G4S plc ANNUAL REPORT AND ACCOUNTS 2008

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& COLLABORATION INTEGRITY PERFORMANCE TEAM-
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G4S IS THE WORLD'S LEADING INTERNATIONAL SECURITY SOLUTIONS GROUP WHICH SPECIALISES IN OUTSOURCED BUSINESS PROCESSES IN SECTORS WHERE SECURITY AND SAFETY RISKS ARE CONSIDERED A STRATEGIC THREAT.

KEY ACHIEVEMENTS

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FINANCIAL HIGHLIGHTS

2008

- Organic turnover growth* of **9.5%**
- Group turnover* **up 22%** to £5.94 billion
- PBITA* **up 23%** to £416.4 million
- Operating cash flow **up 28%** to £353.2 million, 86% of PBITA
- Adjusted earnings per share **up 26%** to 16.7p
- Recommended total dividend per share **up 30%** to 6.43p

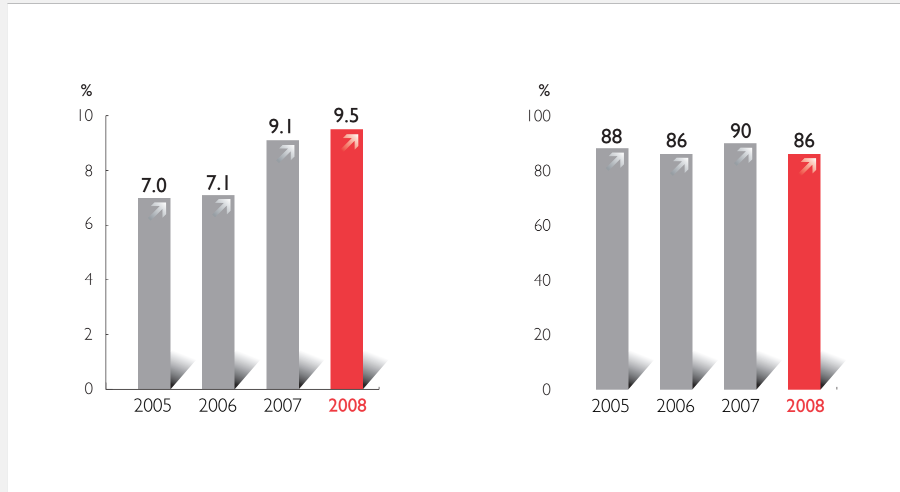
- G4S acquires GSL, a leader in the provision of critical primary and support services and a pioneer of outsourced justice services on three continents.
- G4S and partners selected as mission support contractor for the US Department of Energy's Hanford Site in south eastern Washington State.
- G4S acquires ArmorGroup, a leading provider of defensive and protective security services to national governments, multinational corporations and international peace and security agencies operating in hazardous environments.
- G4S acquires RONCO Consulting Corporation, one of the world's premier humanitarian and commercial mine action, ordnance disposal and security companies.
- G4S implements enhanced growth strategy in key markets and customer sectors.
- G4S reaches agreement with UNI, the global union federation on an Ethical Employment Partnership which will drive improvements in employment standards across the global security industry.

* At 2008 exchange rates

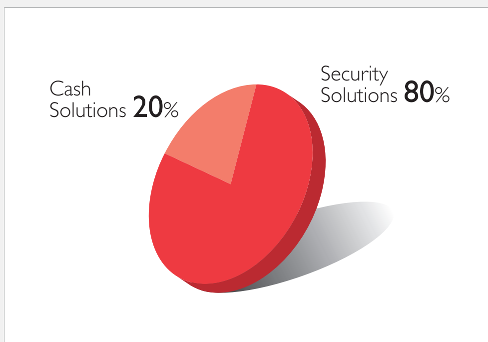
FINANCIAL PERFORMANCE

Group Total

ORGANIC GROWTH* OPERATING CASHFLOW AS A % OF PBITA**



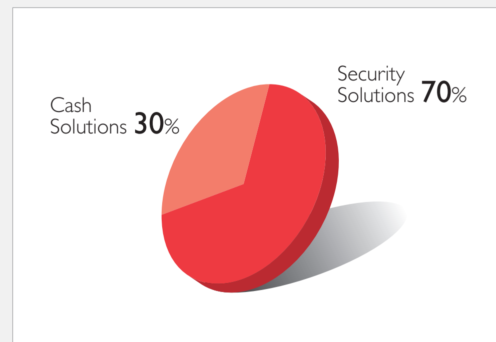
TURNOVER BY SERVICE



(**2007:** Cash Solutions 22%, Security Solutions 78%)

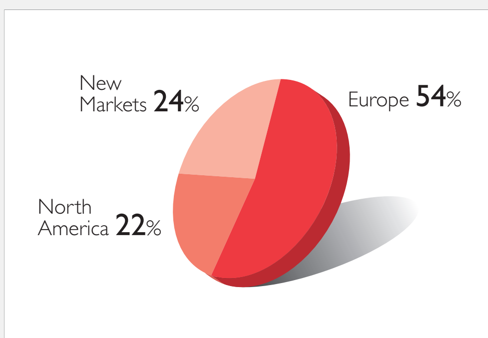
2008

PBITA BY SERVICE**



(**2007:** Cash Solutions 31%, Security Solutions 69%)

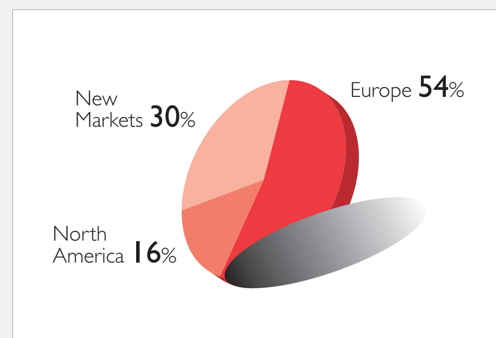
TURNOVER BY GEOGRAPHY



(**2007:** Europe 53%, North America 25%, New Markets 22%)

2008

PBITA BY GEOGRAPHY**



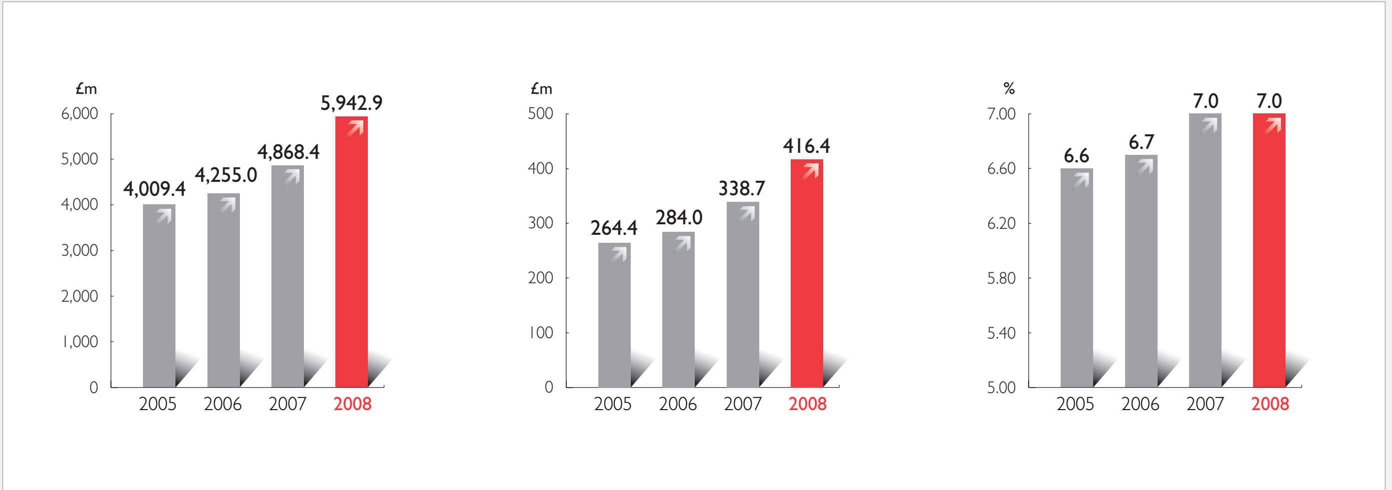
(**2007:** Europe 55%, North America 18%, New Markets 27%)

* Organic growth = growth in revenue adjusted to exclude acquisitions and disposals, and at constant exchange rates.
** PBITA = Profit before interest, taxation and amortisation of acquisition-related intangible assets.

