Securing Your World

12 March 2019

G4S plc
2018 Full Year Results

G4S Chief Executive Officer Ashley Almanza commented:

"Our Secure Solutions business delivered underlying revenue growth of 3% and profit margins rose from 6.2% to 6.5% reflecting the benefits of commercial discipline, growth in the sale of technology-enabled security and productivity gains. As expected, this was offset by the effect of challenging trading conditions in a number of Cash Solutions markets and a strong comparative performance in Retail Cash Solutions in 2017. Overall, the Group delivered underlying earnings in line with the previous year".

"Our sales wins in the second half of 2018 have underpinned a good start to the year and this, together with growing technology-enabled services in both our cash and security businesses, supports a positive outlook for 2019".

Operational and financial highlights (Underlying results[a] unless otherwise noted):

- New contract wins of £1.4 billion (annual contract value)
- Secure Solutions revenues grew 3.1%; margin 6.5% (2017: 6.2%)
- Cash Solutions revenues excluding RCS* grew 0.5%; including RCS declined 9.3%; margin 11.4% (2017: 12.5%)
- Operating cash flow conversion[a] 95.6% (2017: 106.6%)
- Net debt to EBITDA[b] 2.7x (2017: 2.4x); business plan supports 2.5x or below in medium term
- EPS[a,c] 16.7p (2017: 16.7p)
- Separation review progressing well
- Statutory results include businesses sold or closed, specific items and exchange rate movements - see page 3
- Statutory earnings of £82 million (2017: £237 million) includes £100 million provision for settlement of California class action and £35 million charge for UK guaranteed minimum pension equalisation (see page 11)
- Final dividend: 6.11p per share (2017: 6.11p); full year 9.70p per share (2017: 9.70p)

* Retail Cash Solutions

Group results

	Underlying Results[a] In Constant Currency			Statutory Results[d] Actual Rates		
	2018	2017 Restated[e]	%	**2018**	2017 Restated[e]	%
Revenue	**£7,289m**	£7,213m	+1.1	**£7,512m**	£7,826m	(4.0)
Adjusted PBITA[b]	**£474m**	£474m	-	**£460m**	£492m	(6.5)
Adjusted PBITA[b] margin	**6.5%**	6.6%		**6.1%**	6.3%	
Earnings[c]	**£259m**	£258m	+0.4	**£82m**	£237m	(65.4)
Earnings Per Share[c]	**16.7p**	16.7p	-	**5.3p**	15.3p	(65.4)
Operating Cash Flow	**£453m**	£516m	(12.2)	**£413m**	£488m	(15.4)

[a] Underlying results are Alternative Performance Measures as defined and explained on page 35. They are reconciled to the Group's statutory results on page 3. The underlying results are presented at constant exchange rates other than operating cash flow which is presented at actual rates in both 2017 and 2018.
[b] Adjusted PBITA and net debt to adjusted EBITDA are Alternative Performance Measures as defined and explained on page 36. The Net debt to adjusted EBITDA ratio is calculated as set out on page 38.
[c] Earnings is defined as profit attributable to equity shareholders of G4S plc. Underlying earnings and underlying earnings per share ("EPS") are adjusted to exclude specific and other separately disclosed items, as described on page 36, and are reconciled to statutory earnings and EPS on page 3.
[d] See page 21 for the basis of preparation of statutory results.
[e] Restated for the adoption of IFRS15 – Revenue from Contracts with Customers, see note 3.

G4S STRATEGY AND INVESTMENT PROPOSITION

G4S is the world's leading, global security company, providing security and cash services across six continents.

Our strategy addresses the positive, long-term demand for security services. Our enduring strategic aim is to demonstrate the values and performance that make G4S the company of choice for customers, employees and shareholders. We aim to do this by delivering industry-leading, innovative solutions and outstanding service to our customers, by providing engaging and rewarding work for employees and by generating sustainable growth and returns for our shareholders.

Progress with the transformation of the Group

During 2018, we continued to make substantial progress in a number of important areas:

- Continued to embed values that build a culture based on Integrity, Respect, Safety, Security, Service, Innovation and Teamwork. Our employee engagement surveys show positive identification with these values
- Our health and safety goal is zero harm and we have achieved a material reduction in serious incidents
- Increased our technology-enabled* revenues to 45% of secure solutions, enhancing our customer proposition and reinforcing our margins
- Increased the deployment of cash technology to 23,300 customer locations (2017:19,800)
- Implemented end-to-end IT systems for manned security in the UK
- On track to deliver £90-100 million cost savings by 2020, to support investment and margin improvement

Separation Review

Following the establishment of our Global Cash Solutions division on 1 January 2018, the Board announced in December 2018 that the company is reviewing options for the separation of the Cash Solutions business from the Group. The company has appointed accounting, legal, tax, financial and other advisors and is evaluating a wide range of separation options, both public and private, with the aim of maximising shareholder value, having due regard for the interests of customers, employees, pensioners, partners and other key stakeholders.

In parallel with the review, the company is taking steps to enable it to commence the process of separation in the second half of the year. Depending on the nature of the separation, a final decision may be subject to shareholder approval following a recommendation by the Board. The date of a potential shareholder meeting is yet to be fixed and is subject to the timing of completion of a number of key work-streams. The company expects to provide a detailed update when it announces the half year results in August.

In the event of separation, we believe that the successor security and cash management businesses will be very well positioned to sustain their leading market positions by investing in the growth plans for their core product and services. The separation review will therefore include potential portfolio actions to further improve the focus and financial flexibility of the successor Groups in the event of separation.

Since announcing the separation review, the Group has received unsolicited expressions of interest to acquire the Global Cash Solutions and/or Retail Cash Solutions businesses. Whilst all credible proposals will be evaluated by the Board, no assurance can be provided at this stage that any of these expressions of interest will lead to a proposal or transaction and the Group will continue to vigorously pursue all strategic options.

Financial Outlook

G4S Group Chief Executive Officer, Ashley Almanza, commented:

"Our sales wins in the second half of 2018 have underpinned a good start to the year and this, together with growing technology-enabled services in both our cash and security businesses, supports a positive outlook for 2019".

"We believe that the potential separation of the Cash Solutions business will provide G4S with the strategic, commercial and operational focus needed for the next stage of the successful development of both the Cash Solutions and Secure Solutions businesses."

*Revenues from manned security contracts enhanced through G4S hardware, software and security systems

GROUP RESULTS FOR THE YEAR ENDED 31 DECEMBER 2018

Year ended 31 December 2018 (at 2018 average exchange rates)

£m	Underlying results[a]	Onerous contracts	Disposed businesses[c]	Restructuring	Specific and other separately disclosed items[d]	Statutory
Revenue	**7,289**	118	105			**7,512**
Adjusted PBITA[b]	**474**	(5)	(9)			**460**
Net specific and other separately disclosed items	**-**	(4)	-	(31)	(172)	**(207)**
Profit before tax	**365**	(9)	(10)	(31)	(172)	**143**
Tax	**(93)**	-	(1)	7	32	**(55)**
Profit after tax	**272**	(9)	(11)	(24)	(140)	**88**
Earnings[e]	**259**	(9)	(6)	(24)	(138)	**82**
EPS[e]	**16.7p**	(0.6)p	(0.4)p	(1.6)p	(8.9)p	**5.3p**
Operating cash flow[f]	**453**	(11)	(3)	(26)	-	**413**

Year ended 31 December 2017 (at 2018 average exchange rates) – restated[g]

£m	Underlying results[a]	Onerous contracts	Disposed businesses[c]	Restructuring	Specific and other separately disclosed items[d]	Constant currency[h]
Revenue	**7,213**	107	295			**7,615**
Adjusted PBITA[b]	**474**	-	8			**482**
Net specific and other separately disclosed items	**-**	(16)	-	(19)	45	**10**
Profit before tax	**362**	(16)	8	(19)	45	**380**
Tax	**(87)**	4	(10)	4	(36)	**(125)**
Profit after tax	**275**	(12)	(2)	(15)	9	**255**
Earnings[e]	**258**	(12)	-	(15)	1	**232**
EPS[e]	**16.7p**	(0.8)p	-	(1.0)p	0.1p	**15.0p**
Operating cash flow[f]	**516**	(12)	3	(19)	-	**488**

Year ended 31 December 2017 (at 2017 average exchange rates) - restated[g]

£m	Underlying results[a]	Onerous contracts	Disposed businesses[c]	Restructuring	Specific and other separately disclosed items[d]	Statutory
Revenue	**7,415**	107	304			**7,826**
Adjusted PBITA[b]	**484**	-	8			**492**
Net specific and separately disclosed items	**-**	(16)	-	(20)	46	**10**
Profit before tax	**370**	(16)	7	(20)	46	**387**
Tax	**(89)**	4	(10)	4	(37)	**(128)**
Profit after tax	**281**	(12)	(3)	(16)	9	**259**
Earnings[e]	**263**	(12)	-	(16)	2	**237**
EPS[e]	**17.0p**	(0.8)p	-	(1.0)p	0.1p	**15.3p**
Operating cash flow[f]	**516**	(12)	3	(19)	-	**488**

[a] Underlying results are Alternative Performance Measures as defined and explained on page 35 and exclude the results of businesses disposed of during the current or prior year, the effect of onerous contracts and specific and separately disclosed items.

[b] Adjusted PBITA is an Alternative Performance Measure as defined and explained on page 36 and excludes specific and separately disclosed items.

[c] Disposed businesses include the results of all businesses that have been sold or closed by the Group between 1 January 2017 and 31 December 2018 and are excluded from underlying results to present current year and comparative underlying results on a like-for-like basis.

[d] Other separately disclosed items include net (loss)/profit on disposal/closure of subsidiaries/businesses, the California class action settlement of £100 million, the guaranteed minimum pension equalisation charge of £35 million and the results of discontinued operations. The associated tax impact is included in the tax charge within "other separately disclosed items". In addition, tax-specific charges or credits, such as those arising from changes in tax legislation which have a material impact, and which are unrelated to net specific items, are included within the tax charge within "other separately disclosed items". The accounting policy for specific and other separately disclosed items is provided on page 35.

[e] Earnings is defined as profit attributable to equity shareholders of G4S plc. Underlying Earnings and Underlying EPS exclude specific and other separately disclosed items as described on page 36 and are reconciled to statutory earnings and statutory EPS above.

[f] Operating cash flow is defined on page 36 as net cash flow from operating activities of continuing operations and is stated after pension deficit contributions of £41 million (2017: £40 million). For the year ended 31 December 2017 it is presented at 2017 average exchange rates. Operating cash flow is reconciled to the Group's movements in net debt on page 37.

[g] Restated for the adoption of IFRS 15 – see note 3.

[h] Constant currency amounts show the 2017 statutory results retranslated at 2018 average exchange rates as described on page 35. Constant currency amounts should not be considered as or used in place of the Group's statutory results. Constant currency operating cash flow is translated at 2017 average exchange rates.

BUSINESS REVIEW: UNDERLYING RESULTS
ALTERNATIVE PERFORMANCE MEASURES

As previously reported, with effect from 1 January 2018 we established a Global Cash Solutions division and consolidated our Secure Solutions business into four regions: Africa, Americas, Asia and Europe & Middle East. The prior year comparatives have been restated accordingly to report segmental results on a consistent basis to align with the way in which the business is managed and reported internally. Reconciliations between the previously-reported results of core businesses and the underlying results reported under the new structure are provided on page 39. The prior year results have also been restated to reflect the adoption of IFRS 15 – Revenue from Contracts with Customers as set out in note 3.

The narrative in this Business Review discusses the Group's underlying results, which are alternative performance measures (as described on page 35) and are reconciled to statutory results on page 3. Commentary on the Group's statutory results is provided on pages 11 to 15. Throughout the Business Review, to aid comparability, 2017 comparative results are presented on a constant currency basis by applying 2018 average exchange rates as described on page 35.

At 2018 average exchange rates	**Revenue 2018 £m**	Revenue[a] 2017 £m	YoY %	Organic growth[b] %	**Adjusted PBITA 2018 £m**	Adjusted PBITA[a] 2017 £m	YoY %	**Adjusted PBITA margin 2018 %**	Adjusted PBITA margin[a] 2017 %
Africa	**405**	381	6.3%	6.3%	**32**	27	18.5%	7.9%	7.1%
Americas	**2,443**	2,332	4.8%	4.8%	**129**	117	10.3%	5.3%	5.0%
Asia	**881**	831	6.0%	6.0%	**63**	57	10.5%	7.2%	6.9%
Europe & Middle East	**2,501**	2,501	-	(0.2%)	**179**	176	1.7%	7.2%	7.0%
Secure Solutions	**6,230**	6,045	3.1%	3.0%	**403**	377	6.9%	6.5%	6.2%
Cash Solutions	**1,059**	1,168	(9.3%)	(9.4%)	**121**	146	(17.1%)	11.4%	12.5%
Total Group before corporate costs	**7,289**	7,213	1.1%	1.0%	**524**	523	0.2%	7.2%	7.3%
Corporate costs	**-**	-	-	-	**(50)**	(49)	2.0%		
Total Group	**7,289**	7,213	1.1%	1.0%	**474**	474	-	6.5%	6.6%

[a] As described in the basis of preparation of the Alternative Performance Measures on page 35, underlying results for 2017 have been restated to be consistent with the structure of the business in 2018 and, as explained in note 3, have also been restated for the adoption of IFRS 15. A reconciliation of the results as previously reported the restated results above is included on page 39.

[b] Organic growth is calculated based on revenue growth at 2018 average exchange rates, adjusted to exclude the impact of any acquisitions during the current or prior years. During 2018 we successfully renegotiated the shareholder agreements for certain businesses in Europe & Middle East and Cash Solutions, increasing our economic interest in and giving us control over those businesses with no incremental investment and the effect of this is excluded from organic growth.

DIVISONAL PERFORMANCE

All commentary and figures refer to underlying results in constant currency, unless otherwise stated.

SECURE SOLUTIONS *(85% of Group revenues)*

Overview

- *Security Solutions (78% of group revenues) incorporating risk consulting, on-site, mobile and remote security, technology-enabled monitoring and response, software and systems and integrated security solutions combining some or all of these services*
- *Care & Justice services (7% of group revenues) including custody, detention, education, rehabilitation and transportation*

Our secure solutions business delivers industry-leading security services in 90 countries around the world. Building on our established security services, we have invested in developing the capabilities to design and deliver security technology, security systems and integrated security solutions that combine people and technology to offer our customers more efficient and valuable security solutions.

We believe that our growing ability to design and deliver technology-enabled security solutions strengthens our customer-value proposition and provides G4S with the opportunity to increase the longevity and value of existing customer relationships, to win new business and to earn higher margins.

In 2018, 45% (2017: 40%) of our Secure Solutions revenues were derived from technology-enabled security services which combine our people with technology. We believe that this trend is set to continue and that G4S is well positioned to reinforce and extend its leading market positions around the globe.

Secure Solutions continued

Performance and Outlook

During 2018, our Secure Solutions business delivered organic revenue growth of 3.0%. Despite tightening labour supply and intense competition in manned security services in some geographies, our commercial discipline, productivity programmes and growing technology-enabled security revenues meant that we strengthened our Adjusted PBITA margin in all four regions and the overall Secure Solutions Adjusted PBITA margin rose from 6.2% to 6.5%.

