interest income statement charge was about £115m and cash interest was about £10m lower and the difference between the two is essentially the unwind of the discount on pensions. So you typically would see a £10m or so differential between income statement charge and net cash interest going out the door.

For 2018 I would say that the income statement charge would be somewhere between £95m and £100m and therefore you would aim off by another £10m or so around the cash charge.

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**Andy Grobler, Credit Suisse**

Can I just ask one follow up on the Cash Solutions. You won your second big retail contract in the US, can you just tell us what stage that contract is at, is it out and being deployed, are revenues coming in, you know how much further until it's fully up and running?

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**Ashley Almanza, Chief Executive Officer**

We did mobilise. I think as you all know everything stops between - is it called Black Friday?

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**Helen Parris, Director of Investor Relations**

Yes.

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**Ashley Almanza, Chief Executive Officer**

The start of the shopping season and January when the retailers won't do any kind of mobilisation or programme change. And now we've resumed. Off the top of my head not sure of the latest position but we're at least halfway through that programme and expected to complete that programme by midyear. So start to see the full year effect in the second half. It's a good question, I think also related to that you all know that we have very strong comps in our North America business in Q4, well second half '16 and first half '17. Those comps will start to roll off as that new programme starts to come through our revenues. So we would expect to see that business start to show better growth in the second half of the year.

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**Edward Stanley, Redburn**

Two please. Can you give us the size and breakdown of the pipeline by segment if you have that available?

And secondly now that you're under 2.5 times levered and the cash seems to be pretty strong working capital a side, are you starting to look forward to bolt on M&A and if so in which areas?

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**Ashley Almanza, Chief Executive Officer**

So pipeline, I don't have it off the top of my head to give you a breakdown but I'd say pipeline is broadly the same. When we look at what we're looking - and if you look at our peers in the industry they don't typically present pipelines. I think historically we have done that but frankly our care and justice business, our so called government outsourcing business is of a size now where it doesn't merit the space if you like. But nevertheless it's an important part of our business sustaining a pipeline.

There is a trade-off between size and quality. Ideally what you want is a compact pipeline with very high win rates because then that's pretty efficient, but we can't have what we want all the time so we think we're going to have to maintain a pipeline of £6.5bn to £7.5bn going forward. But the shape of the pipeline is unchanged from what we showed you six months ago in terms of funnel stage if you like, suspects, prospects being - negotiation being broadly the same, and the geographic split would look very similar.

What we might expect to see changing going forward in our sales book and in our order book is more technology enabled revenues, in particular we hope that the money that we're spending standing up new sales and business development capability in Africa, in Singapore, Hong Kong, Indonesia, Malaysia, Philippines, these teams didn't exist 18 months ago, we're spending money. Clearly we've given that proper time to get traction in the marketplace. We're starting to see real

interest, real dialogue around pilots; I'm talking now about Cash. And similarly we've invested in emerging markets.

We've obviously historically invested very heavily in developed markets; you know North America, UK, Europe in technology capability to bring that together with our conventional services. We've started to do that in some measure in our emerging markets. So the change I would expect to see is more technology enabled revenues and over time more of that sort of service being delivered in our emerging markets as well.

Usage of cash, I think Tim outlined our priority use of excess cash. We've always looked at bolt on acquisition opportunities around us. And I think the history is quite interesting. If you look at where some of our competitors have been making acquisitions in the last two years you have to go back quite a way actually, before my time certainly, when some smart people in our company decided to buy security technology businesses, secure integration businesses, software technology businesses. And that was the point we were trying to make earlier, we bought these businesses but then we sort of left them to carry on as they had before and they were sort of semi-autonomous, in some cases very autonomous business units. And I think for us the better thing to do with our money has been to spend money on bringing talent in to pull those businesses together and make them work in a coherent way with the core of our business which is Security and Cash.

So that's been the emphasis. I think frankly that's going to be the emphasis. The asset market is pretty hot in some of these countries. Our goal is to grow earnings, grow cash flow and grow the dividend. There are lots of things that we do but that's the end goal. We will always look at what's going on in the industry. If there's an opportunity to get something that's value accretive we'll look at it. And clearly the more financial flexibility we've got the more we can do that. But this will sound a bit like a textbook answer but we mean this, that we have always felt, even when our credit metrics were three times or above three times, that if there was a very good acquisition to make, value accretive, that we could go to our shareholders and say this makes sense, this is why it makes sense, we need the capital. Well obviously as our balance sheet has strengthened we have other options to address those opportunities.

So M&A I think is an important part of any strategy but we've got quite a lot of other things to attend to at the moment so we'll keep looking in the places we've looked with the same sort of commercial discipline that applies to bidding for contracts also applies to bidding for businesses and we have not seen anything that would make a significant difference to our business on value accretive terms I should say, yet.

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**Kean Marden, Jefferies**

Good morning. Could I first of all touch on India? So is there anything potentially G4S specific that would explain your trading during 2017? Because there is a quoted peer out there that does seem to be delivering reasonable growth at the moment in that market.