The key performance indicators for G4S operational management are organic growth, PBITA margin and cash conversion (operating cash flow as a % of PBITA). Other non-financial measures are specific to particular markets or individuals and cannot therefore be amalgamated into group-wide key performance indicators.

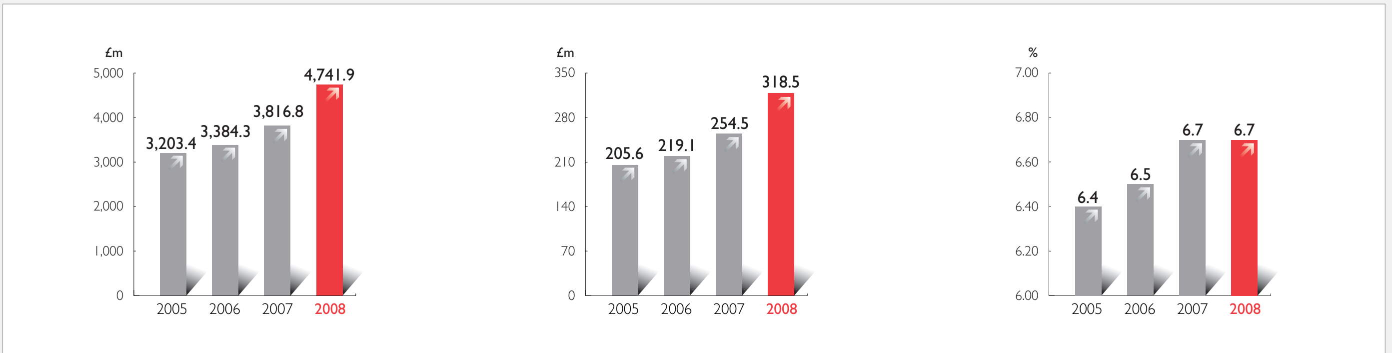
Group Total***

TURNOVER (£m) PBITA (£m) MARGIN (%)



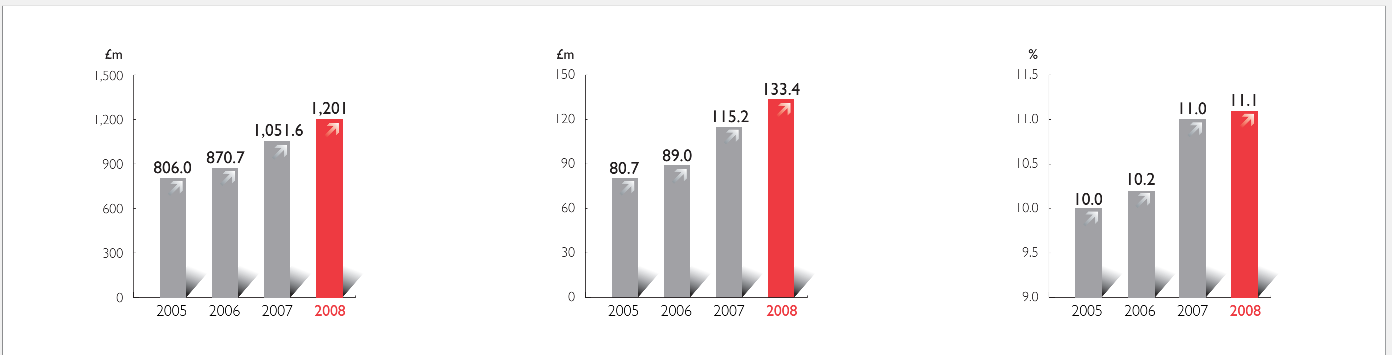
Secure Solutions***

TURNOVER (£m) PBITA (£m) MARGIN (%)



Cash Solutions***

TURNOVER (£m) PBITA (£m) MARGIN (%)



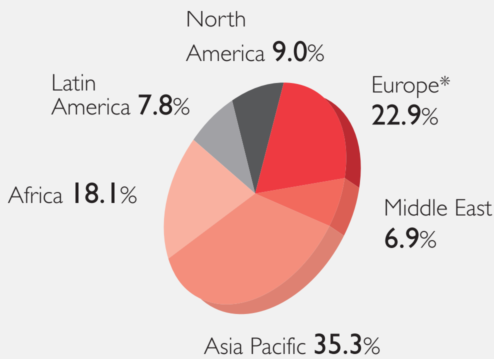
*** 2005 to 2007 at 2008 exchange rates and excluding all businesses disposed of during the period.

GROUP AT A GLANCE

G4S is the largest employer quoted on the London Stock Exchange and has a secondary stock exchange listing in Copenhagen. G4S has operations in over 110 countries and more than 585,000 employees.

Employees

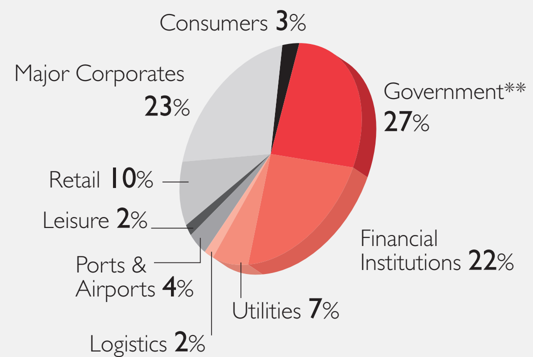
G4S is proud of the important work carried out by its global workforce who do everything they can to ensure the security and safety of its customers and their assets.



* includes shared admin and head office

Customers

G4S has a broad range of customers across its various markets with no over-reliance on a particular market sector.



** 29% pro-forma for a full year of GSL/ArmorGroup

G4S prides itself on being responsible in how it handles relationships with customers, communities, employees and other stakeholders. The group values describe what G4S stands for.

Each value has a senior executive "champion" within the group responsible for ensuring that value becomes a key part of how G4S does business.

→ **BEST PEOPLE**
We always take care to employ the best people, develop their competence, provide opportunity and inspire them to live our values

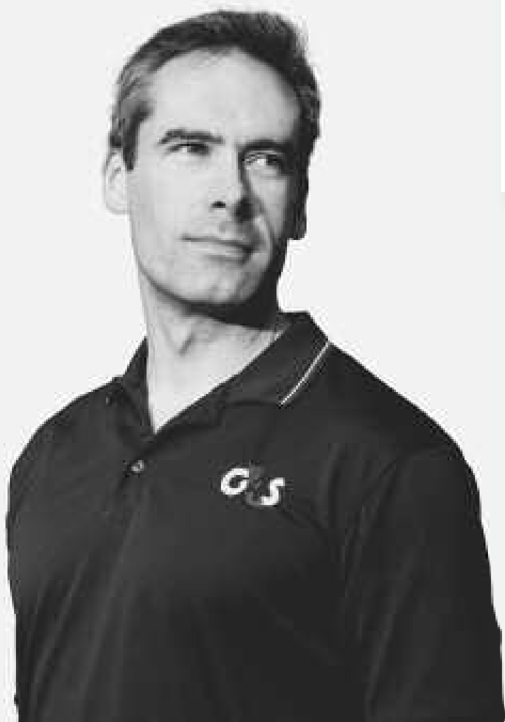
→ **TEAM WORK AND COLLABORATION**
We collaborate for the benefit of G4S as a whole

→ **CUSTOMER FOCUS**
We have close, open relationships with our customers that generate trust and we work in partnership for the mutual benefit of our organisations

→ **INTEGRITY**
We can always be trusted to do the right thing

→ **EXPERTISE**
We develop and demonstrate our expertise through our innovative and leading edge approach to creating and delivering the right solution

→ **PERFORMANCE**
We challenge ourselves to improve performance year-on-year to create long term sustainability



More detail on how G4S approaches corporate responsibility can be found in its first Corporate Responsibility Report to be published in April 2009.

CHAIRMAN'S STATEMENT

I AM VERY PLEASED TO BE ABLE TO REPORT ANOTHER EXCELLENT PERFORMANCE BY THE GROUP. OUR FINANCIAL RESULTS ARE STRONG AND, AT THE SAME TIME, WE HAVE TAKEN SIGNIFICANT STRIDES IN IMPLEMENTING A STRATEGY WHICH WILL ENABLE US TO CONTINUE TO DEVELOP FOR THE FUTURE. THESE ARE OF COURSE DIFFICULT TIMES AND WE KNOW THAT WE HAVE TO REMAIN ALERT TO THE PROBLEMS WHICH MAY CONFRONT US IN THE NEXT FEW YEARS. WE WILL THOUGH ALSO MAKE THE MOST OF THE OPPORTUNITIES WHICH CAN BE A BY-PRODUCT OF THE DIFFICULTIES WHICH LIE AHEAD.