Africa
Revenue growth across our Africa region was 6.3% and Adjusted PBITA increased by 18.5%.

We made good progress developing and delivering integrated security offerings and strengthening our monitoring and response services. Our remote monitoring and response services for infrastructure are generating a positive response in our key markets. Our new contract awards in the telecoms, automotive and mining sectors provide us with positive momentum and we believe that the business is well positioned to make commercial and financial progress in 2019.

Americas
Revenues in our Americas region grew by 4.8% and Adjusted PBITA increased by 10.3% with the impact of tight labour markets more than offset by an improving revenue mix and the positive impact of our productivity programme.

Our Secure Solutions revenues in North America grew more than 5% as our consultative approach to designing and delivering integrated security solutions continues to gain traction with large enterprise customers. We saw strong demand for our risk and security consulting services, security analytics, executive protection and investigative services. The United States remains close to full employment and our rate of revenue growth in North America was self-constrained as we continued to exercise appropriate commercial discipline.

In Latin America we continued to be disciplined in our bidding and our revenues increased by 2.8%.

Our on-going investment in sales, business development and customer service has enabled G4S to develop a substantial pipeline in the Americas, which provides good support for our commercial momentum in 2019.

Asia
Revenue growth in Asia was 6.0%, with growth across all of our major security markets including India, and Adjusted PBITA for the region increased by 10.5%.

We secured new and renewed contracts across a broad range of sectors including multinationals, property services, technology and transport and logistics. Across the region we have a diverse and substantial set of new business opportunities that supports a positive outlook for this region in 2019.

Europe & Middle East
Revenue in our Europe & Middle East region was broadly unchanged with good growth in UK & Ireland security and revenue stabilisation in the Middle East offset by lower revenues in the Netherlands and Belgium, where we exited a number of large contracts, some of which no longer offered an appropriate risk-adjusted margin.

In the UK, we managed the COMPASS contract within existing provisions and we are making good progress towards an exit from this contract in August 2019.

The Adjusted PBITA margin improved to 7.2% (2017: 7.0%) reflecting the benefit of our productivity programme across the region.

Our Europe & Middle East pipeline has a large number of opportunities across a diversified range of customer segments including manned security and security systems contracts for the healthcare, government, multi-lateral agencies and airlines sectors.

Our focus for 2019 is on restoring revenue momentum whilst maintaining commercial discipline.

CASH SOLUTIONS *(15% of group revenues)*

At 2018 average exchange rates	**Revenue 2018 £m**	Revenue[a] 2017 £m	YoY %	Organic growth[b] %	**Adjusted PBITA 2018 £m**	Adjusted PBITA[a] 2017 £m	YoY %	**Adjusted PBITA margin 2018 %**	Adjusted PBITA margin[a] 2017 %
Cash Solutions	**1,059**	1,168	(9.3%)	(9.4%)	**121**	146	(17.1%)	11.4%	12.5%

Overview

- *Cash Technology services comprising:*
  - *Cash technology focused on the efficient management of cash, including Retail Cash Solutions, the leading software and service solution for large retail formats in North America*
  - *Deposita, Cash360 and G4S Pay solutions for medium and small retail formats*
  - *Bank process automation*
- *Conventional cash services including Cash in transit (CIT), cash processing and automated teller machine (ATM) services*

Our Cash Solutions business operates in 44 countries across the globe providing software, hardware, systems and services that improve the security, control and efficiency of our customers' cash handling. Consistent with independent data and forecasts, we expect cash usage to continue to grow in emerging markets, whilst in developed markets total cash volumes are expected to remain flat or decline over time. In order to sustain strong unit economics, we have built number one or number two positions in 41 of the 44 countries in which we operate.

The global cash management industry is undergoing a major transformation driven by a number of important factors:

- *Banks in developed markets reducing branch and ATM networks resulting in lower cash handling volumes for cash service companies.*
- *Banks and businesses seeking to outsource major elements of their cash handling operations leading to an increase in volumes for cash services companies.*
- *Advances in cash management technology and processes which lower the cost and improve the ease of cash handling, thus improving the competitiveness of cash as a payment method.*

In any given period, these factors do not have a uniform and offsetting impact on the volumes handled by G4S. In some periods the impact of outsourcing and technology enhancements more than offsets the impact of branch/ATM closures and in other periods, such as in 2018 (see performance and outlook below), the reverse is true.

We believe that the strength of our market positions together with our innovative cash and payment technology mean that G4S Cash Solutions is well positioned to play a leading role in the next wave of outsourcing of bank and retail cash management. We have a market leading position in the large retailer segment in the United States and we are a market leader in the global small and mid-size retailer market segments.

We believe that G4S Cash Technology services have the clear potential to produce profits greater than the profits from the Group's CIT and cash processing business in the medium term.

Performance and Outlook

During 2018, we continued to experience very good demand for our Cash Solutions technology and the number of bank and business locations that we serve grew from 19,800 to 23,300 locations. In North America, our operational scale grew in Retail Cash Solutions, resulting in our Adjusted PBITA margin rising to c.15% (2017: 11%) for this business.

In 2017, the Retail Cash Solutions business posted very strong revenue growth as we mobilised a large cash technology and services contract in North America. Whilst we had a number of significant contract wins in 2018, we did not have a similar mobilisation, leading to a reduction in Cash Solutions revenues of 9.3%. Adjusted PBITA for Global Cash Solutions fell by 17.1% reflecting the impact of ATM and bank branch closures in some markets and higher security costs in Africa, principally South Africa, partially offset by a £5 million benefit from the early completion of a bullion centre contract in the UK. Excluding Retail Cash Solutions, Cash Solutions revenues grew by 0.5%.

With the trends highlighted above, we believe good growth opportunities exist in all of our markets where we possess the infrastructure, technology, licenses and a strong track record of reliable and efficient delivery, for banks and retailers to outsource more of their cash management activity to G4S. In addition, we expect our network and operational efficiency programmes to contribute to profitability through 2019 and 2020.

CORPORATE COSTS

Corporate costs comprise the costs of the G4S plc Board and the central costs of running the Group including executive, governance and central support functions.

UNDERLYING RESULTS

Summary underlying results[a]

At 2018 average exchange rates[b]	**2018[a] £m**	2017 Restated[a,c] £m	YoY %
Revenue	**7,289**	7,213	1.1%
Adjusted PBITA[a]	**474**	474	-
Adjusted PBITA[a] margin	6.5%	6.6%	
Interest	**(109)**	(112)	(2.7%)
Profit before tax	**365**	362	0.8%
Tax	**(93)**	(87)	6.9%
Profit after tax	**272**	275	(1.1%)
Non-controlling interests	**(13)**	(17)	(23.5%)
Earnings[a] (profit attributable to equity holders of the parent)	**259**	258	0.4%
EPS[a]	**16.7**	16.7	-
Operating cash flow[a,b]	**453**	516	(12.2%)

[a] Underlying results, Adjusted PBITA, earnings, EPS and operating cash flow are Alternative Performance Measures as defined and explained on page 35. They exclude the effect of specific and other separately disclosed items, the results of onerous contracts and the results of businesses sold or closed since 1 January 2017, and are reconciled to the Group's statutory results on page 3.
[b] 2017 comparatives are presented at 2018 average exchange rates as described on page 35, except for operating cash flow which is presented at 2017 average exchange rates.
[c] The 2017 results have been restated for the effect of adopting IFRS 15 (see note 3).

Revenue
The Group's revenue increased by 1.1% year-on-year. Secure Solutions revenues were 3.1% higher than the prior year, as explained on pages 4 and 5. Cash Solutions revenue decreased by 9.3% reflecting the mobilisation of a large Retail Cash Solutions contract in North America in 2017.

Adjusted PBITA
Adjusted PBITA of £474 million (2017: £474 million) was in line with the prior year. This reflects Adjusted PBITA growth of 6.9% in Secure Solutions offset by lower revenue and increased business development and operating costs in Cash Solutions.

Interest
Net interest payable on net debt was £91 million (2017: £90 million). Net other finance costs were £7 million (2017: £11 million) and the pension interest charge, related to the unwinding of the discount in relation to long-term pension liabilities, was £11 million (2017: £11 million), resulting in a total net interest cost of £109 million (2017: £112 million).

Tax
A tax charge of £93 million (2017: £87 million) was incurred on profit before tax of £365 million (2017: £362 million) which represents an effective tax rate of 25% (2017: 24%). The effective tax rate is a function of a variety of factors, with the most significant being (i) the geographic mix of the Group's taxable profits and the respective country tax rates, (ii) changes in the value of deferred tax assets and liabilities, (iii) permanent differences such as expenses disallowable for tax purposes, (iv) irrecoverable withholding taxes, (v) the level of provision required for potential tax liabilities not agreed with tax authorities and (vi) the impact of one-off items including tax claims.

Non-controlling interests
Profit attributable to non-controlling interests was £13 million in 2018, a decrease from £17 million in 2017, reflecting the non-controlling partners' share of profit of certain businesses in Europe & Middle East.

Earnings
The Group generated profit attributable to equity holders ('earnings') of £259 million (2017: £258 million) for the year ended 31 December 2018.

Earnings per share

Earnings per share was in line with the prior year at 16.7p (2017: 16.7p), based on the weighted average of 1,547m (2017: 1,548m) shares in issue. A reconciliation of profit for the year to earnings per share is provided below:

Underlying earnings per share

	2018 £m	2017 at constant exchange rates £m	2017 at actual exchange rates £m
Underlying profit for the year	**272**	275	281
Non-controlling interests	**(13)**	(17)	(18)
Underlying profit attributable to equity holders of the parent (earnings)	**259**	258	263
Average number of shares[a] (m)	**1,547**	1,548	1,548
Underlying earnings per share	**16.7p**	16.7p	17.0p

[a] Stated net of the average number of shares held in the Employee Benefit Trust of 5 million (2017: 4 million).

ONEROUS CONTRACTS

The Group's onerous contracts generated revenues of £118 million (2017: £107 million) for the year ended 31 December 2018. Adjusted PBITA from onerous contracts of £(5) million for the year (2017: £nil) mainly represents the write down of the value of the assets and the recognition of an onerous contract provision that were both individually below the threshold to be classified as specific items in respect of two UK Care & Justice contracts.

During the year the Group recognised a net £4 million additional onerous contract provision recorded as a specific item. This includes a £9 million charge related to two UK Care & Justice contracts, reflecting the estimated losses over the expected remaining contract terms. In addition, a £5 million credit has been booked as a specific item following the implementation of operational efficiencies in respect of certain onerous contracts that has led to a reduction in expected future losses. It is expected that around 60% of the Group's total provision for onerous customer contracts of £51 million will be utilised by the end of 2019.

In the year ended 31 December 2017 the Group recognised additional provisions of £19 million, classified as specific items, primarily related to the anticipated total losses over the next 15-20 years in respect certain UK government contracts.

DISPOSED BUSINESSES

Businesses disposed of during the year ended 31 December 2018, including the Group's businesses in Hungary and the Philippines, an archiving business in Kenya and the Cash Solutions businesses in the United Arab Emirates, Colombia and Saudi Arabia, generated revenue of £105 million and Adjusted PBITA of £(9) million in the year ended 31 December 2018 (year ended 31 December 2017: revenue £174 million and Adjusted PBITA £3 million). Businesses sold during the year ended 31 December 2017 included the Group's businesses in Israel and Bulgaria and its Youth Services business in North America, and generated revenue of £121 million and Adjusted PBITA of £5 million for the year ended 31 December 2017.

RESTRUCTURING

The Group invested £31 million (2017: £19 million) in restructuring programmes during the year ended 31 December 2018, relating to the 2018-2020 strategic productivity programme announced in 2017 which is being implemented across the Group, mainly in Europe & Middle East, the Americas and Global Cash Solutions. In addition, the Group incurred non-strategic reorganisation costs of £9 million (2017: £8 million) which are included within Adjusted PBITA. We expect to invest around £20 million in restructuring the Cash Solutions business in 2019 and estimate that the costs of the cash separation review and separation process will be between £25-50 million.

SPECIFIC AND OTHER SEPARATELY DISCLOSED ITEMS

	2018 £m	2017 at constant exchange rates £m	2017 at actual exchange rates £m
Specific items – charges	**(23)**	(18)	(18)
Specific items – credits	**5**	-	-
Guaranteed minimum pension equalisation charge	**(35)**	-	-
California class action settlement	**(100)**	-	-
Net (loss)/profit on disposal/closure of subsidiaries/businesses	**(15)**	72	74
Acquisition-related amortisation	**(4)**	(9)	(10)
Specific and other separately disclosed items before tax	**(172)**	45	46
Tax credits/(charges) arising on specific and other separately disclosed items	**32**	(17)	(18)
Tax impact of the introduction of the US Tax Cuts and Jobs Act	**-**	(19)	(19)
Specific and other separately disclosed items after tax	**(140)**	9	9
Profit/(loss) from discontinued operations	**2**	(6)	(6)
Non-controlling interests' share of specific and other separately disclosed items	**-**	(2)	(1)
Total specific and other separately disclosed items – (charge)/credit to earnings	**(138)**	1	2

Specific items
The specific items charges of £23 million (2017: £18 million) include £12 million related to additional provisions in Asia in respect of historical employee gratuities and end-of-service benefits and £11 million related to the reassessment of estimated settlement amounts in respect of historical workers' compensation claims in the Americas.

Specific item charges incurred during the year ended 31 December 2017 of £18 million primarily comprised £6 million related to the estimated cost of settlement of subcontractor claims from commercial disputes in respect of prior years, and £9 million related mainly to the settlement of labour disputes in respect of prior years in the Americas.

The specific items credit of £5 million (2017: £nil) relates to successful court claims made by the Group in the Americas.

Guaranteed minimum pension equalisation charge
Following the UK High Court Ruling in the case of Lloyds Banking Group Pension Trustees Limited vs Lloyds Bank plc (and others) in October 2018, the Group recorded a charge of £35 million (2017: £nil) in respect of the equalisation of benefits for historical guaranteed minimum pension obligations between males and females in the UK.

California class action settlement
In January 2019 the Group agreed the settlement of a class action relating to claims for employee meal and rest breaks for the period 2001 to 2010 in California. This settlement is subject to the final approval of the Superior Court of the State of California. The amount to be settled is between US$100 million and US$130 million with the precise amount to be determined during the settlement administration process. A provision of £100 million has been established in the accounts for the year ended 31 December 2018 representing management's best estimate of the amount of the class action settlement and any related costs.

Net (loss)/profit on disposal/closure of subsidiaries/businesses
During the year, the Group recognised a net loss of £15 million (2017: profit of £72 million) relating to the disposal of a number of its operations including its businesses in Hungary and the Philippines, its archiving business in Kenya and its Cash Solutions businesses in the United Arab Emirates, Colombia and Saudi Arabia. Disposals in 2017 included the Group's businesses in Israel and Bulgaria and the Group's Youth Services business in North America.

Acquisition-related amortisation
Acquisition-related amortisation of £4 million (2017: £9 million) is lower than the prior year as certain intangible assets recognised on a number of legacy acquisitions became fully amortised in 2017.