Secondly, has G4S decided yet whether it intends to bid the successor to Compass later on this year?

And then thirdly just wondering whether Tim could give us some insight into what future restructuring costs we should plug into the model? I can see obviously that you've got a programme to take efficiencies out and just need to plug something in this spreadsheet. Thanks.

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**Ashley Almanza, Chief Executive Officer**

Sorry could you repeat the second part of your question please?

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**Kean Marden, Jefferies**

The Compass successor.

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**Ashley Almanza, Chief Executive Officer**

Okay thank you.

So India yes and no. I think the whole market there's been a change in the way that regulation is run in India. The first factor was so called demonetisation and that affected our customers, would have affected other participants. The changes to the way that the market, and when we say the market really what we mean is foreign investors, it's the regulation of foreign companies that has changed moving from FIPB which was disbanded to a department called MHA, and all of the different people, different processes, that should affect all foreign players equally. It doesn't, it affects us more because we're the biggest and because we operate in the premium segment in the market.

And so I suppose the nicest way to say this is that there are some market segments where these factors matter less is how I'd put it, and we can definitely go there and grow. We have decided not to go into those market segments and that won't change, we are not going to participate in those market segments where we could grow. I would think the better thing to do is continue to pursue the same business model. We are actually seeing resolution in many of our states; I don't have the number to hand. Søren was it 15? How many states have we resolved our regulation now?

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**Søren**

Yeah 15.

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**Ashley Almanza, Chief Executive Officer**

Around 15. So we're getting there slowly which is why we think we will see a return to normal over time in India.

Compass, don't know. Clearly the customer is very keen to have us in the process. There are two large suppliers. There's a third clearly and I think it's Clearsprings runs the London market that's a special market which I don't think we will be the natural supplier for. There are only two other suppliers in the market who have got the expertise to manage a very, very, very complex contract.

If the contract was offered on the same terms clearly we would not participate. I'm going to guess that the other supplier would also not participate. We've both seen enough to know that that's not a viable model. I think there's every sign that the customer understands that, knows that. The discussions are constructive, positive. It's clearly in the interest of the customer to put something into the market which the market regards as a viable contract. We don't know what the final contract terms and conditions are going to look like.

We're clearly seen on valuable capability. I am sure this statement will be contested but we would somewhat immodestly say we're the most efficient operator in the market. We hear that from reliable sources. So I think with that capability we know that we've got something of value to offer. And you know if what is put to the market is sensible then maybe. But certainly not on the terms and conditions that we've seen before.

Restructuring, Tim.

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**Tim Weller, Chief Financial Officer**

Yeah the pre-tax restructuring charge in 2017 was £20m. That was up from £12m in the prior year and that really reflected the coming to an end of the strategic restructuring that we launched in 2013. Of course in the middle of last year we announced a further wave of efficiency drive in the organisation and therefore if you like we've restarted a strategic restructuring programme.

In terms of what to build into the model for the current year, I would say similar to that level that we saw in 2017. The cash cost may be a little bit lower than that but the income statement charge I would expect to be a similar level to that that we saw in 2017.

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**Ashley Almanza, Chief Executive Officer**

I think we've got two years of heavy lifting to do to get our productivity gains, some of which of course is related to financing but you take out the financing, and to capture those productivity gains we've got about two years of heavy lifting to do and then we should be set.

I should say by the way that these - what we have in front of us, is all double digit internal rate of return after tax. So this is good investment.

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**Allen Wells, Exane BNP Paribas**

Hi good morning. Two quick follow ups. Firstly just on capex. Notice absolute capex number was down this year. If I compare this to some of your competitors, I mean Securitas capex has been creeping up, even some of the cash guys it's been going up. Maybe you can explain what the slight change in strategy is in there, bearing in mind you're all sort of targeting bigger players, the sort of technology angle. And obviously noticing that the capex is actually below D&A for you guys as well so maybe how that's achieved, that's the first question.

And then secondly just on the additional provisions that are going onto the UK. I think £19m, not sure if I missed that, but what contract is that exactly on if there's one specific? Any granularity or details there much appreciated. Thank you.

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**Ashley Almanza, Chief Executive Officer**

Thank you. So on capex I think a number of important factors here. First we have absolutely tightened up our capital rationing processes so we don't delegate capital allocation to regions per se, we set the capital budget centrally. We do that because we want all of the opportunities to invest to go into one pool and for one idea to compete against another idea and we fund the best ideas. That's the first thing that's changed. I can't comment on whether our competitors take that approach or not. Certainly that was a change in our company.

I think our productivity programmes are not focused only on opex. If you think about something as simple as route optimisation, well one of the biggest benefits - the two big benefits are wages and capital. You need fewer vehicles if you can optimise your route. We've optimised our branch networks in our Cash businesses in UK and Europe, that brings substantial capital benefits. You've got lower replacement costs and lower maintenance costs. So it gets a lot of attention. I think that has delivered some benefits.