Financial Performance The group has performed well in 2008, with revenue increased substantially and margin maintained. Profit before interest, taxation, amortisation and exceptional items increased by 23%* to £416.4m, whilst turnover was up 22%* to £5,942.9m. Organic growth has increased to 9.5% and group profit margin is 7%. Adjusted earnings per share increased by 26% to 16.7p.

** To show a fair comparison, constant exchange rates are assumed*

Developments During the year we have taken a number of strategically important steps. We have made some significant acquisitions, including GSL, ArmorGroup, Touchcom, MJM Investigations, RONCO Consulting and the Rock Steady Group. As a result we have been able to develop the breadth of our offering and move a greater proportion of our business into longer term and higher value services. We have also finalised the disposal of our French and German security services businesses. In May we issued 127m new shares, placing them with institutional investors and generating net proceeds of £276m as a means of maintaining sound financial ratios and helping to fund strategic acquisitions.

Dividend The directors recommend a final dividend of 3.68p or DKK 0.3052 per share, payable on 5 June 2009, which, with the interim dividend of 2.75p or DKK 0.2572 per share paid on 31 October 2008, makes a total dividend of 6.43p or DKK 0.5624 per share for the year ended 31 December 2008. This is an increase of 30% over the total dividend for 2007 and the culmination of the board's stated aim to reduce the company's target divided cover to two and a half times normalised earnings. For the future, the board expects to increase dividend broadly in line with normalised earnings.

The Board I am pleased to be able to report that the board continues to perform well. I can say this with some degree of certainty as we engaged consultants who undertook a very thorough review of the performance of the board as a whole, its members and of each of its committees. My own experience of working with this board endorses the conclusions of the reports we have received. The board maintains an excellent blend of experience and skills. We are not complacent however and realise the huge importance of rigorous standards where corporate governance is concerned. We will therefore continue to monitor the way the board functions and to place great emphasis on the controls in operation throughout the group.

Sir Malcolm Williamson retired from our board in May of course and we have announced that, following this year's AGM, Thorleif Krarup will stand down as chairman of the Audit Committee, with Mark Seligman taking his place.

Our Staff I mentioned that we are living in uncertain times. This presents our group with many opportunities, but it also results in many of our employees (now totalling in excess of 585,000 around the world) carrying out their work in what can sometimes be the most difficult of circumstances. This was brought home to us very hard by the deaths of two of our colleagues during the terrorist attacks on the hotel in Mumbai where they were providing services. I would therefore like to pay tribute not only to them, but also to all our employees who face danger and sometimes risk injury because of the violent world in which we exist.

We have also seen that our employees can have a positive impact on those around them – and not just as a result of the services the group provides. In our Corporate Responsibility Report you will see just a few examples of the tremendous efforts being made by some of our staff and the effects they are having on the environment in which they live.

The importance to our group of its employees cannot be overstated. It is because we recognise our staff as the group's greatest asset that we have forged an alliance with UNI, the global trades union organisation, by entering into an Ethical Employment Partnership – and by reaching a recognition agreement with the SEIU in the United States. We are determined to do all we can to raise standards for our employees and, we hope, for all who work in our industry.

The Future The economic future is especially difficult to predict. So many businesses seem to be suffering in the current economic climate and it would be foolish to assume that we can be completely immune from the effects of what appears to be a global slow-down. I believe however that the nature of our businesses, our broad geographic spread and our strategy of developing closer, longer-term, more valued relationships with our customers will stand us in good stead for the future. I believe the group is well placed to meet the challenges ahead.

Alf Duch-Pedersen
Chairman

OPERATING & FINANCIAL REVIEW

An interview with Nick Buckles

CEO REVIEW

Q: How would you summarise the performance of the group in 2008?

A: We had a very strong year in 2008 with organic turnover growth of 9.5%, operating profits up 23%, profit margins maintained at 7% and earnings per share increasing by 26% to 16.7 pence. Those results were driven by good performances across all of our geographic regions, service lines and customer segments.

On top of that, we made significant progress on implementing the group strategy and integrated some fairly substantial acquisitions on schedule and in line with the expected costs.

I'm really proud of our achievements last year and the fact that the strong performance was widespread – across the whole company – is a credit to everyone who is part of G4S.

Q: What were the most important strategic issues that required the focus of the senior management during that time?

A: In order to make sure that the group is able to deliver the growth strategy and to facilitate succession planning, we had to implement some structural, organisational changes. These will enable us to focus on key customer segments and share best practice across the group.

Whilst in our business model, the structure is based primarily on country-level accountability, we had to overlay customer segment and service line expertise to make sure that we are in the right shape to achieve our goals in the future. In order to do that we needed to make sure that the relevant group values, such as teamwork and collaboration, were fully embedded in the organisation for this matrix-style structure to be successful.

Embedding the values, creating the right structure and making sure we had the right expertise in the right places, was a challenge, but we know it will benefit the organisation in the long run and it was worth taking the time to get it right.

Q: Which parts of the business were the star-performers in 2008?

A: One of the key aspects of our strategy in 2008 was to acquire capability-building businesses across the group. Seeking the right businesses, completing the deals and integrating the different organisations (culturally and operationally) without negatively impacting the business performance was a key achievement in a number of markets and, in my opinion, is now a core strength of the group.

The integration of GSL was primarily in the UK, but also in Australia and South Africa. The acquired ArmorGroup operations spanned around 20 of G4S's existing markets and also enabled the group to enter four new countries. There were various acquisitions across the African continent which required complex integration management and a number of smaller deals across Europe.

Operationally, I would say that Romania was a star performer last year – the business took on an enormous contract start-up in the cash management market, growing from zero to more than 650 operational vehicles in just two years. Mobilising a contract of that size successfully is a great achievement.

The cash solutions businesses as a whole deserve a mention – driving superior margins unrivalled in the industry whilst delivering strategic and operational benefits for our cash management customers. Cash management is a core area of expertise within the group and we are proud of our achievements.

At the same time our US business has really embraced the group strategy and is now more closely aligned to the G4S culture, brand and ideals. After years of success as a quality manned security organisation, G4S Wackenhut has recently won substantial contracts based on the use of newly developed integrated manpower and technology solutions – significantly transforming the product offer in the US.

So overall, we have a lot to be proud of.

Q: Which parts of the business didn't perform to your expectations in 2008?

A: I wouldn't say that any businesses didn't perform to our expectations, but there are a still a handful of countries which are failing to meet our minimum margin targets. They continue to implement business improvement action plans and we are confident that they will soon be brought in line.

Q: What impact has the economic downturn had on the performance of the group in 2008?

A: G4S is not immune from an economic downturn, but it tends not to have a huge impact on our business. We are resilient to economic pressure for a number of reasons.

A large proportion of our business is in complex, long term outsourcing contracts (many in the government sector) which are unlikely to be those that come under pressure during difficult periods of the economic cycle. Particularly those contracts in areas such as the justice sector, border control or military support services are not likely to face cuts in times of economic uncertainty. In fact, outsourcing tends to increase in times of difficulty as customers seek greater efficiencies and look for ways to reduce costs.

Consumers turn to cash in tough times. It allows them to budget more effectively and avoid unnecessary interest charges which they would pay on a credit card. We do our very best to make sure this demand is catered for efficiently and that the public can get access to their cash where and when they need it – this means that cash needs to move around an economy as efficiently as possible and ATM cash needs to be managed appropriately to cater for the changes in demand.

Generally, our broad geographic exposure provides some protection from economic pressure with no over-reliance on a single country or economy. In some countries, where we compete with local competitors which are going out of business as a result of the current state of the economy, we are in a position to pick up additional contracts as customers require confidence in the long-term sustainability of the service and that their security partner can deliver.

Of course, we constantly keep our own cost base and the efficiency of the operation under review. As a service business, a large proportion of our investment is in people – in times of economic difficulty it does become easier to recruit good quality people and to retain existing employees for longer.

Overall, I would say that whilst there are challenges for us in recessionary times, our business model, international presence and contract base means that we are more resilient that most.

Q: How are you expecting the current economic situation to affect the business in the next two years?

A: Of course, we can't predict how the global economy will turn out – the likely length and depth of the recession is a major point of debate and views differ greatly.