Tax credits/(charges) arising on specific and other separately disclosed items
Tax credits arising on specific and other separately disclosed items were £32 million (2017: charges of £17 million which related primarily to the disposal of subsidiaries in the Americas region). The Group expects amounts owed to class members and their advisors under the proposed California class action settlement to be deductible for US Federal and State tax purposes when paid and, in recognition of this, a deferred tax asset has been established in the accounts for the year ended 31 December 2018.

Tax impact of the introduction of the US Tax Cuts and Jobs Act ("US tax reform")
The Tax Cuts and Jobs Act introduced significant changes in US tax laws with effect from 1 January 2018. For 2017, the changes in legislation resulted in a separately disclosed one-off charge to the income statement of £19 million arising from the re-measurement and impairment of deferred tax assets due to the reduction in the US Federal tax rate, and from the impairment of foreign tax credits which are no longer expected to be recovered in future periods against foreign source income.

CASH FLOW, CAPITAL EXPENDITURE AND PORTFOLIO MANAGEMENT

The Group generated underlying operating cash flow of £453 million (2017: £516 million) after pension deficit-repair contributions of £41 million (2017: £40 million) during the year. Underlying operating cash flow represents 95.6% (2017: 106.6%) of Adjusted PBITA and primarily reflects a lower level of operating cash flow generation in the Americas region, which was impacted by the US Federal Government shutdown in the run-up to the year-end, and in Europe & Middle East where the phasing of cash flows in respect of a small number of major contracts reduced cash conversion in the year. The Group invested £102 million (2017: £104 million) in net capital expenditure and received net proceeds of £45 million (2017: £156 million) from the disposal of businesses. The Group made no significant acquisitions in the year.

Net cash inflow after investing in the business was £333 million (2017: £525 million). The Group's net increase in net debt before foreign exchange movements was £39 million (2017: decrease of £162 million) after net interest paid which increased to £99 million (2017: £78 million) primarily reflecting the initial annual interest payment in respect of the €500 million bond issued in June 2017, tax paid of £98 million (2017: £86 million) and dividends paid of £170 million (2017: £179 million).

BUSINESS REVIEW – GROUP COMMENTARY
STATUTORY RESULTS

The basis of preparation of the Group's statutory results is set out on page 21. Comparative figures for statutory results are presented at actual historical exchange rates (i.e. the results for the year ended 31 December 2017 are presented at year to date average exchange rates for the year ended 31 December 2017). Prior year results have been restated for the impact of adopting IFRS 15 – Revenue from Contracts with Customers, as described in note 3.

REVIEW OF STATUTORY RESULTS

Statutory results at actual exchange rates	**2018**	2017 Restated[a]	YoY
	£m	£m	%
Revenue	**7,512**	7,826	(4.0%)
Adjusted profit before interest, tax and amortisation (Adjusted PBITA)	**460**	492	(6.5%)
Specific items – charges	**(32)**	(34)	(5.9%)
Specific items – credits	**10**	-	n/a
Guaranteed minimum pension equalisation charge	**(35)**	-	n/a
California class action settlement	**(100)**	-	n/a
Restructuring costs	**(31)**	(20)	55.0%
(Loss)/profit on disposal/closure of subsidiaries/businesses	**(15)**	74	(120.3%)
Acquisition-related amortisation	**(4)**	(10)	(60.0%)
Operating profit	**253**	502	(49.6%)
Interest costs (net)	**(110)**	(115)	(4.3%)
Profit before tax	**143**	387	(63.0%)
Tax	**(55)**	(128)	(57.0%)
Profit after tax	**88**	259	(66.0%)
Profit/(loss) from discontinued operations	**2**	(6)	(133.3%)
Profit for the year	**90**	253	(64.4%)
Non-controlling interests	**(8)**	(16)	(50.0%)
Profit attributable to equity holders of the parent ("statutory earnings")	**82**	237	(65.4%)
EPS	**5.3p**	15.3p	(65.4%)
Operating cash flow	**413**	488	(15.4%)

[a] 2017 results have been restated for the effect of adopting IFRS 15 - see note 3.

Revenue
Revenue decreased by 4.0% compared with the prior year statutory results. Of the decrease, 2.7% (£211 million) was due to movements in exchange rates caused by the relative strengthening of the average sterling exchange rates affecting the Group. Excluding the effects of movements in exchange rates, revenue decreased by 1.4% mainly due to a £190 million reduction in revenue in respect of businesses disposed during the current and prior years including the Group's businesses in Hungary and Israel and its Youth Services business in North America. Revenue from onerous contracts is slightly higher than the prior year at £118 million (2017: £107 million). Excluding the effects of movements in exchange rates, revenue from disposed businesses and onerous contracts, revenue grew by 1.1% at constant exchange rates.

Business performance is discussed in more detail by service line and region on pages 4 to 6.

Adjusted PBITA
Adjusted PBITA of £460 million (2017: £492 million) was down 6.5%. Of the decrease, 2.0% (£10 million) was due to movements in exchange rates. Excluding the effect of movements in exchange rates, Adjusted PBITA decreased by 4.6%, reflecting Adjusted PBITA growth in Secure Solutions offset by lower revenue, increased business development and operating costs in the Cash Solutions division, as well as a reduction in Adjusted PBITA from disposed businesses of £17 million. Excluding the effect of movements in exchange rates, Adjusted PBITA from disposed businesses and onerous contracts, the Group's Adjusted PBITA remained in line with the prior year.

Specific items - charges
The specific items charges of £32 million (2017: £34 million) include £12 million related to additional provisions in Asia in respect of historical employee gratuities and end of service benefits and £11 million related to the reassessment of estimated settlement amounts in respect of historical workers' compensation claims in the Americas. Also included in specific item charges is a £9 million onerous contract charge related to two UK Care & Justice contracts, reflecting the estimated losses over their expected remaining terms.

Specific items charges incurred during the year ended 31 December 2017 of £34 million included £19 million primarily relating to the anticipated total losses over the next 15 to 20 years in respect of certain UK government contracts, £6 million related to the estimated cost of settlement of subcontractor claims from commercial disputes in respect of prior years, and £9 million related to the settlement of labour disputes in respect of prior years in the Americas.

Specific items - credits
The specific items credits of £10 million (2017: £nil) include a £5 million release of onerous contract provisions in the UK for which the related charges had previously been recorded as specific items, following the implementation of operational efficiencies in the contracts leading to a reduction in expected future losses. In addition, a further £5 million related to successful court claims made by the Group in the Americas has been credited as specific item.

Guaranteed minimum pension equalisation charge
Following the UK High Court Ruling in the case of Lloyds Banking Group Pension Trustees Limited vs Lloyds Bank plc (and others) in October 2018, the Group recorded a charge of £35 million (2017: £nil) in respect of the equalisation of benefits for historical Guaranteed Minimum Pension obligations between males and females in the UK.

California class action settlement
In January 2019 the Group agreed the settlement of a class action relating to claims for employee meal and rest breaks for the period 2001 to 2010 in California. This settlement is subject to the final approval of the Superior Court of the State of California. The amount to be settled is between US$100 million and US$130 million with the precise amount to be determined during the settlement administration process. A provision of £100 million has been established in the accounts for the year ended 31 December 2018 representing management's best estimate of the amount of the class action settlement and any related costs.

Restructuring costs
The Group invested £31 million (2017: £20 million) in restructuring programmes during the year ended 31 December 2018, relating to the 2018-2020 strategic productivity programme announced in 2017 which is being implemented across the Group, mainly in Europe & Middle East, the Americas regions and Cash Solutions. In addition, the Group incurred non-strategic reorganisation costs of £9 million (2017: £10 million) which are included within Adjusted PBITA. We expect to invest around £20 million in restructuring the Cash Solutions business in 2019 and estimate that the costs of the cash separation review and separation process will be between £25-50 million.

(Loss)/profit on disposal and closure of subsidiaries/businesses
The Group recognised a net loss on disposal and closure of subsidiaries/businesses of £15 million (2017: profit of £74 million) relating to the disposal of a number of the Group's operations including its businesses in Hungary and the Philippines, its archiving business in Kenya and the Cash Solutions businesses in the United Arab Emirates, Colombia and Saudi Arabia. Disposals in 2017 included the Group's businesses in Israel and Bulgaria and the Group's Youth Services business in North America.

Acquisition-related amortisation
Acquisition-related amortisation of £4 million (2017: £10 million) is lower than the prior year as certain intangible assets recognised on a number of legacy acquisitions became fully amortised in 2017.

Operating profit
Operating profit for the year of £253 million (2017: £502 million) was down 49.6% reflecting the 6.5% reduction in Adjusted PBITA together with the additional charges in the current year in respect of the California class action settlement and the UK guaranteed minimum pension equalisation charge; the loss on business disposals in the year of £15 million (2017: profit on disposal £74 million) and the other specific and separately disclosed items described above.

Net interest costs
Net interest payable on net debt was £92 million (2017: £92 million). Net other finance costs were £7 million (2017: £12 million) and the pension interest charge, related to the unwinding of the discount in relation to long-term pension liabilities, was £11 million (2017: £11 million), resulting in a total net interest cost of £110 million (2017: £115 million).

Tax
The statutory tax charge of £55 million (2017: £128 million) for 2018 included a tax charge of £93 million (2017: £89 million) on the Group's underlying profits, as explained on page 7, a tax credit on onerous contracts of £nil (2017: £4 million), a tax charge of £1 million in respect of disposed businesses (2017: £10 million), a tax credit of £7 million (2017: £4 million) in respect of restructuring costs and a net tax credit of £32 million (2017: tax charge of £37 million, which included £19 million in respect of the tax impact of the US tax reform) in respect of specific and other separately disclosed items.

The Group's statutory tax charge represented an effective rate of 38% (2017: 33%) on profit before tax of £143 million (2017: £387 million). The effective tax rate is a function of a variety of factors, with the most significant being (i) the geographic mix of the Group's taxable profits and the respective country tax rates, (ii) changes in the value, and recognition of, deferred tax assets and liabilities, (iii) permanent differences such as expenses disallowable for tax purposes, (iv) irrecoverable withholding taxes, (v) the level of provision required for potential tax liabilities not agreed with tax authorities, (vi) the impact of one-off items including tax claims, and (vii) the overall level of profit against which the preceding items are measured.

The higher effective tax rate compared with the prior year is primarily driven by (i) an increase in profits taxed at a higher rate, (ii) the relative amount of non-deductible expenses, (iii) the reassessment of the recoverability of certain deferred tax assets, and (iv) the relative amount of irrecoverable withholding taxes. This is offset by the one-off tax impact in 2017 of the US Tax Cuts and Jobs Act and changes in 2018 in the level of provision required for potential tax liabilities not agreed with tax authorities.

Non-controlling interests
Profit attributable to non-controlling interests was £8 million in 2018, a decrease from £16 million recorded in 2017, reflecting the non-controlling partners' share of profit of certain businesses in Europe & Middle East.

Profit attributable to equity holders of the parent ("statutory earnings")
The Group reported profit for the year attributable to equity holders of the parent ("statutory earnings") of £82 million (2017: £237 million) which reflects the lower Adjusted PBITA together with the loss on disposal and closure of subsidiaries/businesses in the current year compared with the profit recognised in the prior year and the additional charges in the current year in respect of the California class action settlement and the UK Guaranteed Minimum Pension equalisation charge.

Earnings per share
Statutory earnings per share[a] decreased to 5.3p (2017: 15.3p), based on the weighted average number of shares in issue of 1,547 million (2017: 1,548 million). A reconciliation of the Group's statutory profit for the year to EPS is provided below:

Earnings per share

	2018 **£m**	2017 at constant exchange rates[c] £m	2017 at actual exchange rates £m
Profit for the year	**90**	249	253
Non-controlling interests	**(8)**	(17)	(16)
Profit attributable to equity holders of the parent (earnings)	**82**	232	237
Average number of shares[b] (m)	**1,547**	1,548	1,548
Statutory earnings per share[a]	**5.3p**	**15.0p**	**15.3p**

[a] Basis of preparation of statutory results is shown on page 21.
[b] Stated net of the average number of shares held in the Employee Benefit Trust of 5 million (2017: 4 million)
[c] Refer to page 35 for a definition of constant currency results.

REVIEW OF THE GROUP'S CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Significant movements in the consolidated statement of financial position
Current loan notes reduced to £464 million (31 December 2017: £655 million), reflecting the net repayment of certain loan notes during the year, as explained below. In addition, non-current bank loans increased to £293 million (2017: £5 million) following the draw-down of the new US$350 million committed term loan facility in November 2018.

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

- Cash, cash equivalents and overdrafts are explained below;
- Retirement benefit obligations are explained in note 14;
- Provisions are analysed in note 15; and
- Net debt is analysed in note 16.

Total equity
Total equity at 31 December 2018 was £783 million (2017: £843 million). The main movements during the year were: profit for the year of £90 million (2017: £253 million), other comprehensive income of £44 million (2017: losses of £47 million) (which included a re-measurement gain on deferred retirement benefit schemes of £38 million (2017: £26 million) as explained on page 15 and an exchange gain on translation of foreign operations and changes in fair value of net investment and cash flow hedging financial instruments of £14 million (2017: loss of £69 million)), and dividends paid in the year of £170 million (2017: £179 million).

REVIEW OF THE GROUP'S CASH FLOW AND FINANCING

Consolidated statement of cash flow
Net cash flow from operating activities before tax was £413 million (2017: £488 million). Net cash inflow from operating activities was £315 million (2017: £402 million) reflecting lower operating cash flow generation in the Americas and Europe & Middle East. Net cash used in investing activities was £48 million (2017: cash generated £81 million), including £45 million (2017: £156 million) of net business disposal proceeds. Net cash outflow from financing activities was £209 million (2017: £570 million) with the difference compared with the prior year being mainly the proceeds from borrowings of £761 million (2017: £437 million). Cash, cash equivalents and overdrafts at 31 December 2018 were £673 million (2017: £571 million), a net increase compared with 31 December 2017 including the impact of exchange rate movements of £102 million (2017: decrease of £101 million). The Group's statutory cash flow is presented in full on page 20.

Net debt

Net debt as at 31 December 2018 was £1,558 million (2017: £1,487 million). The Group's net debt to Adjusted EBITDA ratio was 2.7x (2017: 2.4x) reflecting both the increase in net debt and the reduction in Adjusted PBITA described above. In light of the expected cash costs of the settlement of the California class action, the costs of the Cash Solutions business separation review, spend in respect of onerous contracts and restructuring costs expected in 2019, we expect the Group's net debt to adjusted EBITDA ratio to remain broadly unchanged during 2019. Notwithstanding this, the Group's business plan supports a reduction in the ratio to 2.5x or below over the medium term. The detailed reconciliation of movements in net debt is provided on page 37 and is reconciled to the statutory cash flow on page 38.

Net debt maturity

In April 2018, the Group's credit rating was affirmed by Standard & Poor's as BBB-, however the outlook was revised from negative to stable. As at 31 December 2018 the Group had liquidity of £1,423 million (2017: £1,571 million) comprising cash, cash equivalents and bank overdrafts of £673 million (2017: £571 million) and unutilised but committed facilities of £0.75 billion (2017: £1 billion).