I think the other thing that is very important that has changed, and this may be and in some cases is a reason for a difference between us and our competitors, if you think about let's take the world's biggest security market, the United States. We made a conscious decision to first go after the, let's call it the Fortune 500 market, so top end of the middle market and the large enterprise space. And when we talked earlier about integrated solutions that's where we've had most of our traction. That's where we've seen the benefits of keeping and growing current business and winning new

business. I can't think off the top of my head of a single customer that has wanted us to own the infrastructure in those accounts.

So our competitors I believe have - in fact we know that whilst we focused very much on that end of the market believing that we get that right the mid market ought to be something that we can move to and are starting to move to now. Our competitors have focused more on the mid market, not exclusively but I think that their customers and some of them say this, want them to own the infrastructure. And I think some of our competitors are - obviously I can't speak for them but from what I see and what they see, are maybe rethinking that model. At some point your balance sheet is going to tell you that you need more capacity and one of our competitors recently was quoted as saying we're not a bank. Well I don't know if that - so we don't know yet. I mean we have got a bigger presence in the mid market. If that is the model that customers want to adopt then we will step up to the plate and our capex would go up if it's good business and it makes sense to do it.

But anyway I think that's a very important difference in our Secure Solutions business. In our Cash Solutions business apart from rationalising our network, optimising our routes and therefore reducing our fleet requirements which has come through capex, I think there is a point here about capital intensity in the industry as a whole. If we are right and the two critical trends that we think we have started to see, if those trends continue, that is to say outsourcing of conventional cash handling, and secondly a shift towards new forms of cash handling using technology, those two trends take hold firmly, then in principle unit capital intensity should go down.

So we ought to get much higher rates of capital utilisation in the traditional cash infrastructure. And we know that in our Retail Cash Solutions again in the upper end of the mid market and the large enterprise space which is an enormous market, untapped still, the customers have so far preferred to own the infrastructure. Again if that was to change we would have a range of financing options available to us or to the customer. Very often our customer bluntly has got a stronger balance sheet than us and has access to cheaper funds than us so it doesn't take very long for both of us who should own the infrastructure. But regardless of who owns it our view is that capital intensity in the industry will change and will become more efficient as new technology gradually over time has an impact on the existing infrastructure.

So those are all important factors. As we push these programmes out of the United States, as we push out of the large enterprise segment into the mid market and into emerging markets that might change. Obviously we would want proper compensation if we were using our balance sheet. So that's kind of a very rounded answer, lots of moving parts.

Tim can you comment on...

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**Tim Weller, Chief Financial Officer**

On the onerous contracts, yeah. The charge in the year was £19m and the phrase we're using here is primarily related to the anticipated total losses in respect of certain UK contracts. As a matter of fact in the onerous contract bucket we have technically a handful of contracts. We talked a little bit earlier about one of the big ones coming to an end in 2019 and therefore factually the £62m provision we have for onerous contracts, the bulk of that gets utilised over the next couple of years because that one big contract ends up rolling off.

There is a long tail out to I think the mid 2030s, but 60% of the £62m will get utilised over the next two and a half years. So it will become a much smaller feature of this organisation going forwards. And in many ways the most important thing about onerous contracts is those contracts were contracts we had in 2013 and earlier. We have had no new onerous contracts emerging. We do keep calling them legacy onerous contracts and that is a technically correct description.

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**Ashley Almanza, Chief Executive Officer**

So think UK public services, a handful of contracts. This has been painful for us and of course painful for our shareholders but the end is in sight we think.

Helen we have a question from the webcast?

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**Helen Parris, Director of Investor Relations**

So I've got a question from Toby Hunston at Insights. Can you give some detail on why the - this is for Tim - why there's nearly £300m in overdrafts when you have £900m of gross cash on the balance sheet please?

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**Tim Weller, Chief Financial Officer**

We do have a quite large gross up in this business, so net debt £1.4bn, gross debt north of £2bn. So it is quite a big gross up. That is something we are constantly working on. It reflects to an extent the geographical spread of the business, the fact that a number of our businesses there are capital controls which exist in particular countries which means you can't actually go through the additional cash pooling.

Also to an extent we are cognisant of bond maturities coming up during the course of the current year and therefore make sure that we are sufficiently funded to enable those bond maturities to be redeemed. We don't want to scabble around and be forced to fund quickly so we typically will seek to pre fund forthcoming bond maturities. So agree there is an opportunity for greater efficiency in terms of reducing that gross up, but also just reflects sensible prudent treasury policy as we pre fund in advance of forthcoming bond maturities.

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**Ashley Almanza, Chief Executive Officer**

And just to add to that the favourable pricing that we were able to secure in the market made a lot of sense for us to pre fund. Tim is being modest and I think he and his treasury team did a good job at getting capital in at very good rates.

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**Helen Parris, Director of Investor Relations**

So there's no others.

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**Ashley Almanza, Chief Executive Officer**

Okay thank you very much for joining us today. We look forward to talking to you at the half year. And we are planning to have a capital markets day in the fourth quarter where you'll get an opportunity to hear more about the business and meet some of our colleagues from the executive team. So look forward to seeing you at the half year. Thank you very much.

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