However, for all of the reasons I have already described, I think that we will be able to ride the storm more positively than most.

We will focus on building customer relationships and increasing customer partnerships and we are monitoring and managing our debtor base very carefully to make sure that we deal with any issues that arise before they can impact the business.

Q: What was the best decision you made in 2008?

A: The GSL and ArmorGroup acquisitions are probably the highlights – they have helped to transform the organisation in so many ways and add capability and expertise in areas which will really help us develop and drive growth in the future.

Operating & Financial Review (continued)

Q: What would you have done differently in 2008 with hindsight?

A: There are always ways to improve the business performance, but I can't really say that there are any major things that we should have done differently. We had a good year and moved forward enormously in terms of building capability and confidence for the future.

Q: What drives growth in your business?

A: The growth drivers differ across our two main service lines.

In **cash solutions,** the primary driver of growth is the **maturity of the cash cycle** and the role of the central bank. In the most mature markets, the central banks have given responsibility for managing the cash cycle to the commercial banks which, in turn, pass that responsibility onto cash solutions providers such as G4S. In these markets outsourcing of almost the entire cycle is common and provides a way for the banks to focus on their core business and for G4S to apply its expertise to the management of the flow of cash around the economy. We can take responsibility for the entire cycle including cash management, cash forecasting, ATM network management and so on. Our challenge is to encourage less developed markets to move through these phases of development to a fully-outsourced model.

The **structure of the market** is also a key growth driver. In less developed cash markets, the central banks and commercial banks retain a high number of cash processing locations which means the market can be very fragmented with hundreds and sometimes thousands of cash-in-transit providers. In cash management, economies of scale and density of customers are key to providing the most efficient service and to facilitating the outsourcing of non-essential banking services by the banks.

G4S expertise and competitive differentiation in the cash management sector also helps us to grow. Within the group, we have some of the world's most experienced cash management experts with strong track records. We have developed our expertise in this area over a number of years and can demonstrate true benefits to customers looking to outsource their cash management processes whilst needing to feel secure in the knowledge that their business is in safe hands.

Underlying all of those major issues is the **consumer demand for cash** The demise of cash has been predicted for over 25 years and yet it is still very popular with consumers – it is free at the point of use, it is anonymous and it provides the best means of managing a budget, particularly in tough economic environments. Consumers also want access to their cash 24 hours a day, which drives the need for ATM networks to be delivering that convenience to consumers across the world.

In **secure solutions** the key driver is the **propensity for government and commercial customers to outsource** to the private sector. There are many reasons why this might take place – in the government sector, resources such as the military and police are constantly under pressure to focus on their core role and to outsource any aspects of their operation which are not delivering front line benefits. The private sector has shown that it can be successful in delivering a quality service in these areas and provide cost-savings at the same time.

In the non-government sector, the focus is largely on reducing risk and driving quality whilst managing cost so the organisation can focus on its core business – for example, retailers need to focus on selling goods, airlines have to move passengers around the world efficiently and sporting venues need to maximise the experience for their paying audience. Managing the risk aspects of these sectors is the core business and expertise of organisations such as G4S.

We focus very hard on **increasing customer partnerships** across our business and demonstrating the expertise and value that G4S can bring to a customer. This means that we become an integral part of their business and a significant contributor to their business success.

→ **WE ACHIEVED VERY STRONG RESULTS IN 2008 AND MADE SIGNIFICANT PROGRESS** in implementing the group strategy, supplemented with some key capability-building acquisitions.

→ **WE CONTINUE TO FOCUS ON BUILDING CUSTOMER RELATIONSHIPS,** retaining and growing existing business, winning new business, improving productivity, controlling costs and differentiating G4S.

Underlying this, there is always the issue of **crime and risk**. Whilst it is difficult to quantify how increases in crime and risk directly impact security spend, what is apparent is that it is usually accompanied by an increased focus on the associated business issues. Risk management is increasingly a topic for board level discussion and decisions are taken at a higher level within our customer organisations than they would have been ten or maybe even just five years ago. It's important to us to build relationships at this level.

Across **all service lines** we continue to acquire businesses which contribute to growth. We made a large number of acquisitions in 2008 – some to add scale to the group, but the majority to provide additional capability and expertise to drive outsourcing opportunities. In the future, capability-building acquisitions will continue to be a focus for the group although we will also consider acquisitions which give us access to a particular geography or a market sector which we don't already have.

Q: What are the biggest risks to that growth being achieved in 2009?

A: No company can ignore the state of the global economy right now. We believe that we have the ability to ride the economic storm and should be well-placed to drive superior growth once global economies get back on track, but with so much uncertainty around, we can't be complacent about it.

Q: What will be the biggest challenge to the group in 2009?

A: The biggest challenge will be keeping everyone motivated, positive and driving forward in a year of economic stress.

We have a great business and really good people who have delivered good results time after time. We need to make sure that we have got the right culture across the organisation and that everyone believes in, and lives up to the group values. We can't be everywhere supervising everything and we need to trust our people to do what they do best – take the group strategy and culture and make it work for them in their local market.

Q: How is the shape of the business likely to change or develop in the future?

A: We are committed to the multi-service model – it works well for us, particularly in new markets where customer relationships are developed across multiple service lines.

Our unique geographic footprint isn't likely to change fundamentally although we would always consider acquisitions which give us access to markets or sectors where we don't currently have a presence. We will certainly seek acquisitions which bring additional expertise or capability to the group.

We will focus on developing customer partnerships across the board and in key sectors. We would expect our government business to continue to become a larger proportion of group revenues over time.

Q: How would you summarise the mid-term outlook for the business?

A: We achieved very strong results in 2008 and made significant progress in implementing the group strategy, supplemented by some key capability-building acquisitions.

Against the backdrop of economic uncertainty in 2009, we continue to focus on building customer relationships, retaining and growing existing business, winning new business, improving productivity, controlling costs and differentiating G4S with new service lines.

So, whilst there are some challenges for our business in recessionary times, we do expect to perform strongly in the year ahead.

Nick Buckles
Chief Executive

Operating & Financial Review (continued)

SECURE SOLUTIONS

G4S PROVIDES A WIDE RANGE OF SECURITY SOLUTIONS INCLUDING RISK CONSULTANCY, SECURE FACILITY OUTSOURCING, MANNED SECURITY, SECURITY SYSTEMS, LANDMINE CLEARANCE, TRAINING AND RESPONSE SERVICES. IN THE CARE AND JUSTICE SERVICE AREAS, G4S DESIGNS, BUILDS AND MANAGES JUVENILE AND ADULT CUSTODY FACILITIES, ELECTRONICALLY MONITORS OFFENDERS AND MANAGES IMMIGRATION DETENTION FACILITIES.

In 2008, the secure solutions business continued its strong performance with good organic growth of 8.6% and margins maintained at 6.7%.

* At constant exchange rates	Turnover £m		PBITA £m		Margins		Organic Growth
	2008	2007	**2008**	2007	**2008**	2007	**2008**
Europe*	**2,319.5**	1,849.6	**151.7**	120.2	**6.5%**	6.5%	**8.3%**
North America*	**1,222.3**	1,125.1	**70.6**	66.3	**5.8%**	5.9%	**3.6%**
New Markets*	**1,200.1**	842.1	**96.2**	68.0	**8.0%**	8.1%	**16.1%**
Total secure solutions*	**4,741.9**	3,816.8	**318.5**	254.5	**6.7%**	6.7%	**8.6%**
Exchange differences	**–**	(313.0)	**–**	(19.7)			
At actual exchange rates	**4,741.9**	3,503.8	**318.5**	234.8			

Organic growth in Europe was 8.3% compared to 6.5% in 2007. Margins were unchanged at 6.5%.

Europe

At constant exchange rates	Turnover £m		PBITA £m		Margins		Organic Growth
	2008	2007	**2008**	2007	**2008**	2007	**2008**
UK & Ireland	**929.9**	598.2	**76.8**	48.7	**8.3%**	8.1%	**7.6%**
Continental Europe	**1,389.6**	1,251.4	**74.9**	71.5	**5.4%**	5.7%	**8.6%**
Total Europe	**2,319.5**	1,849.6	**151.7**	120.2	**6.5%**	6.5%	**8.3%**

There was good organic growth of 7.6% in the **UK & Ireland** compared to 6.0% in the same period last year. Margins strengthened further to 8.3%. Customer retention rates in the security business were high at around 95%. The care and justice, events, defence training and secure facilities management businesses all recorded strong growth and good margins. A number of new services were launched in the year including Gurkha services, lone worker protection and a vacant property protection service.