During the year, the Group arranged a US$350 million term facility, maturing in August 2021, which was fully drawn, and also amended the available Revolving Credit Facility, reducing it to £750m while extending the maturity for a further one and a half years to August 2023. As at 31 December 2018 there were no drawings from this facility. In May 2018 the Group issued a €550 million Public Bond which matures in May 2025 and pays an annual coupon of 1.875%. During the year the Group also repaid £44 million of GBP private loan notes, US$224 million of US private loans notes and €500 million of public Eurobonds.

The debt maturities in 2019 comprise the US$145 million US Private Placement notes repaid in March 2019 and the £350 million public bond due in May 2019 which will be financed primarily by utilising a £300 million bridge facility arranged in January 2019. The Group has good access to capital markets and a diverse range of finance providers. Borrowings are principally in pounds sterling, US dollars and euros, reflecting the geographies of significant operational assets and earnings.

The Group's main sources of finance and their applicable rates as at 31 December 2018 are set out below:

Debt instrument/ Year of issue	Nominal amount[a]	Issued interest rate	Post hedging average interest rate	Year of redemption and amounts (£m)[b]							
				2019	2020	2021	2022	2023	2024	2025	Total
US PP 2007	US$145m	5.96%	3.17%	114							**114**
US PP 2007	US$105m	6.06%	3.23%				82				**82**
US PP 2008	US$74.5m	6.88%	6.88%		58						**58**
Public Bond 2009	£350m	7.75%	7.75%	350							**350**
Public Bond 2016	€500m	1.50%	2.23%					450			**450**
Public Bond 2017	€500m	1.50%	3.22%						442		**442**
Public Bond 2018	€550m	1.88%	2.78%							484	**484**
Term Loan Facility 2018	US$350m	3.64%	3.64%			275					**275**
Revolving Credit Facility 2018[c]	£750m (multi currency)	Undrawn	-								**-**
				464	**58**	**275**	**82**	**450**	**442**	**484**	**2,255**

[a] Nominal debt amount, for fair value carrying amount see note 18.
[b] Translated at exchange rates prevailing at 31 December 2018, or hedged exchange rates where applicable.
[c] The revolving credit facility matures in August 2023. As at 31 December 2018 there were no drawings from the facility.

The Group's average cost of gross borrowings, net of interest hedging, was 3.9% (2017: 4.1%).

OTHER INFORMATION

Significant exchange rates applicable to the Group
The Group derives a significant proportion of its revenue and profits in the following currencies. Closing and average rates for these currencies are shown below:

	31 December 2018 Closing rates	Year to 31 December 2018 Average rates	31 December 2017 Closing rates	Year to 31 December 2017 Average rates
£/US$	1.2746	1.3336	1.3524	1.2964
£/€	1.1130	1.1294	1.1250	1.1453
£/South Africa Rand	18.3288	17.5598	16.7557	17.3187
£/India Rupee	88.8104	90.9294	86.3531	84.3570
£/Brazil Real	4.9461	4.8621	4.4794	4.1506

Applying December 2018 closing rates to underlying results for the year to 31 December 2018 would result in an increase in revenue of 1.9% to £7,427 million (for the year ended 31 December 2017: increase of 1.9% to £7,353 million) and an increase in Adjusted PBITA of 2.1% to £484 million (for the year ended 31 December 2017: increase of 2.1% to £484 million).

Applying December 2018 closing rates to the Group's statutory results for the year to 31 December 2018 would result in an increase in revenue of 1.9% to £7,653 million (for the year ended 31 December 2017: decrease of 1.0% to £7,746 million) and an increase in Adjusted PBITA of 2.2% to £470 million (for the year ended 31 December 2017: no change, at £492 million).

The strengthening of the average Sterling exchange rates compared with the prior year led to a decrease in statutory revenue of 2.7% and a decrease in Adjusted PBITA of 2.0%. The impact of exchange rate movements increased the Group's net debt by £32 million compared with the prior year.

Dividend
The Board proposes a final dividend of 6.11p (2017: 6.11p) per share (DKK 0.5321).

Pensions
The Group's IAS 19 Revised (2011) Employee Benefits net pension deficit at 31 December 2018 recognised in the consolidated statement of financial position was £364 million (31 December 2017: £381 million) or £302 million (31 December 2017: £318 million) net of applicable tax in the relevant jurisdictions. The Group's net pension deficit has decreased compared with the position as at 31 December 2017 reflecting an increase in the deficits in the Group's unfunded pension schemes offset by a decrease in the net deficit of the UK pension scheme.

The UK scheme's pension liabilities decreased compared with the prior year reflecting the payment of scheduled deficit-repair contributions of £41 million (2017: £40 million) during the year, together with the impact of applying a higher discount rate assumption to the valuation of scheme obligations and adopting the latest mortality base-rate tables. These decreases were offset by an increase in the pension liabilities of £35 million (2017: £nil) following the equalisation of historical guaranteed minimum pension obligations after a recent UK court ruling. The net reduction in the pension liabilities was partially offset by a loss incurred on the revaluation of the pension scheme assets.

The triennial valuation in respect of the UK scheme is underway, during which we expect to agree the future deficit-repair contributions.

Brexit

The Group operates mainly within national boundaries and is typically subject to security-licencing regulations in each territory, and is relatively well positioned with around 80% of revenues outside the UK and minimal cross-border trading. Brexit may impact the overall macro-economic environment in the short-term and may also have an impact on the availability of labour in the UK.

The Group will continue to monitor closely developments on the decision to exit the EU as part of its risk management and governance framework.

G4S plc
Consolidated financial statements

For the year ended 31 December 2018

Consolidated income statement (audited)

Continuing operations	Notes	2018 £m	2017 Restated[1] £m
Revenue	*5*	**7,512**	7,826
Operating profit before impairment losses on financial and contract assets, joint ventures, specific items and other separately disclosed items		**464**	494
Net impairment losses on financial and contract assets		**(11)**	(11)
Share of post-tax profit from joint ventures		**7**	9
Adjusted profit before interest, tax and amortisation (Adjusted PBITA)	*5*	**460**	492
Specific items – charges	*6*	**(32)**	(34)
Specific items – credits	*6*	**10**	-
Guaranteed minimum pension equalisation charge	*6*	**(35)**	-
California class action settlement	*6*	**(100)**	-
Restructuring costs	*6*	**(31)**	(20)
(Loss)/profit on disposal/closure of subsidiaries/businesses	*6,7*	**(15)**	74
Amortisation of acquisition-related intangible assets	*6*	**(4)**	(10)
Operating profit	*5,6*	**253**	502
Finance income[2]	*8*	**16**	12
Finance expense[2]	*8*	**(126)**	(127)
Profit before tax		**143**	387
Tax	*9*	**(55)**	(128)
Profit from continuing operations after tax		**88**	259
Profit/(loss) from discontinued operations		**2**	(6)
Profit for the year		**90**	253
Attributable to:			
Equity holders of the parent		**82**	237
Non-controlling interests		**8**	16
Profit for the year		**90**	253
Earnings per share attributable to equity shareholders of the parent	*11*		
Basic and diluted – from continuing operations		**5.2p**	15.7p
Basic and diluted – from continuing and discontinued operations		**5.3p**	15.3p
Dividends declared and proposed in respect of the year			
Interim dividend		**55**	55
Final dividend		**95**	95
Total dividend	*10*	**150**	150

[1] Comparative results have been restated for the adoption of IFRS 15 – Revenue from Contracts with Customers, see note 3.
[2] The results for the year ended 31 December 2017 have been re-presented to decrease both finance income and finance expense by £4m with no effect on profit before tax, see note 8 for details.

Consolidated statement of comprehensive income (audited)

	2018 £m	2017 Restated[1] £m
Profit for the year	**90**	253
Other comprehensive income		
Items that will not be re-classified to profit or loss:		
Re-measurements on defined retirement benefit schemes	**38**	26
Tax on items that will not be re-classified to profit or loss	**(6)**	(4)
	32	22
Items that may be re-classified subsequently to profit or loss:		
Exchange differences on translation of foreign operations and changes in fair value of net investment and cash flow hedging financial instruments	**14**	(69)
Tax on items that may be reclassified subsequently to profit or loss	**(2)**	-
Other comprehensive income/(loss), net of tax	**44**	(47)
Total comprehensive income for the year	**134**	206
Attributable to:		
Equity holders of the parent	**125**	192
Non-controlling interests	**9**	14
Total comprehensive income for the year	**134**	206

[1] Comparative results have been restated for the adoption of IFRS 15 – Revenue from Contracts with Customers, see note 3.

Consolidated statement of changes in equity (audited)

	Attributable to equity holders of the parent						
	Share capital 2018 £m	**Share premium 2018 £m**	**Retained earnings 2018 £m**	**Other reserves 2018 £m**	**Total 2018 £m**	**NCI reserve 2018 £m**	**Total Equity 2018 £m**
At 1 January 2018[1]	**388**	**258**	**(177)**	**370**	**839**	**4**	**843**
Total comprehensive income	**-**	**-**	**113**	**12**	**125**	**9**	**134**
Dividends paid	**-**	**-**	**(150)**	**-**	**(150)**	**(20)**	**(170)**
Transactions with non-controlling interests[2]	**-**	**-**	**(39)**	**-**	**(39)**	**18**	**(21)**
Consolidation of previously equity-accounted entities	**-**	**-**	**(6)**	**-**	**(6)**	**7**	**1**
Recycling of cumulative translation adjustments	**-**	**-**	**-**	**(1)**	**(1)**	**-**	**(1)**
Own shares awarded	**-**	**-**	**(9)**	**9**	**-**	**-**	**-**
Own shares purchased	**-**	**-**	**-**	**(11)**	**(11)**	**-**	**(11)**
Share-based payments	**-**	**-**	**8**	**-**	**8**	**-**	**8**
At 31 December 2018	**388**	**258**	**(260)**	**379**	**765**	**18**	**783**

	Attributable to equity holders of the parent						
	Share capital 2017 £m	Share premium 2017 £m	Retained earnings 2017 £m	Other reserves 2017 £m	Total 2017 £m	NCI reserve 2017 £m	Total Equity 2017 £m
At 1 January 2017 – reported	388	258	(260)	456	842	21	863
Impact of adoption of IFRS15[1]	-	-	(12)	-	(12)	-	(12)
At 1 January 2017 - restated[1]	388	258	(272)	456	830	21	851
Total comprehensive income/(loss) - restated[1]	-	-	261	(69)	192	14	206
Dividends paid	-	-	(145)	-	(145)	(34)	(179)
Transactions with non-controlling interests	-	-	(19)	-	(19)	3	(16)
Recycling of net investment hedge	-	-	-	24	24	-	24
Recycling of cumulative translation adjustments	-	-	-	(42)	(42)	-	(42)
Own shares awarded	-	-	(11)	11	-	-	-
Own shares purchased	-	-	-	(10)	(10)	-	(10)
Share-based payments	-	-	9	-	9	-	9
At 31 December 2017 - restated[1]	388	258	(177)	370	839	4	843

[1] Comparative results have been restated for the adoption of IFRS 15 – Revenue from Contracts with Customers, see note 3.
[2] Transactions with non-controlling interests (NCI) in 2018 relate primarily to agreements entered into during the year in Asia to strengthen the Group's arrangements in certain countries in that region. In addition, the Group has re-classified smaller amounts from retained earnings to NCI following a review of its arrangements in one country.

G4S plc
Consolidated financial statements

As at 31 December 2018

Consolidated statement of financial position (audited)

	Notes	2018 £m	2017 Restated[1] £m
ASSETS			
Non-current assets			
Goodwill		**1,939**	1,914
Other acquisition-related intangible assets		**12**	9
Non-acquisition-related intangible assets		**100**	88
Property, plant and equipment		**367**	395
Trade and other receivables		**88**	82
Investment in joint ventures		**8**	20
Investments	*16*	**23**	20
Retirement benefit surplus	*14*	**75**	80
Deferred tax assets	*9*	**248**	242
		2,860	2,850
Current assets			
Inventories		**113**	104
Investments	*16*	**42**	42
Trade and other receivables		**1,429**	1,417
Current tax assets	*9*	**64**	55
Cash and cash equivalents	*16*	**1,015**	902
Assets classified as held for sale	*12*	**9**	53
		2,672	2,573
Total assets		**5,532**	5,423
LIABILITIES			
Current liabilities			
Bank overdrafts	*16*	**(305)**	(284)
Bank loans	*16*	**(12)**	(8)
Loan notes	*16*	**(464)**	(655)
Obligations under finance leases	*16*	**(11)**	(15)
Trade and other payables		**(1,237)**	(1,263)
Current tax liabilities	*9*	**(56)**	(79)
Provisions	*15*	**(202)**	(104)
Liabilities of disposal groups classified as held for sale	*12*	**(1)**	(19)
		(2,288)	(2,427)
Non-current liabilities			
Bank loans	*16*	**(293)**	(5)
Loan notes	*16*	**(1,533)**	(1,486)
Obligations under finance leases	*16*	**(16)**	(20)
Trade and other payables		**(38)**	(35)
Retirement benefit obligations	*14*	**(439)**	(461)
Provisions	*15*	**(136)**	(138)
Deferred tax liabilities	*9*	**(6)**	(8)
		(2,461)	(2,153)
Total liabilities		**(4,749)**	(4,580)
Net assets		**783**	843
EQUITY			
Share capital		**388**	388
Share premium		**258**	258
Reserves		**119**	193
Equity attributable to equity holders of the parent		**765**	839
Non-controlling interests		**18**	4
Total equity		**783**	843

[1] The consolidated statement of financial position as at 31 December 2017 has been restated for the effect of IFRS 15, see note 3.

G4S plc
Consolidated financial statements
For the year ended 31 December 2018

Consolidated statement of cash flows (audited)

	2018 £m	2017 £m
Operating profit - restated[1]	**253**	502
Adjustments for non-cash and other items (see note 17)	**240**	40
(Increase)/decrease in inventory	**(10)**	1
Increase in accounts receivable - restated[1]	**(40)**	(94)
(Decrease)/increase in accounts payable - restated[1]	**(30)**	39
Net cash flow from operating activities before tax (see note 17)	**413**	488
Tax paid	**(98)**	(86)
Net cash flow from operating activities	**315**	402
Investing activities		
Purchases of non-current assets	**(114)**	(109)
Proceeds on disposal of property, plant and equipment	**12**	5
Disposal/closure of subsidiaries/businesses	**45**	156
Cash, cash equivalents and bank overdrafts in disposed entities	**(16)**	(8)
Cash, cash equivalents and bank overdrafts in acquired entities	**5**	-
Acquisition of subsidiaries	**(4)**	(1)
Interest received	**17**	29
Sale of investments	**-**	3
Cash flow from equity accounted investments	**7**	6
Net cash (used in)/generated by investing activities	**(48)**	81
Financing activities		
Dividends paid to equity shareholders of the parent	**(150)**	(145)
Dividends paid to non-controlling interests	**(20)**	(34)
Purchase of own shares	**(11)**	(10)
Proceeds from new borrowings	**761**	437
Repayment of borrowings	**(658)**	(672)
Interest paid[2]	**(116)**	(107)
Repayment of obligations under finance leases	**(14)**	(23)
Transactions with non-controlling interests	**(1)**	(16)
Net cash outflow from financing activities	**(209)**	(570)
Net increase/(decrease) in cash, cash equivalents and bank overdrafts	**58**	(87)
Cash, cash equivalents and bank overdrafts at the beginning of the year	**571**	672
Effect of foreign exchange rate fluctuations on net cash held	**44**	(14)
Cash, cash equivalents and bank overdrafts at the end of the year	**673**	571

[1] Comparative results have been restated for the adoption of IFRS 15 – Revenue from Contracts with Customers, see note 3.
[2] Interest paid has been re-presented to include interest paid and received on derivative financial instruments.