A number of acquisitions were made in the region aimed at increasing the expertise of the group in key sectors in line with the group strategy. The acquisition and integration of GSL, ArmorGroup and Rock Steady have all progressed well, adding expertise and delivering synergies ahead of expectations. Key contract wins include Brook House immigration detention centre, facilities management services for South Warwickshire and North West London Primary Care Trusts, the Olympic Delivery Authority, the Ministry of Defence and the first offender monitoring contract in Northern Ireland.

"EVERYTHING WE DO AT MANGAUNG IS DRIVEN TOWARDS SUPPORTING THE GOVERNMENT'S DRIVE TO RECTIFY THE IMBALANCES OF THE PAST," SAYS FRIKKIE VENTER, G4S MANAGING DIRECTOR OF MANGAUNG CORRECTIONAL CENTRE. "COMMUNITY OUTREACH AND PEOPLE EMPOWERMENT ARE AT THE HEART OF EVERYTHING WE DO."

"INNOVATION AND INTEGRITY COMBINE TO PREPARE OFFENDERS FOR THEIR FUTURE IN SOCIETY."

Frikkie Venter
G4S Managing Director of Mangaung Correctional Centre, Bloemfontein, South Africa

CASE STUDY – MANGAUNG CORRECTIONAL CENTRE

THE FIRST PRIVATE SOUTH AFRICAN PRISON

"Mangaung is something for G4S to be very proud of."

Visitors to community projects in Bloemfontein, South Africa may not know it, but the soup they receive each day starts its life in the gardens of a G4S-operated facility. It's one example of how a commitment to care, innovation and integrity is contributing to the success of the Mangaung Correctional Centre in Bloemfontein, which was one of the contracts G4S acquired as part of the GSL acquisition.

Empowering prisoners and the provision of care are driven by the quality of relationships between staff and residents. G4S staff on-site act as role-models which creates a very special atmosphere within the facility.

Donating garden produce to local charities is just one example. The centre is rightly proud of its Liberty programme of adult learning – a scheme that is now recognised as a benchmark in South African prisons. In a recent study no fewer that 87 best practices at Manguang across recreation, education, rehabilitation and training were identified.

"Treating people with dignity and respect is key," continues Frikkie Venter, G4S Managing Director of Mangaung Correctional Centre in Bloemfontein. "I'm proud of what has been achieved here. By supporting prisoners, we improve their future prospects and lessen the chances of them re-offending. That is good news for them, for G4S and for South Africa."

NEARLY 3,000 PRISONERS

G4S has a 25-year contract to manage the centre.

25

year contract

BEST PRACTICE

87 examples of best practice at the centre including recreational, education and training facilities.

87

examples of best practice

→ **OVERALL CONTRACT RETENTION IN CONTINENTAL EUROPE WAS HIGH AT OVER 95%** with key contracts such as those for the European Parliament (Belgium and Luxembourg) and Schiphol airport being renewed in 2008.

→ **IN ROMANIA, THE BUSINESS ACHIEVED EXCELLENT GROWTH AND MARGINS,** largely as a result of the outsourcing of a wide range of security-related services by the Romanian post office and the critical mass that this has created across the country.

→ **THERE WAS GOOD GROWTH AND SOLID MARGINS IN DENMARK,** aided by security systems growth across all segments and strong growth in manned security.

→ **ORGANIC GROWTH IN NORTH AMERICA WAS 3.6%** with margins of 5.8%.

In **Continental Europe**, organic growth was 8.6% and margins were slightly below the prior year at 5.4% due mainly to a challenging environment in aviation security as a result of lower passenger numbers, the start up of the Oslo airport contract and lower installation growth in the smaller security systems businesses. Cost reduction measures are being implemented in these markets. Security systems is a relatively small part of the G4S portfolio and contracts are concentrated in Continental Europe. Overall contract retention in the region was high at over 95% with key contracts such as those for the European Parliament (Belgium and Luxembourg) and Schiphol airport being renewed in 2008.

Lithuania and **Luxembourg** had a strong year in all customer segments and **Austria** delivered good results assisted by completion of some systems projects, the Euro 2008 football championships and other major events. In **Greece**, the business won four new regional airports contracts and the Athens Metro contract in 2008, which contributed to excellent growth and helped improve margins.

In **Romania**, the business achieved excellent growth and margins, largely as a result of the outsourcing of a wide range of security-related services by the Romanian post office and the critical mass that this has created across the country. In the **Baltics**, growth slowed but margins were robust.

Norway achieved excellent organic growth of over 40% assisted by the Oslo airport contract which began early in the year. **Finland** had a good year and in **Sweden**, the business is now trading profitably under the new management team and following some good contract wins in 2007. There was good growth and solid margins in **Denmark**, aided by security systems growth across all segments and strong growth in manned security.

THERE WAS GOOD ORGANIC GROWTH OF 7.6% IN THE UK & IRELAND COMPARED TO 6.0% IN THE SAME PERIOD LAST YEAR. MARGINS STRENGTHENED FURTHER TO 8.3%. CUSTOMER RETENTION RATES IN THE SECURITY BUSINESS WERE HIGH AT AROUND 95%. THE CARE AND JUSTICE, EVENTS, DEFENCE TRAINING AND SECURE FACILITIES MANAGEMENT BUSINESSES ALL RECORDED STRONG GROWTH AND GOOD MARGINS. A NUMBER OF NEW SERVICES WERE LAUNCHED IN THE YEAR INCLUDING GURKHA SERVICES, LONE WORKER PROTECTION AND A VACANT PROPERTY PROTECTION SERVICE.

Operating & Financial Review (continued)

SECURE SOLUTIONS (continued)

North America

At constant exchange rates	Turnover £m		PBITA £m		Margins		Organic Growth
	2008	2007	**2008**	2007	**2008**	2007	**2008**
North America	**1,222.3**	1,125.1	**70.6**	66.3	**5.8%**	5.9%	**3.6%**

Organic growth in North America was 3.6% and, excluding the US commercial nuclear sector which lost a large contract, organic growth was 7.0%. Margins were slightly lower at 5.8% as expected due to start up costs on some new contracts and contract renewals.

In the **United States** the commercial business was broadly flat. However excluding the commercial nuclear business, organic growth was 5%. The government business achieved organic growth of 11%, with the immigration and border control contract performing strongly.

New contract awards included those for the Department of Energy at its Hanford Site and commercial nuclear power sites for companies such as FPL and an international contract with Agilent. Contract renewals and extensions included Chrysler and Bank of America.

In **Canada** there was good organic growth and margins improved as a result of a programme to exit low yielding contracts and focus on higher margin businesses.

New Markets

At constant exchange rates	Turnover £m		PBITA £m		Margins		Organic Growth
	2008	2007	**2008**	2007	**2008**	2007	**2008**
Asia	**412.0**	285.8	**32.6**	24.1	**7.9%**	8.4%	**15.6%**
Middle East	**315.6**	191.2	**26.4**	15.3	**8.4%**	8.0%	**21.6%**
Africa	**248.6**	191.8	**22.4**	17.0	**9.0%**	8.9%	**10.8%**
Latin America & Caribbean	**223.9**	173.3	**14.8**	11.6	**6.6%**	6.7%	**16.5%**
Total New Markets	**1,200.1**	842.1	**96.2**	68.0	**8.0%**	8.1%	**16.1%**

In New Markets, organic growth was excellent at 16.1% and margins were maintained at around 8%.

Organic growth in **Asia** was 15.6% and margins were 7.9%. Margins in Asia were slightly down due to the lower margin Australian prison contracts which were acquired with GSL. **India** continued to deliver excellent growth of over 20% and strong margin improvement.

Thailand also performed well with organic growth of over 20% with improved margins and won a major contract with SCB at the end of 2008. In **Malaysia**, organic growth was 10% due to improved operational performance and a significant increase in the number of ATMs and CDMs serviced.

In **Hong Kong**, the business grew slightly despite a challenging competitive environment and margins were maintained. In **Macau**, growth slowed but was still above 15% and margins remained strong. The **Papua New Guinea** business performed very well in its first year of operation.

"KEY TO THE SUCCESS OF SOUTHERN SWEDEN'S NEWEST AND LARGEST 15,000 CAPACITY ARENA, IS THE EXPERIENCE AND EXPERTISE TO RECEIVE VISITORS IN A SAFE AND PROFESSIONAL MANNER. THE MALMO ARENA OPENED ON 6 NOVEMBER 2008 WITH A THREE HOUR GALA EVENT FOR 10,000 VISITORS. IT WAS A POWERFUL, HIGH IMPACT OPENING. THIS WAS NO SOFT LAUNCH!"

"SECURITY IS MORE THAN GUARDING. G4S'S EXPERTISE IS A REAL ADVANTAGE."

Karin Martensson
Malmo Arena, Sweden
Vice President

CASE STUDY – THE MALMO ARENA

MULTIPLE SECURE SERVICES FOR A MULTI-USE ARENA.

"Malmo is a multi-use, multi-purpose, multi-visitor venue."

The Malmo Arena launch was the culmination of one-and-a-half years of construction and preparation. It was clear early on that Malmo's requirements were not standard.

"Malmo Arena is multi-use because it hosts everything from major sports events to concerts. Multi-purpose because Malmo sits in the middle of a site combining retail, leisure and residential uses. And multi-visitor because there are leisure, business, and tourist visitors at the site", says Peter Narbe who headed up the Malmo project for G4S.

A range of services was required to keep overall costs under control, which G4S achieved through a hybrid service model: vetted, trained security personnel and hospitality personnel for reception, ticketing, stewarding and front-of-house services.

G4S ensures resourcing levels are uniquely geared to each event. All of the venue's cash management needs are met by G4S while sophisticated systems combat counterfeit tickets.

No two events are the same at Malmo Arena. But for every visitor it offers the experience of a lifetime. G4S is always there throughout, ensuring the visit is safe, secure, and fun.

MULTI USE VENUE

The Malmo Arena is southern Sweden's newest and largest multi-use venue – with a concert capacity of 15,000.

15,000

concert capacity

LATEST ONLINE SYSTEMS

Online management of personnel ensure smooth resourcing for each event.

→ **NEW CONTRACT AWARDS INCLUDE THE DEPARTMENT OF ENERGY** at its Hanford Site and commercial nuclear power sites for companies such as FPL and an international contract with Agilent.

→ **IN THE MIDDLE EAST, ORGANIC GROWTH WAS IMPRESSIVE AT 21.6%** and margins were at 8.4%, driven by good performance in facilities management and improvement in the margins achieved in Iraq.

→ **IN UAE, ORGANIC GROWTH WAS 18%** and G4S has been granted contracts for a secure training centre and rehabilitation services in Abu Dhabi. Qatar achieved organic growth of 80% from mainly the education, military and energy sectors.

→ **IN THE LATIN AMERICA & CARIBBEAN REGION, GROWTH WAS 16.5%** with margins at 6.6%.

In the **Middle East**, organic growth was impressive at 21.6% and margins were at 8.4%, driven by good performance in facilities management and improvement in the margins achieved in Iraq.

In **UAE**, organic growth was 18% and G4S has been granted contracts for a secure training centre and rehabilitation services in Abu Dhabi. **Qatar** achieved organic growth of 80% from mainly the education, military and energy sectors.

In **Africa**, organic growth was 10.8% and margins improved to 9.0%. **Kenya** performed very well with growth of 14% and continued strong profitability. **Morocco** had strong growth assisted by new contracts in the oil and banking sectors. In **South Africa**, growth continued but margins were lower due to a number of underperforming contracts and new management has been installed.

Elsewhere in Africa, **DRC**, **Malawi**, **Mozambique**, **Nigeria**, **Namibia** and **Zambia** all performed well with healthy organic growth and a significant increase in scale from the ArmorGroup acquisition in many of these markets.

In the **Latin America & Caribbean** region, organic growth was 16.5% and margins were 6.6%. The region has experienced a slight slow-down in economic growth and some smaller competitors in countries such as Peru and Ecuador have exited the market, which is currently providing an opportunity for the group as the labour market tightness has reduced.

Argentina continued to perform well with organic growth over 30% and improved margins helped by an improved business mix.

In **Chile**, improving margins were assisted by the acquisition of the largest marine security solution company and some higher margin mining contracts. **Peru** grew more than 20% helped by new regulation which favours professional security companies and margins improved due to new technology related contracts.

The various businesses within **Colombia** performed well in comparison to 2007 but overall results were impacted by the renegotiated tolls contract, as expected.

IN NEW MARKETS, ORGANIC GROWTH WAS EXCELLENT AT 16.1% AND MARGINS WERE MAINTAINED AT AROUND 8%.

Operating & Financial Review (continued)

CASH SOLUTIONS

THE CASH SOLUTIONS DIVISION PROVIDES A WIDE RANGE OF SERVICES FOCUSED ON THE TRANSPORTATION, STORAGE AND MANAGEMENT OF CASH AND VALUABLES ON BEHALF OF BANKS, RETAILERS AND OTHER MAJOR CUSTOMERS.

Services provided to customers include transport and storage of cash and valuables, retail cash office management, outsourced cash centre management, ATM cash replenishment, maintenance and network management.

In 2008, the cash solutions business continued its very strong first half performance with organic growth of 12.5% and margins of 11.1%. Organic growth in **Europe** was excellent at 12%, with margins maintained at around 10.9%, despite investment in the Cash 360 retail solution.

In the **UK & Ireland**, the cash solutions business performed well with good organic growth and firm margins. The fifth "super branch" cash management centre in the UK was officially opened in London in January 2009.

There was slower growth but strong margins in the **Netherlands** as a result of excellent operational controls. The implementation of the Swedbank ATM management contract contributed to substantial revenue growth and improved margins in **Sweden**.

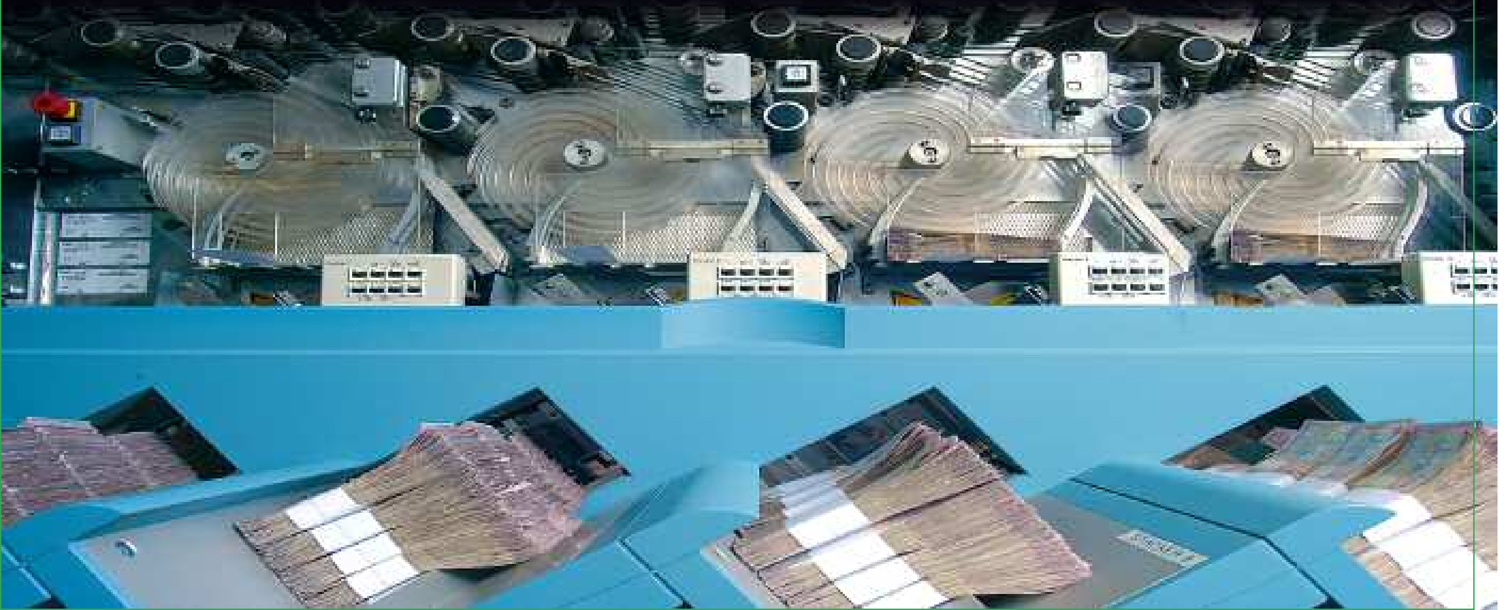
In **Belgium** there was good growth in ATMs and cash management, largely from expanding existing customer contracts. In **Hungary** and the **Baltics** there was high revenue growth and excellent margins.