Notes to the financial statements

1) Basis of preparation and accounting policies

The financial information set out above has been prepared in accordance with International Financial Reporting Standards adopted by the European Union and does not constitute the company's statutory accounts for the years ended 31 December 2018 or 2017. The consolidated financial statements incorporate the financial statements of the company and entities (its subsidiaries) controlled by the company (collectively comprising "the Group") and the Group's interest in joint ventures made up to 31 December each year.

The financial information for the year contained in the preliminary results announcement does not constitute statutory accounts of the Group for the years ended 31 December 2018 and 31 December 2017 but is derived from those accounts. Statutory accounts for 2017 have been delivered to the registrar of companies and those for 2018 will be delivered in due course. Those accounts have been reported on by the Group's auditors; their report was (i) unqualified, (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report, and (iii) did not contain a statement under section 498(2) or (3) of the Companies Act 2006. This preliminary results announcement has been prepared applying accounting policies consistent with those applied by the Group in its 2017 Integrated Report and Accounts except for adopting IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers as explained in note 3.

As described in note 8, the consolidated income statement for the year ended 31 December 2017 has been re-presented to decrease both finance income and finance expense by £4m with no effect on profit before tax.

The Group has prepared the consolidated financial statements on a going concern basis.

2) Specific items and other separately disclosed items

The Group's consolidated income statement and segmental analysis note separately identify results before specific items. Specific items are those that in management's judgment need to be disclosed separately in arriving at operating profit by virtue of their size, nature or incidence. In determining whether an event or transaction is specific, management considers quantitative as well as qualitative factors such as the frequency or predictability of occurrence.

All specific items are evaluated and approved by the Group's Audit Committee prior to being separately disclosed. The Group seeks to be balanced when reporting specific items for both debits and credits, and any reversals of excess provisions previously created as specific items are classified consistently as specific items. Specific items may not be comparable with similarly-titled measures used by other companies.

In general, provisions recognised for future losses on onerous contracts are charged to the consolidated income statement within Adjusted PBITA. However, where onerous contract charges are significant by virtue of their size, they are separately charged within specific items. Such losses are distinct from "in-year" losses, which are utilised against provisions for onerous contract losses. Releases of onerous contract provisions originally charged as specific items are separately credited within specific items.

In order to provide further clarity in the consolidated income statement, the Group also discloses separately certain restructuring costs, profits or losses on disposal or closure of subsidiaries, costs of major corporate restructuring, acquisition-related amortisation and expenses and goodwill impairments. In the current year, the California class action settlement and guaranteed minimum pension equalisation charge are also separately disclosed. Restructuring costs that are separately disclosed reflect the Group's 2018 to 2020 productivity programme announced in 2017. This programme is of a strategic nature and, as such, is monitored and approved by the Group's Executive Committee. Activities under the programme in 2018 focused primarily on the previously announced three-year plan to implement efficient organisational design and leaner processes by 2020. During 2017 activities under the programme focused primarily on transforming the operating model in Europe & Middle East. Restructuring costs that are incurred in the normal course of business are recorded within Adjusted PBITA.

3) Adoption of new and revised accounting standards and interpretations

The Group has applied IFRS 15 – Revenue from Contracts with Customers and IFRS 9 – Financial Instruments for the first time in the year.

IFRS 15 – Revenue from Contracts with Customers

The Group has adopted IFRS 15 – Revenue from Contracts with Customers with effect from 1 January 2018 and has prepared the 2018 consolidated financial statements in accordance with the requirements of this new standard. The Group has chosen to apply the standard fully retrospectively and has restated comparatives where appropriate.

The Group derives its revenue principally from providing manned security and cash security services; technology installation; the provision of security equipment (particularly security alarms, smart safes and cash recycling equipment); and facilities management (including Care & Justice services). For the majority of the Group's services, including the provision of manned security and cash security services, the Group's right to consideration from its customers equates to the value of services supplied to the customer. Where that is the case, the practical expedient has been applied under IFRS 15 to recognise revenue when services are provided for the amount that the Group is entitled to invoice for those services.

Technology installations represent long-term technology or other installation projects that span one or more reporting years. Under IFRS 15, such installations are considered to comprise one performance obligation consisting of a group of inseparable services. Revenue in respect of such installations is recognised as the services are delivered based on costs incurred as a proportion of the total expected costs of the installation.

Notes to the financial statements (continued)

3) Adoption of new and revised accounting standards and interpretations (continued)

Contracts for the provision of security alarms, smart safes and cash recycling equipment are assessed to identify distinct performance obligations which will typically include one or more of: the outright sale of equipment; the provision of installation and/or maintenance services; equipment rental and ongoing monitoring. In contracts that include the outright sale of equipment, revenue in respect of the sale and installation is recognised when the equipment is installed. In countries in which equipment cannot be sold without the provision of ongoing maintenance or other services and in contracts for the rental of equipment, revenue is recognised over the period of the contract. Ongoing maintenance and monitoring services represent a series of services with a constant pattern of transfer to the customer over time. Revenue in respect of such services is recognised over the period of the contract.

Contracts for facilities management and Care & Justice services typically require the provision of a group of interrelated goods and services to the customer over a period of time. Such goods and services are typically considered to represent a single performance obligation as each promise is satisfied over the same period. Consideration received in respect of such services typically equates to the value of services supplied to the customer to date and the practical expedient has been applied under IFRS 15 to recognise revenue as the customer is billed. In some facilities management contracts, the Group receives payment at the inception of the contract to compensate for mobilisation costs incurred at the inception of the contract. Historically, such payments have been recognised as revenue as the Group has incurred the related costs. Under IFRS 15, such amounts have been recorded as deferred income and recognised as services are provided. The effect of this change has been to increase trade and other payables at 31 December 2017 by £13m (1 January 2017: £12m).

The impact of adopting IFRS 15 on the Group's consolidated income statement for the year ended 31 December 2017 was an immaterial change to the presentation of penalties incurred and an immaterial reduction in the amount capitalised with respect to the costs of bidding for and winning contracts with the effect of reducing revenue by £2m and increasing each of Adjusted PBITA, operating profit, profit before tax, profit after tax, profit for the year and profit for the year attributable to equity holders of the parent by £1m. The adoption of IFRS 15 had no impact on the Group's net cash flow from operating activities for the year ended 31 December 2017.

The Group's consolidated statements of financial position as at 31 December 2017 and at 1 January 2017 showing the impact of the adoption of IFRS 15 are presented below:

Consolidated statement of financial position	**As at 31 December 2017**			**As at 1 January 2017**		
	As published £m	**Restatement for IFRS15 £m**	**Restated £m**	**As published £m**	**Restatement for IFRS15 £m**	**Restated £m**
ASSETS						
Non-current assets						
Trade and other receivables	83	(1)	82	101	(1)	100
Deferred tax asset	240	2	242	285	2	287
Other non-current assets	2,526	-	2,526	2,637	-	2,637
	2,849	**1**	**2,850**	**3,023**	**1**	**3,024**
Current assets						
Trade and other receivables	1,416	1	1,417	1,381	2	1,383
Other current assets	1,156	-	1,156	1,207	-	1,207
	2,572	**1**	**2,573**	**2,588**	**2**	**2,590**
Total assets	**5,421**	**2**	**5,423**	**5,611**	**3**	**5,614**
LIABILITIES						
Current liabilities						
Trade and other payables	(1,262)	(1)	(1,263)	(1,260)	(2)	(1,262)
Other current liabilities	(1,164)	-	(1,164)	(1,044)	-	(1,044)
	(2,426)	**(1)**	**(2,427)**	**(2,304)**	**(2)**	**(2,306)**
Non-current liabilities						
Trade and other payables	(23)	(12)	(35)	(30)	(13)	(43)
Other non-current liabilities	(2,118)	-	(2,118)	(2,414)	-	(2,414)
	(2,141)	**(12)**	**(2,153)**	**(2,444)**	**(13)**	**(2,457)**
Total liabilities	**(4,567)**	**(13)**	**(4,580)**	**(4,748)**	**(15)**	**(4,763)**
Net assets	**854**	**(11)**	**843**	**863**	**(12)**	**851**
EQUITY						
Share capital	388	-	388	388	-	388
Share premium	258	-	258	258	-	258
Reserves	204	(11)	193	196	(12)	184
Equity attributable to equity holders of the parent	**850**	**(11)**	**839**	**842**	**(12)**	**830**
Non-controlling interests	4	-	4	21	-	21
Total Equity	**854**	**(11)**	**843**	**863**	**(12)**	**851**

IFRS 9 – Financial Instruments

The Group has adopted IFRS 9 – Financial Instruments with effect from 1 January 2018, and has prepared the consolidated financial statements in accordance with the requirements of this new standard.

The new standard is applicable to the classification, measurement, impairment and re-categorisation of financial assets and liabilities. It also introduces a new hedge accounting model.

There has been no material change to the Group's consolidated income statement, statement of other comprehensive income, statement of changes in equity or statement of financial position on adoption. The Group has no financial liabilities held at fair value other than derivatives. The introduction of an expected loss impairment model has had no material effect given the general quality and short-term nature of the Group's trade receivables. There has been no re-categorisation of assets on adoption of the new standard.

Hedge accounting

The Group has adopted the new general hedge accounting model in IFRS 9. This requires the Group to ensure that hedge accounting relationships are aligned with its risk management objectives and strategy, and to apply a more qualitative and forward-looking approach to assessing hedge effectiveness. Following a review of the Group’s hedging arrangements, the Group has determined that its existing hedges are compliant with the new requirements. In accordance with those requirements, the Group has elected to present separately the cost of hedging reserve in equity.

Transition

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively. Other than described above, the Group has not made any voluntary elections on adoption.

New standards not yet effective

The Group has not early-adopted any standard, amendment or interpretation. A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2018. The directors are currently evaluating the impact of these new standards on the Group accounts:

- Annual Improvements to IFRS Standards 2015-2017 Cycle
- IFRS 9 amendments – Prepayment features with negative compensation
- IAS 28 amendments – Long term interests in associates and joint ventures
- IAS 19 amendments – Plan amendment, curtailment or settlement
- IFRS 3 amendments – Definition of a business
- IAS 1 and IAS 8 – Definition of material
- IFRIC 23 – Uncertainty over income tax treatments

IFRS 16 – Leases

IFRS 16 will be effective for the first time in the Group’s consolidated financial statements for the year ended 31 December 2019. Its principal effect will be to gross up the Group’s balance sheet to recognise additional right of use assets within property, plant and equipment and additional lease liabilities in respect of leases that are currently treated as operating leases. The associated operating lease charge that is currently recorded within operating costs will be removed and replaced with a depreciation charge in respect of the additional assets recognised and an interest charge in respect of the additional lease creditors recognised.

The Group will apply the standard using the fully retrospective method and will restate its results for comparative periods as if the Group had always applied the new standard. The only exception is in respect of leases (as defined by IFRS 16) that were in existence at 1 January 2018 but did not meet the previous definition of leases where we will continue to apply historical accounting.

The Group will not apply the standard to short-term leases (being those with an initial term of less than 12 months) or leases of low-value items (defined as leases of assets with an initial cost of less than £2,500). It will apply the practical expedient to include non-lease components within the measurement of lease assets and liabilities.

Adopting IFRS 16 requires the Group to exercise significant judgment. In particular:

- IFRS 16 requires the Group to take into account periods covered by options to extend or terminate leases to the extent that it is reasonably certain that the leases will continue for those terms. In assessing what is reasonably certain, the Group considers past practice, its future needs, the lease terms, and, in respect of leases of assets that are used to serve sales contracts, the length of the related sales contracts.

- IFRS 16 requires the Group to estimate incremental rates of borrowings in respect of leases for which no interest rate is implicit in the lease. The Group has determined the incremental rates of borrowing for individual leases based on swap rates with matching start-dates, terms and currencies, adjusted for the country-specific risk of the lessee. No adjustment has been made to reflect the nature of the leased assets on the basis that a lender would not make a material adjustment to the borrowing rate to reflect the nature of the underlying assets.

Based on the Group's provisional estimates, the Group anticipates that it will recognise additional right of use assets of approximately £345m at 31 December 2018 (£385m at 1 January 2018). Associated finance lease creditors of approximately £410m will be recorded at 31 December 2018 (£460m at 1 January 2018) including some that will replace existing property and onerous contract provisions. Of the right of use asset recognised at 31 December 2018, approximately £225m relates to properties and approximately £90m relates to motor vehicles. The remainder relates to other operational equipment leased by the Group.

The Group provisionally estimates that the adoption of IFRS 16 will reduce the operating lease expense for the year ended 31 December 2018 by approximately £190m and increase the depreciation expense by approximately £155m resulting in a net increase in operating profit of approximately £35m. In addition, interest on the finance lease liability is expected to increase the interest charge for the year by approximately £20m. (Note: all amounts stated to the nearest £5m and at a constant rate of exchange). The Group expects that the majority of its property and onerous contract provisions related to the leases will be derecognised and replaced with finance lease creditors.

In addition, the Group expects to make various consequential adjustments as a result of adopting IFRS 16 including: adjusting operating profit to remove the effect of movements in property and onerous contract provisions related to leases; adjusting prepayments and accruals in respect of leases that have previously been treated as operating leases; and consequential changes to reflect movements in foreign exchange rates. During early 2019, the Group will also complete its assessment of the tax and deferred tax effects of adopting IFRS 16. The Group will finalise those adjustments in early 2019.

4) Accounting estimates, judgments and assumptions

The preparation of financial statements in conformity with adopted IFRSs requires management to make judgments, estimates and assumptions that affect the application of the Group's accounting policies with respect to the carrying amounts of assets and liabilities at the date of the financial statements, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting year. These judgments, estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, including current and expected economic conditions, and, in some cases, actuarial techniques. Although these judgments, estimates and associated assumptions are based on management's best knowledge of current events and circumstances, the actual results may differ.

Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the year in which the estimate is revised and in any future years affected. The judgments, estimates and assumptions which are of most significance in preparing the Group's consolidated financial statements are the same as those that applied to the consolidated financial statements for the year ended 31 December 2017.

Notes to the financial statements (continued)

5) Operating segments and revenue

As indicated in the 2017 Integrated Report and Accounts, from 1 January 2018 the Group reorganised the group-wide management of its businesses to create a Global Cash Solutions division and to consolidate its Secure Solutions business into four regions:

- Africa;
- Americas (combining the previous North America and Latin America regions);
- Asia (including India and Bangladesh that formerly reported under the Middle East & India region); and
- Europe & Middle East (combining the previous Europe, UK & Ireland and Middle East & India regions except for India and Bangladesh that now report under the Asia region).