* At constant exchange rates	Turnover £m		PBITA £m		Margins		Organic Growth
	2008	2007	**2008**	2007	**2008**	2007	**2008**
Europe*	**859.1**	759.9	**94.0**	83.4	**10.9%**	11.0%	**12.0%**
North America*	**87.0**	85.4	**0.8**	0.6	**0.9%**	0.7%	**1.9%**
New Markets*	**254.9**	206.3	**38.6**	31.2	**15.1%**	15.1%	**18.6%**
Total Cash Solutions*	**1,201.0**	1,051.6	**133.4**	115.2	**11.1%**	11.0%	**12.5%**
Exchange differences	**–**	(71.9)	**–**	(8.2)			
At actual exchange rates	**1,201.0**	979.7	**133.4**	107.0			

"CASH REMAINS AN IMPORTANT AND VERY WIDELY USED MEANS OF PAYMENT, SOMETHING THAT WE ALL DEPEND UPON. WITH THIS NEW CENTRE, G4S IS HELPING TO PROVIDE BANKS AND RETAILERS WITH A SECURE AND EFFICIENT WAY TO MANAGE THEIR CASH REQUIREMENTS."

"THIS NEW G4S CASH CENTRE IS AN IMPRESSIVE ADVANCE IN CASH MANAGEMENT."

Andrew Bailey
Chief Cashier and Executive Director,
Bank of England, UK



CASE STUDY – LONDON CASH CENTRE

KEEPING LONDON'S CASH MOVING

"G4S is helping to provide banks and retailers with a secure and efficient way to manage their cash requirements."

It's 7.30am and the first secure, cash-in-transit vehicle is leaving the new G4S cash centre in London – a full two hours earlier than the previous facility could manage. Over 70 cash vehicles will follow as they set about delivering the 72,000 cash services that are managed through the facility every month.

With nearly one quarter of the UK's cash circulating around the capital, this cash centre is a vital part of London's economic infrastructure. The 48 million notes processed through the centre every month keep cash flowing through the city's businesses and Londoners' wallets.

From state-of-the-art note sorters and stream-lined 'people flow' to high-security bio-metrics, the purpose-built centre is entirely focused on moving cash quickly and safely.

A LEADING-EDGE FACILITY

A £20 million investment in a leading-edge facility housing 350 people on-site and end-to-end cash management under one roof.

£20m

SECURITY IS KEY

With 48 million notes processed through the centre every month security is key and includes 460 CCTV cameras and high-security bio-metrics.

460

CCTV cameras

➔ ORGANIC GROWTH IN EUROPE WAS EXCELLENT AT 12%, with margins maintained at around 10.9%, despite investment in the Cash 360 retail solution.

➔ THE IMPLEMENTATION OF THE POST OFFICE OUTSOURCING CONTRACT in Romania has continued to drive extremely high growth and margin improvements.

➔ IN NORTH AMERICA, THE BUSINESS IN CANADA STABILISED UNDER THE NEW MANAGEMENT TEAM and experienced positive growth for the first time since 2006. We expect continued improvement in 2009.

➔ ORGANIC GROWTH IN NEW MARKETS WAS EXCELLENT AT 18.6%, with margins remaining at 15.1%. There were very good results across Asia, the Middle East and Africa.

The implementation of the post office outsourcing contract in **Romania** has continued to drive extremely high growth and margin improvements as expected.

In **North America**, the business in **Canada** stabilised under the new management team and experienced positive growth for the first time since 2006. We expect continued improvement in 2009.

Organic growth in **New Markets** was excellent at 18.6%, with margins remaining at 15.1%. There were very good results across **Asia**, the **Middle East** and **Africa**. In **Latin America**, results were affected by the renegotiated Colombia tolls contract as expected. Margins in Colombia remain strong and the other cash solutions businesses in the region performed well.

Cash outsourcing opportunities are beginning to develop in **Malaysia**, **Indonesia** and the **Philippines** as financial institutions and central banks are focusing on their core services and seeking to drive efficiencies in the cash cycle. At the end of 2008, a banking hardware, maintenance and software interface business was acquired to support services in the Hong Kong and China markets.

In the **UAE**, the business has extended its cash management offer into credit card management and distribution services. **India** was awarded the contract for distribution of the new national ID cards. In **Thailand**, new state-of-the-art cash centres have allowed the business to expand rapidly.

In **South Africa** the business is performing well with good growth, particularly in the ATM sector, and very strong margins.

There was high organic growth in **Kenya** as a result of further outsourcing in the financial services sector. The introduction of new technology has provided the business with a unique competitive advantage in the market.

IN THE UK & IRELAND, THE CASH SOLUTIONS BUSINESS PERFORMED WELL WITH GOOD ORGANIC GROWTH AND FIRM MARGINS. THE FIFTH "SUPER BRANCH" CASH MANAGEMENT CENTRE IN THE UK WAS OFFICIALLY OPENED IN LONDON IN JANUARY 2009.

Operating & Financial Review (continued)

FINANCIAL REVIEW

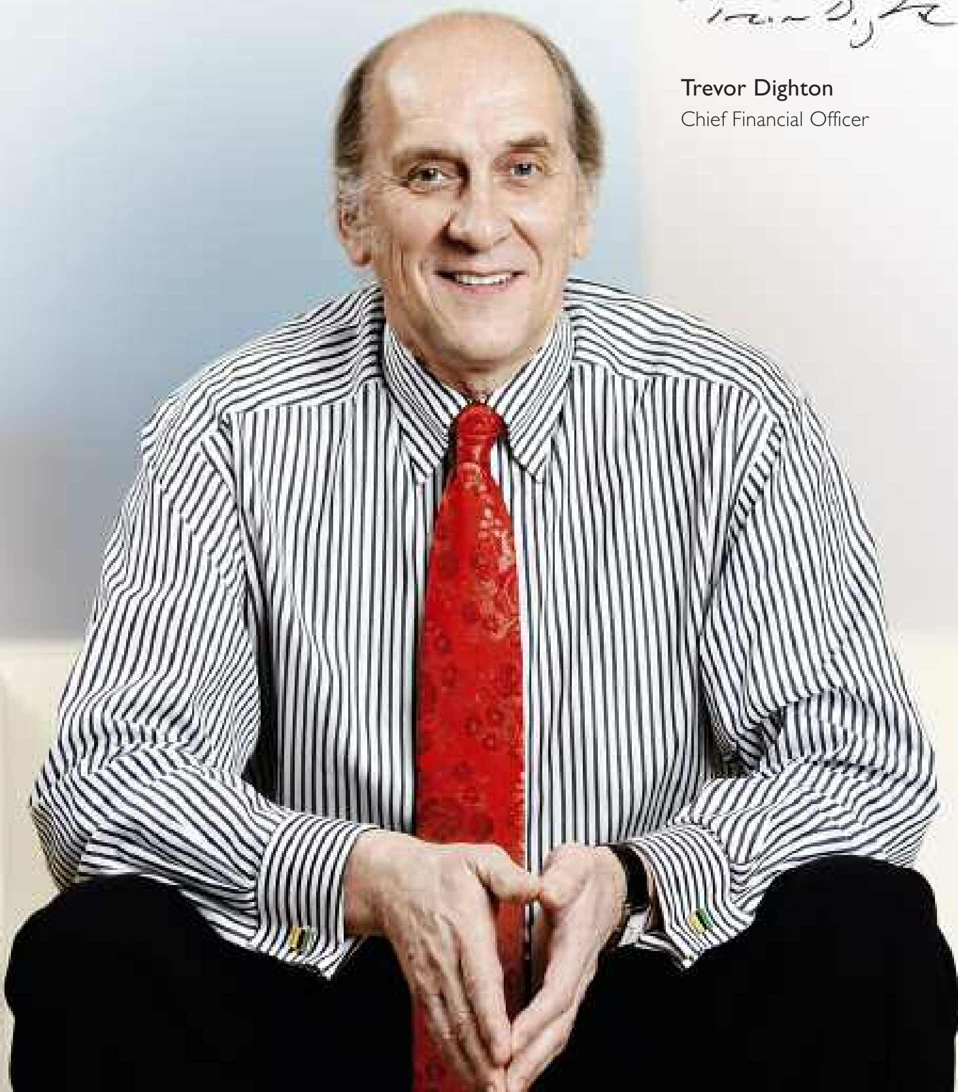
Basis of accounting The financial statements are presented in accordance with applicable law and International Financial Reporting Standards, as adopted by the European Union ("adopted IFRSs"). The group's significant accounting policies are detailed in note 3 on pages 51 to 58 and those that are most critical and/or require the greatest level of judgement are discussed in note 4 on pages 58 and 59.