Prior year comparatives have been restated accordingly to present segmental results on a consistent basis. For each of the reportable segments, the Group Executive Committee (the chief operating decision maker) reviews internal management reports on a regular basis.

Segment information for continuing operations is presented below:

Revenue by reportable segment	**2018** **£m**	2017 Restated[1] £m
Africa	**406**	399
Americas[2]	**2,443**	2,493
Asia	**882**	896
Europe & Middle East	**2,644**	2,747
Total Secure Solutions	**6,375**	6,535
Total Cash Solutions[2,3]	**1,137**	1,291
Total Revenue	**7,512**	7,826

Adjusted profit before interest, tax and amortisation (Adjusted PBITA) by reportable segment	**2018** **£m**	2017 Restated[1] £m
Africa	**31**	29
Americas[2]	**127**	123
Asia	**63**	60
Europe & Middle East	**175**	182
Total Secure Solutions	**396**	394
Total Cash Solutions[2,3]	**114**	147
Adjusted PBITA before corporate costs	**510**	541
Corporate costs	**(50)**	(49)
Adjusted PBITA	**460**	492
Specific items (net)	**(22)**	(34)
California class action settlement	**(100)**	-
Guaranteed minimum pension equalisation charge	**(35)**	-
Restructuring costs	**(31)**	(20)
(Loss)/profit on disposal/closure of subsidiaries/businesses	**(15)**	74
Amortisation of acquisition-related intangible assets	**(4)**	(10)
Operating profit	**253**	502

[1] The revenue and operating profit for the year ended 31 December 2017 have been restated to reflect the Group's reorganisation as described above and for the effects of IFRS 15 – see note 3.

[2] As part of the disposal of the Colombia Cash business in 2018, a small number of contracts that were previously reported in the Cash Solutions division were transferred to the Colombia Secure Solutions business and integrated into their operations. Results from these contracts have been re-classified to be reported within the Americas region in the Secure Solutions division and prior year comparatives have been restated accordingly.

[3] Includes a benefit of around £8m from the early completion of a bullion centre contract in the UK Cash Solutions business (2017: £3m from the same contract).

Notes to the financial statements (continued)

The Group's revenue by customer type can be analysed as follows:

Revenue by customer type	2018 £m	2017 Restated[1] £m
Major corporates	**2,556**	2,594
Government	**1,615**	1,615
Financial institutions	**1,249**	1,341
Retail, leisure and consumers	**1,256**	1,412
Energy and utilities	**429**	463
Transport, ports and aviation	**407**	401
Total Revenue	**7,512**	7,826

[1] Revenue for the year ended 31 December 2017 has been restated for the effects of IFRS 15 – see note 3.

6) Operating profit

The income statement can be analysed as follows:

Continuing operations	2018 £m	2017 Restated[1] £m
Revenue	**7,512**	7,826
Cost of sales	**(6,208)**	(6,429)
Gross profit	**1,304**	1,397
Administration expenses	**(1,047)**	(893)
Net impairment losses on financial and contract assets	**(11)**	(11)
Share of profit after tax from joint ventures	**7**	9
Operating profit	**253**	502

[1] Restated for the effect of IFRS 15 – see note 3.

Operating profit includes items that are separately disclosed for the year ended 31 December 2018 related to:

- Specific items charges of £32m (2017: £34m) include £12m related to additional provisions in Asia in respect of historical employee gratuities and end of service benefits and £11m related to the reassessment of estimated settlement amounts in respect of historical workers' compensation claims in the Americas. In addition, specific items includes a £9 million onerous contract charge related to two UK Care & Justice contracts, reflecting the estimated losses over the expected remaining contract terms.

  Specific items charges incurred during the year ended 31 December 2017 of £34m included £19m primarily relating to the anticipated total losses over the next 15 to 20 years in respect of certain UK government contracts, £6m related to the estimated cost of settlement of subcontractor claims from commercial disputes in respect of prior years, and £9m related mainly to the settlement of labour disputes in respect of prior years in the Americas;

- Specific items credits of £10m (2017: £nil) include a £5m release of onerous contract provisions in the UK for which the related charges had previously been recorded as specific items following the implementation of operational efficiencies in the contracts leading to a reduction in expected future losses. In addition, a further £5m related to successful court claims made by the Group in the Americas;

- Following the UK High Court Ruling in the case of Lloyds Banking Group Pension Trustees Limited vs Lloyds Bank plc (and others) in October 2018, the Group incurred a charge of £35m (2017: £nil) in respect of the equalisation of benefits between historical Guaranteed Minimum Pension obligations between males and females in the UK;

- In January 2019 the Group agreed the settlement of a class action relating to claims for employee meal and rest breaks for the period 2001 to 2010 in California. This settlement is subject to the final approval of the Superior Court of the State of California. The amount to be settled is between US$100m and US$130m with the precise amount to be determined during the settlement administration process. A provision of £100m has been established in the accounts for the year ended 31 December 2018 representing management's best estimate of the class action settlement and any related costs;

- Investment in restructuring programmes of £31m (2017: £20m) relating to the 2018-2020 strategic productivity programme announced in 2017 which is being implemented across the Group, mainly in Europe & Middle East, the Americas and Global Cash Solutions. We expect to invest around £20m in restructuring the Cash Solutions business in 2019 and estimate that the costs of the cash separation review and separation process will be between £25-50m. In addition, the Group incurred non-strategic severance costs of £9m (2017: £10m) which are included within cost of sales and administration expenses as appropriate;

- Disposal loss of £15m (2017: profit of £74m) relating to the disposal of a number of the Group's operations including its businesses in Hungary and the Philippines, its archiving business in Kenya and the Cash Solutions businesses in United Arab Emirates, Colombia and Saudi Arabia. In 2017, the Group disposed of a number of operations including the businesses in Israel and Bulgaria and its Youth Services business in North America; and

- Amortisation of acquisition-related intangible assets of £4m (2017: £10m), which is lower than the prior year as certain intangible assets recognised on legacy acquisitions became fully amortised in 2017.

7) Disposals, closures and other transactions

During the year ended 31 December 2018 the Group sold nine businesses including the Group's businesses in Hungary and the Philippines, its archiving business in Kenya, and the Cash Solutions businesses in the United Arab Emirates, Colombia and Saudi Arabia, realising net cash consideration of £45m. The Group also closed a small number of minor operations during the year, which together with the businesses sold generated Adjusted PBITA of £(9)m in 2018 up to the date of disposal or closure (2017: £3m).

In addition, during the year shareholder agreements were re-negotiated for certain joint ventures resulting in the Group obtaining control of these operations.

In 2017 the Group sold nine businesses, including the Youth Services business in North America, the children's homes business in the UK, the Group's cash businesses in Peru and Paraguay and the Group's businesses in Israel and Bulgaria, realising net cash consideration of £156m. A further four businesses were closed during the prior year.

The net assets and net (loss)/profit on disposal/closure of operations disposed of or closed were as follows:

	2018 £m	2017 £m
Goodwill	**22**	52
Other acquisition-related intangible assets	**-**	1
Property, plant and equipment	**23**	13
Other non-current assets	**4**	17
Current assets	**51**	78
Liabilities	**(38)**	(61)
Net assets of operations disposed	**62**	100
Less: recycling from currency translation reserve	**(1)**	(18)
Net impact on the consolidated statement of financial position due to disposals/closures	**61**	82
Fair value of retained investment in former joint venture	**-**	(3)
(Loss)/profit on disposal/closure of subsidiaries/businesses	**(15)**	74
Total consideration	**46**	153
Satisfied by:		
Cash received	**48**	166
Disposal costs paid	**(4)**	(10)
Additional net consideration received relating to disposals completed in prior years	**1**	-
Net cash consideration received in the year	**45**	156
Deferred consideration receivable	**6**	4
Accrued disposal and other costs	**(5)**	(7)
Total consideration	**46**	153

Notes to the financial statements (continued)

8) Net finance expense

	2018 £m	2017[1] £m
Interest and other income on cash, cash equivalents and investments	**14**	12
Other finance income	**2**	-
Finance income	**16**	12
Interest on bank overdrafts and loans	**(16)**	(18)
Interest on loan notes	**(81)**	(87)
Net interest (payable)/receivable on loan note related derivatives[1]	**(7)**	4
Gain arising from fair value adjustment to the hedged loan note items	**6**	14
Loss arising from change in fair value of derivative financial instruments hedging loan notes	**(6)**	(14)
Interest on obligations under finance leases	**(2)**	(3)
Other interest charges[2]	**(9)**	(12)
Total Group borrowing costs	**(115)**	(116)
Finance costs on defined retirement benefit obligations	**(11)**	(11)
Finance expense	**(126)**	(127)
Net finance expense	**(110)**	(115)

[1] In prior years, the net interest receivable on loan note related derivatives was presented within finance income. In the current year it has been included within finance expense, and the prior year comparatives re-presented accordingly.
[2] Other interest charges include £nil (2017: £2m) relating to discounts unwound on provisions.

9) Tax

	2018 £m	2017 £m
Current taxation expense	**(75)**	(97)
Deferred taxation credit/(expense)	**20**	(31)
Total income tax expense for the year	**(55)**	(128)

The effective tax rate on continuing operations was 38% (2017: 33%). The effective tax rate is a function of a variety of factors, with the most significant being (i) the geographic mix of the Group's taxable profits and the respective country tax rates, (ii) changes in the value, and recognition of, deferred tax assets and liabilities, (iii) permanent differences such as expenses disallowable for tax purposes, (iv) irrecoverable withholding taxes, (v) the level of provision required for potential tax liabilities not agreed with tax authorities, (vi) the impact of one-off items including tax claims, and (vii) the overall level of profit against which the preceding items are measured.

The higher effective tax rate compared with the prior year is primarily driven by (i) an increase in profits taxed at a higher rate, (ii) the relative amount of non-deductible expenses, (iii) the reassessment of the recoverability of certain deferred tax assets, and (iv) the relative amount of irrecoverable withholding taxes. This is offset by the one-off tax impact in 2017 of the US Tax Cuts and Jobs Act and changes in 2018 in the level of provision required for potential tax liabilities not agreed with tax authorities.

At 31 December 2018, the Group had recognised deferred tax assets of £248m (2017: £242m) based upon the latest view of expected future profitability of businesses in which these assets have been recognised. Deferred tax liabilities of £6m (2017: £8m), current tax liabilities of £56m (2017: £79m) and current tax assets of £64m (2017: £55m) were also recognised. Deferred tax assets arise predominantly on tax losses and on deficits in defined benefit pension schemes. At 31 December 2018, the Group had estimated tax losses of £312m (2017: £272m) which were not recognised as deferred tax assets. Recognition of deferred tax assets is dependent upon the availability of future taxable profits based on business plans of the relevant legal entities.

As at 31 December 2018, the Group had capital losses available to carry forward of approximately £2.7bn (2017: £2.6bn). These losses have no expiry date and only £144m (2017: £20m) has been agreed with the relevant tax authorities. A deferred tax asset of £2m (2017: £nil) has been recognised on £13m of capital losses. No deferred tax asset has been recognised in respect of remainder of the losses as the likelihood of their future utilisation is considered to be remote.

At 31 December 2018, the Group had adequate provision for liabilities likely to arise in accounting years which remain open to enquiry by tax authorities. The global nature of the Group's operations means that the most significant tax risk is in relation to challenges from tax authorities regarding the pricing of cross-border transactions and the Group's interpretation of the OECD's arm's-length principle. This risk is largely driven by the inherently subjective nature of transfer pricing and the divergent views taken by tax authorities.

In determining the appropriate level of provisions in respect of such challenges, the Group applies a risk-based approach which considers factors such as the quantum of the charge, the countries party to the transaction and the relevant statutes of limitation. An assessment is also made of the likelihood that compensating adjustments will be obtained under the relevant tax treaties to mitigate the level of double taxation which could arise. As the Group operates in a significant number of countries, determining the appropriate level of provisions inevitably involves a significant level of judgment which is typically influenced by the Group's constantly evolving experience of tax controversy in different countries. The Group has open tax years in a number of countries involving a number of issues, with the most material disputes typically being in respect of cross-border transactions.

As at 31 December 2018, the Group had total tax exposures of approximately £134m (2017: £153m) of which £25m (2017: £48m) is provided against. The Group believes that it has made appropriate provision for open tax years which have not yet been agreed by tax authorities. The final agreed liabilities may vary from the amounts provided, as these are dependent upon the outcomes of the domestic and international dispute resolution processes in the relevant countries. The Group typically has limited control over the timing of resolution of uncertain tax positions with tax authorities. Acknowledging this inherent unpredictability, and on the basis of currently available information, the Group does not expect material changes to occur in the level of provisions against existing uncertain tax positions during the next twelve month period.

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

10) Dividends

	Pence per share	DKK per share	**2018 £m**	2017 £m
Amounts recognised as distributions to equity holders of the parent in the year				
Final dividend for the year ended 31 December 2016	5.82	0.5029	**-**	90
Interim dividend for the six months ended 30 June 2017	3.59	0.2948	**-**	55
Final dividend for the year ended 31 December 2017	6.11	0.5097	**95**	-
Interim dividend for the six months ended 30 June 2018	3.59	0.2969	**55**	-
			150	145
Proposed final dividend for the year ended 31 December 2018	6.11	0.5321	**95**	

The proposed final dividend is subject to approval at the Annual General Meeting. If so approved, it will be paid on 14 June 2019 to shareholders who are on the register on 3 May 2019. The Danish kroner exchange rate shown above for that dividend is that at 11 March 2019.

Notes to the financial statements (continued)

11) Earnings per share attributable to equity shareholders of the parent

	2018 £m	2017 Restated[1] £m
(a) From continuing and discontinued operations		
Earnings		
Profit for the year attributable to equity shareholders of the parent	**82**	237
Weighted average number of ordinary shares[2] (m)	**1,547**	1,548
Earnings per share from continuing and discontinued operations (pence)		
Basic and diluted	**5.3p**	15.3p
(b) From continuing operations		
Earnings		
Profit for the year attributable to equity shareholders of the parent	**82**	237
Adjustment to exclude (profit)/loss for the year from discontinued operations (net of tax)	**(2)**	6
Profit from continuing operations	**80**	243
Earnings per share from continuing operations (pence)		
Basic and diluted	**5.2p**	15.7p
(c) From discontinued operations		
Earnings		
Profit/(loss) for the year from discontinued operations (net of tax)	**2**	(6)
Earnings/(loss) per share from discontinued operations (pence)		
Basic and diluted	**0.1p**	(0.4)p

[1] Restated for the effect of IFRS 15 – see note 3.
[2] Stated net of the average number of shares held in the Employee Benefit Trust of 5m (2017: 4m).

12) Disposal groups classified as held for sale

As at 31 December 2018, disposal groups classified as held for sale related to a minor operation in Asia, which was sold in January 2019, and assets classified as held for sale related to property located in Europe & Middle East.

At 31 December 2017, disposal groups classified as held for sale included the assets and liabilities associated with operations in Europe & Middle East, Africa, Asia and the Americas.

Notes to the financial statements (continued)

13) Cash and cash equivalents, overdrafts and customer cash processing balances

The Group's Cash Solutions businesses provide a range of cash handling and processing services on behalf of customers. These services include collection, segregated storage and delivery of customer cash, with title to the cash handled remaining with the customer throughout the process. For these services, customer cash is never recorded in the Group's balance sheet.

A number of other cash processing services are provided to customers, such as the sale and purchase of physical cash balances, and the replenishment of ATMs and similar machines from customer funds held in Group bank accounts. These funds, which are generally settled within two working days, are classified as "funds within cash processing operations", along with the related balances due to and from customers in respect of unsettled transactions, and are included gross within the relevant balance sheet classifications.

Funds within cash processing operations	**2018** **£m**	2017 £m
Stocks of money, included within cash and cash equivalents	**59**	74
Overdraft facilities related to cash processing operations, included within bank overdrafts	**(22)**	(19)
Liabilities to customers in respect of cash processing operations, included within trade and other payables	**(43)**	(62)
Receivables from customers in respect of cash processing operations, included within trade and other receivables	**6**	7
Funds within cash processing operations (net)	**-**	-

Whilst cash and bank balances used in these services are not formally restricted by legal title, they are restricted by the Group's own internal policies such that they cannot be used for the purposes of the Group's own operations. For the purposes of the Group's consolidated statement of cash flow, funds within cash processing operations are therefore recorded net of the related balances due to and from customers in respect of unsettled transactions, within cash, cash equivalents and bank overdrafts, and hence have no impact on the Group's statutory cash flow.

A reconciliation of cash, cash equivalents and bank overdrafts at the end of the year per the consolidated statement of financial position to the corresponding balances included within the consolidated statement of cash flow is included in note 16.

14) Retirement benefit obligations

The Group's main defined benefit scheme is in the UK which accounts for approximately 59% (2017: 66%) of the total net deficit of all of the defined benefit schemes operated by the Group. The majority of the scheme was closed to future accrual in 2011. The Group's IAS 19 Revised (2011) Employee Benefits net pension deficit at 31 December 2018 recognised in the consolidated statement of financial position was £364m (2017: £381m) or £302m (2017: £318m) net of applicable tax in the relevant jurisdictions. The Group's net pension deficit has decreased marginally compared with the position as at 31 December 2017 reflecting an increase in the deficits in the Group's unfunded pension schemes offset by a decrease in the net deficit of the UK pension scheme.

The UK scheme's pension liabilities decreased compared with the prior year reflecting the payment of scheduled deficit-repair contributions of £41m (2017: £40m) during the year, together with the impact of applying a higher discount rate assumption to the valuation of scheme obligations and adopting the latest mortality base-rate tables. These decreases were offset by an increase in the pension liabilities of £35m (2017: £nil) for the equalisation of historical guaranteed minimum pension obligations after a recent UK court ruling. The net reduction in the pension liabilities was partially offset by a loss incurred on the revaluation of the pension scheme assets.

The triennial valuation in respect of the UK scheme is underway, during which we expect to agree the future deficit-repair contributions.

Notes to the financial statements (continued)

15) Provisions and contingent liabilities

	Employee benefits £m	Restructuring £m	Claims £m	Onerous customer contracts £m	Property and other[1] £m	Total £m
At 1 January 2018	20	4	104	62	52	242
Additional provisions in the year	6	31	150	11	12	210
Utilisation of provisions	(3)	(29)	(38)	(17)	(18)	(105)
Transfers and reclassifications	(2)	(2)	-	-	3	(1)
Unused amounts reversed	-	-	(5)	(5)	(3)	(13)
Exchange differences	(1)	-	5	-	1	5
At 31 December 2018	**20**	**4**	**216**	**51**	**47**	**338**
Included in current liabilities						202
Included in non-current liabilities						136
						338

[1] Property and other includes £17m (2017: £17m) of property-related provisions.

The Group recognised additional claims provisions of £150m including £100m related to the California class action settlement and £34m related to the estimated cost of settlement of claims managed through the Group's internal captive insurance companies. Additional provisions of £31m were recorded in relation to restructuring costs, mainly related to the 2018-2020 strategic productivity programme announced in 2017 (see note 6).

The increase in onerous customer provisions mainly relates to the provision booked for the anticipated future losses in relation to two UK Care & Justice contracts (note 6). The provision at the end of December 2018 represents the anticipated total losses in respect of these contracts and the Compass asylum seeker contract, together with two smaller PFI contracts that are expected to run for the next 15 to 20 years. It is expected that around 60% of the Group's total provision for onerous contracts will be utilised by the end of 2019.

The Group is involved in disputes in a number of countries mainly in respect of activities related to its operations. Currently there are a number of disputes open in relation to the application of local labour law, commercial agreements with customers and subcontractors and claims and compliance matters, in some cases in the course of litigation. In addition, the interpretation of labour laws and regulations in a number of countries where the Group operates is complex and there is inherent judgment made when applying those laws and regulations that are open to interpretation. As such, there is risk that further disputes and claims from employees could arise in the future. Where there is a dispute or where there is a risk of a dispute or claims in the future and where, based on legal counsel advice, the Group estimates that it is probable that the dispute will result in an outflow of economic resources, provision is made based on the Group's best estimate of the likely financial outcome. Where a reliable estimate cannot be made, or where the Group, based on legal counsel advice, considers that it is not probable that there will be an outflow of economic resources, no provision is recognised.

The Group is party to a number of on-going litigation processes in relation to interpretation of local labour law and regulations in a number of countries, where it is expected that these matters will not be resolved in the near future. At this stage, the Group's view is that these cases will either be resolved in a manner favourable to the interests of the Group or, due to the nature and complexity of the cases, it is not possible to estimate the potential economic exposure. In addition, in the ordinary course of business, other contingent liabilities exist where the Group is subject to commercial claims and litigation from a range of parties in respect of contracts, agreements, regulatory and compliance matters, none of which are expected to have a material impact on the Group.

The investigation opened by the Serious Fraud Office (SFO) in 2013 in respect of the Group's Electronic Monitoring contract remains ongoing and the Group continues to engage and co-operate fully with the investigation. Based on currently available information, the Group is unable to make a reliable estimate of the financial effect of the SFO's investigation, and no provision has been made in respect of it.

The Group is currently involved in a number of claims in India, mainly related to periods prior to 2011, in relation to the interpretation of the basis for payments to the India Provident Fund. These disputes are currently awaiting court resolution. Based on the Group's internal and external legal advice, and taking into account the judgment passed by the Supreme Court of India in respect of a different Provident Fund related question on 28 February 2019, the Group believes it has a strong legal position that will prevail in the courts such that no economic outflow is expected to occur and hence no provision has been booked at the year end. The aggregate of the Provident Fund related claims amount to approximately £50m.

Judgment is required in quantifying the Group's provisions, especially in connection with claims and onerous customer contracts, which are based on a number of assumptions and estimates where the ultimate outcome may be different from the amount provided. Each of these provisions reflects the Group's best estimate of the probable exposure at 31 December 2018 and this assessment has been made having considered the sensitivity of each provision to reasonably possible changes in key assumptions. Subject to the approval of the California class action settlement by the Superior Court of the State of California, the Group is satisfied that it is unlikely that changes in these key assumptions will have a material impact on the Group's overall provisioning position in the next 12 months.

Notes to the financial statements (continued)

16) Analysis of net debt

A reconciliation of net debt to amounts in the consolidated statement of financial position is presented below:

	2018 £m	2017 £m
Cash and cash equivalents	**1,015**	902
Receivables from customers in respect of cash processing operations[1]	**6**	7
Net cash and overdrafts included within disposal groups held for sale	**-**	8
Bank overdrafts	**(305)**	(284)
Liabilities to customers in respect of cash processing operations[2]	**(43)**	(62)
Total Group cash, cash equivalents and bank overdrafts	**673**	**571**
Investments	**65**	62
Net debt (excluding cash and overdrafts) included within disposal groups held for sale	**-**	(3)
Bank loans	**(305)**	(13)
Loan notes	**(1,997)**	(2,141)
Obligations under finance leases	**(27)**	(35)
Fair value of loan note derivative financial instruments	**33**	72
Total net debt	**(1,558)**	**(1,487)**

[1] Included within trade and other receivables
[2] Included within trade and other payables

17) Reconciliation of operating profit to net cash flow from operating activities of continuing operations

	2018 £m	2017 Restated[1] £m
Operating profit	**253**	502
Adjustments for non-cash and other items:		
Amortisation of acquisition-related intangible assets	**4**	10
Net loss/(profit) on disposal/closure of subsidiaries/businesses	**15**	(74)
Depreciation of property, plant and equipment	**93**	104
Amortisation of non-acquisition-related intangible assets	**20**	22
Share of profit from joint ventures	**(7)**	(9)
Equity-settled share-based payments	**8**	9
Increase in provisions	**148**	18
Additional pension contributions	**(41)**	(40)
Operating cash flow before movements in working capital	**493**	542
(Increase)/decrease in inventories	**(10)**	1
Increase in receivables	**(40)**	(94)
(Decrease)/increase in payables	**(30)**	39
Net cash flow from operating activities of continuing operations before tax	**413**	488

[1] Restated for the effect of IFRS 15 – see note 3

18) Fair value of financial instruments

The carrying amounts and fair values of the Group's financial instruments for which fair value is different from carrying amount are shown below:

	Level*	**2018 Carrying amount £m**	**2018 Fair value £m**	2017 Carrying amount £m	2017 Fair value £m
Loan notes carried at amortised cost					
Public loan notes	1	**1,735**	**1,729**	1,678	1,742
Private loan notes	2	**262**	**267**	463	467
Bank loans carried at amortised cost					
Term credit facility	2	**275**	**281**	-	-

The carrying amounts and fair values of the Group's derivative financial instruments indicating those which are designated as hedging instruments are shown below:

	Hedge relationship	**Level***	**2018 £m**	2017 £m
Derivative assets carried at fair value				
Interest-rate swaps	Fair value hedge	2	**8**	15
Cross-currency swaps	Cash flow hedge	2	**35**	54
Cross-currency swaps	Net investment hedge	2	**-**	16
Derivative liabilities carried at fair value				
Interest-rate swaps	Fair value hedge	2	**-**	(1)
Interest-rate swaps	Not in a hedging relationship	2	**(1)**	(1)
Cross-currency swaps	Cash flow hedge	2	**-**	(9)
Cross-currency swaps	Net investment hedge	2	**(10)**	(2)

The Group's investments of £65m (2017: £62m) are stated at fair value determined primarily using Level 1* inputs (i.e. using unadjusted quoted prices in active markets for identical financial instruments). The fair values of financial instruments that are measured using techniques consistent with Level 2* of the valuation hierarchy (i.e. using inputs other than quoted prices in active markets that are observable for the asset and liability, either directly or indirectly) are calculated using discounted cash flow models. The relevant currency-yield curve is used to forecast the floating-rate cash flows anticipated under the instrument, which are discounted back to the balance sheet date.

* Fair value hierarchy level, as defined by IFRS 13 - Fair value measurements.

Alternative Performance Measures

BASIS OF PREPARATION

The Group applies the basis of preparation for its statutory results shown on page 21. To provide additional information and analysis which enables a full understanding of the Group's results and to identify easily the performance of the Group's ongoing businesses, the Group also makes use of a number of Alternative Performance Measures (APMs) in the management of its operations and as a key component of its internal and external reporting. Those APMs are prepared and presented in accordance with the following basis of preparation.

Whilst broadly consistent with the treatment adopted by both the Group's business sector peers and by other businesses outside of the Group's business sector, these APMs are not necessarily directly comparable with those used by other companies.

Adjusted results

In order to allow a full understanding of its results, the Group separately discloses the effects on profit of strategic restructuring activities, acquisition related amortisation, goodwill impairments and profits or losses arising on the acquisition or disposal of businesses (together, "*separately disclosed items"*). The Group also discloses separately those items that the Group believes need to be shown separately to allow a more fulsome understanding of the results for the year because of their size, nature or incidence ("s*pecific items"*). The Group has also separately disclosed in 2018 the impact of the California class action settlement and the impact of the guaranteed minimum pension equalisation (page 9).

Adjusted measures of profit and earnings are stated before the effects of separately disclosed and specific items; the related tax effects; and tax-specific charges or credits which have a material impact such as those arising from changes in tax legislation. Adjusted measures of profit are provided to allow the trading results of the Group to be assessed separately from the effects of corporate actions (such as acquisitions, disposals and strategic restructuring) and the effects of significant or unusual items.

A reconciliation of Adjusted PBITA to operating profit is provided on page 11.

Underlying results

To provide a better indication of the performance of the Group's ongoing business at the year end, the Group separately presents its underlying results. Underlying results are defined as the adjusted results of the Group (i.e. stated before the effect of specific and separately disclosed items) excluding the results of onerous contracts and businesses that have been sold or closed in the current and comparative years. Underlying results for the comparative year are re-presented to remove the effect of businesses disposed of or closed in the current year to enable a like-for-like comparison of the results of the Group's on-going activities at the end of the most recent reporting year.

A reconciliation of the underlying results to the statutory results is included on page 3.

Constant currency results

In order to allow readers to assess the performance of the Group's business before the effect of foreign exchange movements, the Group also presents its comparative results (excluding cash flows) retranslated to sterling using the average rates for the current year. Cash flows are not retranslated but are presented at historical exchange rates. Comparative results for hyperinflationary economies are translated at current period closing exchange rates when presenting constant currency results. For 2018 the only hyperinflationary economy in which the Group operated was Argentina.

A reconciliation of the constant currency results for the year to the statutory results is included on page 40.

Business reporting structure

In line with its strategy for managing the business, the Group reports separately the underlying results of its Cash Solutions and Secure Solutions businesses. The results for the Secure Solutions business are further divided geographically into the following regions:

- Africa;
- Americas (combining the Secure Solutions business of the previously reported Latin America and North America regions);
- Asia (combining the Secure Solutions business of the previously reported Asia Pacific region with that of India and Bangladesh); and
- Europe & Middle East (combining the Secure Solutions businesses of the previously reported Middle East & India, Europe, and UK & Ireland businesses but excluding that of India and Bangladesh).

The Group reports separately the results of onerous contracts and the results of its disposed businesses, being those that have been sold in the current or prior years.

In prior years, the Group reported its APMs on a largely geographical basis, split into the following seven geographical regions: Africa, Asia, Middle East & India, Europe, United Kingdom & Ireland, Latin America, and North America. A reconciliation of the results from core businesses (excluding onerous contracts and the portfolio businesses) in the previous structure to the results from core businesses in the new structure is included in note D.

These components, together with the impact of restructuring costs, specific items and other separately disclosed items constitute "continuing operations" under IFRS. Discontinued operations, in accordance with IFRS 5, represent areas of the business which are being managed for sale or closure but which represent material business segments or entities. The Group has not classified any operations as discontinued in any of the years presented. All amounts recorded as discontinued relate to businesses sold prior to 1 January 2017.

Alternative Performance Measures

Revised presentation of APMs

In prior years, the Group separately reported the results of its core businesses. Core businesses were defined as the underlying business excluding portfolio businesses (being the parts of the business that had been identified for exit) and certain legacy onerous contracts. The results of the portfolio businesses and onerous contracts were reported separately. After the completion of some minor disposals in the current year, the portfolio programme is considered to be substantially complete, and the Group manages the former portfolio businesses as part of its underlying business. Accordingly the Group has revised the presentation of its prior year comparative APMs to include portfolio businesses within underlying results to enable the presentation of underlying results on a like-for-like basis as described above.

A reconciliation of the results from core businesses as previously stated to the underlying results in included in note D.

Financial performance indicators

The key financial measures used by the Group in measuring progress against strategic objectives are set out below, and are reconciled for the current and prior year to the Group's statutory results on page 3:

- **Revenue**

  Statutory revenue arising in each of the underlying, onerous contracts and disposed business components. *Underlying revenue is a Key Performance Indicator ("KPI")*.

- **Organic Growth**

  Organic growth is calculated based on revenue growth at constant currency, adjusted to exclude the impact of any acquisitions during the current or prior years.

- **Adjusted profit before interest, tax and amortisation ("Adjusted PBITA")**

  The Group uses Adjusted PBITA as a consistent internal and external reporting measure of its performance, as management views it as being more representative of financial performance from the normal course of business and more comparable year to year. Adjusted PBITA excludes the effect of separately disclosed items (being restructuring costs, goodwill impairment, amortisation of acquisition-related intangible assets and profits or losses on disposal or closure of businesses) and specific items, which the Group believes should be disclosed separately by virtue of their size, nature or incidence, as explained on page 21. Further details explaining the reasons for excluding these items are provided on pages 35 and 36 of the Group's 2017 Integrated Report and Accounts. *Underlying Adjusted PBITA is a KPI.*

- **Operating cash flow**

  Net cash flow from operating activities before tax. *Underlying operating cash flow excludes restructuring spend and is a KPI.*

- **Operating cash flow conversion**

  Operating cash flow presented as a percentage of Adjusted PBITA.

- **Earnings**

  Profit attributable to equity shareholders of G4S plc. *Underlying earnings is a KPI.*

- **Earnings per share ("EPS")**

  Profit attributable to equity shareholders of G4S plc, per share, from continuing operations. *Underlying EPS is a KPI*.

- **Net debt to adjusted EBITDA**

  The ratio of total net debt, including investments, finance lease liabilities and cash and overdrafts within net assets of disposal groups held for sale, to adjusted earnings attributable to equity shareholders before interest, tax, depreciation and amortisation ('Adjusted EBITDA'). This ratio is a factor in the board's assessment of the financial strength of the Group, and is a key measure of compliance with covenants in respect of the Group's borrowing facilities.

Certain of these financial performance indicators in respect of underlying results also form a significant element of performance measurement used in the determination of performance-related remuneration and incentives, as described on page 36 of the Group's 2017 Integrated Report and Accounts.

Alternative Performance Measures

A. Reconciliation of operating profit to movements in net debt

	2018 **£m**	2017 Restated[1] £m
Operating profit	**253**	502
Adjustments for non-cash and other items (see note 17)	**240**	40
Net working capital movement (see note 17)	**(80)**	(54)
Net cash flow from operating activities before tax (see note 17)	**413**	488
Adjustments for:		
Restructuring spend	**26**	19
Cash flow from continuing operations	**439**	507
Analysed between:		
Underlying operating cash flow	**453**	516
Disposed businesses	**(3)**	3
Onerous contracts	**(11)**	(12)
Investment in the business		
Purchase of fixed assets, net of disposals	**(102)**	(104)
Restructuring spend	**(26)**	(19)
Disposal/closure of subsidiaries/businesses (see note 7)	**45**	156
Acquisition of subsidiaries	**(4)**	(1)
Net debt in disposed businesses	**(9)**	(11)
New finance leases	**(10)**	(3)
Net investment in the business	**(106)**	18
Net cash flow after investing in the business	**333**	525
Other uses of funds		
Net interest paid	**(99)**	(78)
Tax paid	**(98)**	(86)
Dividends paid	**(170)**	(179)
Purchase of own shares	**(11)**	(10)
Transactions with non-controlling interests	**(1)**	(16)
Other	**7**	6
Net other uses of funds	**(372)**	(363)
Net (increase)/decrease in net debt before foreign exchange movements	**(39)**	162
Net debt at the beginning of the year	**(1,487)**	(1,670)
Effect of foreign exchange rate fluctuations	**(32)**	21
Net debt at the end of the year	**(1,558)**	(1,487)

[1] Restated for the adoption of IFRS15 – see note 3.

Alternative Performance Measures

B. Reconciliation of changes in cash, cash equivalents and bank overdrafts to movement in net debt

	2018 £m	2017 £m
Net increase/(decrease) in cash, cash equivalents and bank overdrafts (page 20)	**58**	(87)
Adjustments for items included in cash flow excluded from net debt:		
Sale of investments	**-**	(3)
Net movement in borrowings	**(103)**	235
Repayment of obligations under finance leases	**14**	23
Items included in net debt but excluded from cash flow:		
Net debt (excluding cash, cash equivalents and bank overdrafts) of disposed entities	**2**	(3)
New finance leases	**(10)**	(3)
Net (increase)/decrease in net debt before foreign exchange movements	**(39)**	**162**

C. Group net debt: Adjusted EBITDA ratio

	2018 £m	2017 Restated[1] £m
Adjusted PBITA (page 16)	**460**	492
Add back:		
Depreciation	**93**	104
Amortisation of non-acquisition-related intangible assets	**20**	22
Adjusted EBITDA	**573**	618
Exclude EBITDA relating to businesses sold or closed in the year	**5**	(7)
Adjusted EBITDA excluding businesses sold or closed in the year	**578**	611
Net debt per note 16	**1,558**	1,487
Net debt: Adjusted EBITDA ratio	**2.7**	2.4

[1] Restated for the adoption of IFRS15 – see note 3.

As described in note 3 the Group will adopt IFRS 16 - Leases with effect from 1 January 2019. As a result, the Group will recognise significant additional lease liabilities that will be recorded within net debt. The majority of the Group's operating lease expenditure that is currently taken into account in determining EBITDA will be removed and replaced with interest and depreciation which are excluded from the calculation of EBITDA. Additional adjustments to EBITDA will be required, including the removal of the effects of movements in onerous contract and property provisions that relate to operating lease payments. Whilst the Group anticipates that the adoption of IFRS 16 will have a significant effect on both net debt and EBITDA, its initial assessment indicates that the new standard will have minimal effect on the Group's net debt:EBITDA ratio.

Alternative Performance Measures

D. Reconciliation of prior year results from core businesses by segment to prior year underlying results by new segments – for the year ended 31 December 2017

Year ended 31 December 2017 (£m)	Revenue: Core businesses as previously reported (a)	Revenue: Cash Solutions (b)	Revenue: Secure Solutions re-classification (c)	Revenue: Core businesses in new structure	Adjusted PBITA[i]: Core businesses as previously reported (a)	Adjusted PBITA[i]: Cash Solutions (b)	Adjusted PBITA[i]: Secure Solutions re-classification (c)	Adjusted PBITA[i]: Core businesses in new structure
Africa	**457**	**(70)**	**-**	**387**	**46**	**(18)**	**-**	**28**
Latin America	*693*	*(41)*	*-*	*652*	*29*	*(7)*	*-*	*22*
North America	*2,006*	*(225)*	*-*	*1,781*	*123*	*(25)*	*-*	*98*
Americas	**2,699**	**(266)**	**-**	**2,433**	**152**	**(32)**	**-**	**120**
Asia Pacific	**736**	**(223)**	**358**	**871**	**65**	**(32)**	**27**	**60**
Middle East & India	*845*	*(54)*	*(358)*	*433*	*58*	*-*	*(27)*	*31*
Europe	*1,356*	*(303)*	*-*	*1,053*	*104*	*(43)*	*-*	*61*
United Kingdom & Ireland	*1,334*	*(293)*	*-*	*1,041*	*120*	*(35)*	*-*	*85*
Europe & Middle East	**3,535**	**(650)**	**(358)**	**2,527**	**282**	**(78)**	**(27)**	**177**
Cash Solutions	**-**	**1,209**	**-**	**1,209**	**-**	**160**	**-**	**160**
Total before corporate costs	**7,427**	**-**	**-**	**7,427**	**545**	**-**	**-**	**545**
Corporate costs	-	-	-	-	(49)	-	-	(49)
Total	**7,427**	**-**	**-**	**7,427**	**496**	**-**	**-**	**496**

Year ended 31 December 2017 (£m)	Core businesses in new structure	Re-class (d)	Portfolio businesses (e)	Onerous Contracts	Disposed businesses (f)	IFRS 15 (g)	Underlying results at actual exchange rates	Exchange differences (h)	Underlying results at constant exchange rates (i)
Africa	387	-	12	-	(5)	-	394	(13)	381
Americas	2,433	4	56	-	(27)	-	2,466	(134)	2,332
Asia Pacific	871	-	25	-	(25)	-	871	(40)	831
Europe & Middle East	2,527	-	102	12	(134)	(1)	2,506	(5)	2,501
Cash Solutions	1,209	(4)	87	-	(113)	(1)	1,178	(10)	1,168
Total revenue	7,427	-	282	12	(304)	(2)	7,415	(202)	7,213
Africa	28	-	1	-	(1)	-	28	(1)	27
Americas	120	3	-	-	(1)	-	122	(5)	117
Asia Pacific	60	-	-	-	-	-	60	(3)	57
Europe & Middle East	177	-	4	-	(6)	1	176	-	176
Cash Solutions	160	(3)	(10)	-	-	-	147	(1)	146
Total before corporate costs	545	-	(5)	-	(8)	1	533	(10)	523
Corporate costs	(49)	-	-	-	-	-	(49)	-	(49)
Adjusted PBITA	496	-	(5)	-	(8)	1	484	(10)	474
Other financial KPIs (£m)									
Profit before tax	383	-	(7)	-	(7)	1	370	(8)	362
Profit after tax	291	-	(14)	-	3	1	281	(6)	275
Earnings	277	-	(15)	-	-	1	263	(5)	258
Earnings per share – p	17.9	-	(1.0)	-	-	0.1	17.0	(0.3)	16.7
Operating cash flow	527	-	(7)	(1)	(3)	-	516	-	516

a. Results from core businesses as previously reported in the Group's results for the year ended 31 December 2017. Segment results were presented geographically with segments combining both Secure Solutions and Cash Solutions.

b. As reported in the 2017 Integrated Report and Accounts, in January 2018 the Group created a new 'Cash Solutions' division. This column shows the re-classification of the results of the Cash Solutions businesses that were previously included in geographical segments into the new Cash Solutions division.

c. With effect from 1 January 2018, the Secure Solutions division was consolidated into four regions: Africa, Americas, Asia and Europe & Middle East. Following this reorganisation, the results of certain businesses previously reported in the Middle East & India region (primarily India and Bangladesh) are now reported in the Asia region.

d. As part of the disposal of the Colombia Cash business in 2018, a small number of contracts that were previously reported in the Cash Solutions division were transferred to the Colombia Secure Solutions business and integrated into their operations. Results from these contracts have been re-classified to be reported within the Americas region in the Secure Solutions division and prior year comparatives have been restated accordingly.

e. The financial impact of portfolio businesses is no longer material and to simplify reporting moving forwards, the Group has ceased separate columnar disclosure of the results of these businesses.

f. To present results on a consistent and comparable basis, the results from any businesses sold or closed in either the current or prior years are excluded from the underlying results in both the current and prior years. These include the Youth Services business in North America, the children's homes business in the UK and Group businesses in Israel and Bulgaria that were sold in 2017 and an archiving business in Kenya, the Group's businesses in Hungary and the Cash Solutions businesses in United Arab Emirates, Colombia and Saudi Arabia sold in 2018.

g. With effect from 1 January 2018 the Group has adopted IFRS 15 – Revenue from Contracts with Customers, as explained in note 3 which has resulted in certain 2017 income statement line items being restated.

h. The results for the year ended 31 December 2017 were presented at average exchange rates for the year ended 31 December 2017. The comparative results have been re-presented at average exchange rates for the year ended 31 December 2018.

i. Underlying results are an APM and are explained on page 35 and reconciled to the Group's statutory results on page 3.

Alternative Performance Measures

E. Reconciliation of statutory results by segment to underlying results by segment

	Statutory results	Onerous contracts	Disposed businesses	Underlying results at actual rates	Exchange differences	Underlying results at constant rates
Revenue by reportable segment (£m)						
Year ended 31 December 2018						
Africa	406	-	(1)	405	-	405
Americas	2,443	-	-	2,443	-	2,443
Asia	882	-	(1)	881	-	881
Europe & Middle East	2,644	(118)	(25)	2,501	-	2,501
Cash Solutions	1,137	-	(78)	1,059	-	1,059
Total Group revenue	**7,512**	**(118)**	**(105)**	**7,289**	**-**	**7,289**
Year ended 31 December 2017						
Africa	399	-	(5)	394	(13)	381
Americas	2,493	-	(27)	2,466	(134)	2,332
Asia	896	-	(25)	871	(40)	831
Europe & Middle East	2,747	(107)	(134)	2,506	(5)	2,501
Cash Solutions	1,291	-	(113)	1,178	(10)	1,168
Total Group revenue	**7,826**	**(107)**	**(304)**	**7,415**	**(202)**	**7,213**
Adjusted PBITA by reportable segment (£m)						
Year ended 31 December 2018						
Africa	31	-	1	32	-	32
Americas	127	-	2	129	-	129
Asia	63	-	-	63	-	63
Europe & Middle East	175	5	(1)	179	-	179
Cash Solutions	114	-	7	121	-	121
Adjusted PBITA before corporate costs	**510**	**5**	**9**	**524**	**-**	**524**
Corporate costs	(50)	-	-	(50)	-	(50)
Total Group Adjusted PBITA	**460**	**5**	**9**	**474**	**-**	**474**
Year ended 31 December 2017						
Africa	29	-	(1)	28	(1)	27
Americas	123	-	(1)	122	(5)	117
Asia	60	-	-	60	(3)	57
Europe & Middle East	182	-	(6)	176	-	176
Cash Solutions	147	-	-	147	(1)	146
Adjusted PBITA before corporate costs	**541**	**-**	**(8)**	**533**	**(10)**	**523**
Corporate costs	(49)	-	-	(49)	-	(49)
Total Group Adjusted PBITA	**492**	**-**	**(8)**	**484**	**(10)**	**474**

Supplementary information

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High resolution images and b-roll are available to download from the G4S media library, available through the results centre at www.g4s.com.

Notes to Editors:
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Presentation of Results:

A presentation to investors and analysts is taking place today at 09.00 hrs at the London Stock Exchange.

The presentation can also be viewed by webcast using the following link:
http://view-w.tv/707-803-21143/en

Please note there will also be a telephone dial-in facility for this event, the call details are below:

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Dividend payment information
2018 final dividend:

Ex-dividend date – 2 May 2019
Last day to elect for DKK – 2 May 2019
Record date – 3 May 2019
Last day for DRIP elections – 23 May 2019
Post (1st class) – 13 June 2019
Pay date – 14 June 2019

Financial Calendar

May 2019 – Q1 2018 Trading update
August 2019 – H1 2019 Results announcement
November 2019 – Q3 2019 Trading update