Operating results The overall results are commented upon by the Chairman in his statement and operational trading is discussed in the operating review on pages 8 to 17. Profit from operations before amortisation of acquisition-related intangible assets (PBITA) amounted to £416.4m, an increase of 34% on the £311.4m in 2007 and an increase of 23% at constant exchange rates.

Associates Included within PBITA is £3.4m (2007: £3.0m) in respect of the group's share of profit from associates, principally from the business of Space Gateway in the US which provides safety services to NASA. Cash flow from associates was £12.2m, compared to £1.0m in 2007.

Trevor Dighton
Chief Financial Officer

THE GROUP'S FUNDING POSITION IS STRONG, WITH SUFFICIENT HEADROOM AGAINST AVAILABLE COMMITTED FACILITIES AND VERY LITTLE DEBT MATURING BEFORE 2012.



→ **INVESTMENT IN ACQUISITIONS IN THE YEAR** (excluding acquired net debt) amounted to £369.8m.

→ **NET INTEREST PAYABLE ON NET DEBT WAS £81.2M.** This is an increase of 41% over the 2007 cost of £57.4m.

THE TAXATION CHARGE OF £89.3M PROVIDED UPON PROFIT FROM OPERATIONS BEFORE AMORTISATION OF ACQUISITION-RELATED INTANGIBLE ASSETS LESS NET INTEREST, REPRESENTS A TAX RATE OF 26.9% COMPARED TO 27.5% IN 2007.

Acquisitions and acquisition-related intangible assets Investment in acquisitions in the year (excluding acquired net debt of £210.3m) amounted to £369.8m, of which £358.2m was a cash outflow and £11.6m deferred consideration. This investment generated goodwill of £408.5m and other acquisition-related intangible assets of £202.0m.

The largest acquisition in the year was the purchase of the Global Solutions group ("GSL"), an international leader in the provision of support services for governments, public authorities and the private sector, based in the UK, on 12 May for total consideration of £176.1m.

Other significant acquisitions included ArmorGroup, an international provider of defensive, protective security services, head-quartered in the UK; Touchcom, a security consultancy and design business in the US; RONCO, an international provider of humanitarian mine action and ordnance services, specialised security and training, head-quartered in the US; MJM Investigations, a provider of insurance fraud mitigation and claims services in the US; Rock Steady, providing event security in the UK; Travel Logistics, a provider of passport and visa services in the UK; and Progard, the market leader in professional security services in the Republic of Serbia. In addition, the group acquired the 49% of its business in Macau that it did not already own, completed in March the purchase of a further 25% of its multi-service businesses in the Baltic States and, in December, acquired the final 10% of these businesses.

Larger acquisitions in 2007 included the purchase of controlling interests in Fidelity Cash Management in South Africa and the business of al Majal Facilities Management in Saudi Arabia; the purchase of RIG, a police recruitment business in the UK; and the recognition of put options that increased to 90% the group's interest in the multi-service businesses in the Baltic states.

The contribution made by acquisitions to the results of the group during the year is shown in note 17 on pages 69 to 71.

The charge for the year for the amortisation of acquisition-related intangible assets other than goodwill amounted to £67.8m. Goodwill is not amortised. Acquisition-related intangible assets included in the balance sheet at 31 December 2008 amounted to £2,060.4m goodwill and £392.2m other.

Financing items Finance income was £104.9m and finance costs £189.3m, giving a net finance cost of £84.4m. Net interest payable on net debt was £81.2m. This is an increase of 41% over the 2007 cost of £57.4m due principally to the increase in the group's average gross debt. The group's average cost of gross borrowings in 2008 was 5.5% compared to 5.7% in 2007. The cost based on prevailing interest rates at 31 December 2008 was 4.6% compared to 5.7% at 31 December 2007.

Also included within financing are other net interest costs of £6.9m (2007: £1.3m), including the unwinding of the discount on put options over minority interests, and a net income of £3.7m (2007: £5.0m) in respect of movements in the group's net retirement benefit obligations.

Taxation The taxation charge of £89.3m provided upon profit from operations before amortisation of acquisition-related intangible assets less net interest, represents a tax rate of 26.9%, compared to 27.5% in 2007. The group believes that an effective tax rate of around this level is sustainable going forward as a result of the ongoing rationalisation of the post-merger group legal structure and the elimination of fiscal inefficiencies. The amortisation of acquisition-related intangible assets gives rise to the release of the related proportion of the deferred tax liability established when the assets were acquired, amounting to £19.1m. Potential tax assets in respect of losses amounting to £503.9m have not been recognised as their utilisation is uncertain.

Disposals and discontinued operations The group disposed of its secure solutions businesses in Germany on 15 May 2008 and of its security systems business in France on 31 July 2008. The group's disposal of its manned security business in France was in progress at 31 December 2008 and completed on 28 February 2009. In addition, during the year the group disposed of a number of small businesses, including the cash services business in Guatemala.

On 2 July 2007, the group disposed of its cash services business in France and during that year disposed of a number of small businesses, mainly in Latin America.

Operating & Financial Review (continued)

FINANCIAL REVIEW (continued)

The loss attributable to discontinued operations comprises a loss of £13.3m in respect of post-tax trading of discontinued businesses, a profit of £12.0m in respect of the disposals made in the current year, an impairment of £29.4m in respect of the carrying value of the group's manned security business in France and a profit of £1.6m in respect of adjustments to prior year disposals. The result from discontinued operations in 2007 comprises a loss of £11.5m in respect of trading of both the 2007 and the 2008 disposals, a £9.1m profit in respect of disposals and a £2.9m profit in respect of adjustments to prior year disposals.

The net cash proceeds from business disposals received in 2008 were £31.1m, including £27.0m in respect of the secure solutions businesses in Germany.

The contribution to the turnover and operating profit of the group from discontinued operations is shown in note 6 on pages 60 to 63 and their contribution to net profit and cash flows is detailed in note 7 on pages 63 and 64.

Profit for the year Profit for the year was £164.9m, compared to £160.6m in 2007. The increase represents the £105.0m increase in PBITA less the £30.7m increase in net interest cost, the £26.2m increase in amortisation of acquisition-related intangible assets, the £14.2m increase in the tax charge and the £29.6m increase in loss from discontinued operations.

Minority interests Profit attributable to minority interests was £13.7m in 2008, slightly higher than the £13.4m for 2007, reflecting minority partner shares in the group's organic and acquisitive growth, less a reduction in minority shares in net profits consequent upon the group increasing its interests in certain subsidiaries.

Earnings per share Basic earnings per share from continuing and discontinued operations was 11.1p compared to 11.5p for 2007. These earnings are unchanged when calculated on a fully diluted basis, which allows for the potential impact of outstanding share options.

Adjusted earnings, as analysed in note 16 on page 68, excludes the result from discontinued operations, amortisation of acquisition-related intangible assets and retirement benefit obligations financing items, all net of tax, and better allows the assessment of operational performance, the analysis of trends over time, the comparison of different businesses and the projection of future performance. Adjusted earnings per share was 16.7p, an increase of 26% on 13.3p for 2007.

Dividends The directors recommend a final dividend of 3.68p (DKK 0.3052) per share. This represents an increase of 29% upon the final dividend for the year to 31 December 2007 of 2.85p (DKK 0.2786) per share. The interim dividend was 2.75p (DKK 0.2572) per share and the total dividend, if approved, will be 6.43p (DKK 0.5624) per share, representing an increase of 30% over the 4.96p (DKK 0.5105) per share total dividend for 2007.

The proposed dividend cover is 2.5 times (2007: 2.7 times) on adjusted earnings. The group has, in accordance with stated intentions, been reducing its dividend cover to the 2.5 times level over a period of several years. The group's intention is that dividends in future increase broadly in line with normalised adjusted earnings.

Cash flow The primary cash generation focus of group management is on the percentage of operating profit converted into cash. From 2007, the group's target conversion rate was raised from 80% to 85%. Operating cash flow, as defined for management purposes, was as follows:

	2008 £m	2007 £m
PBITA	416.4	311.4
Less share of profit from associates	(3.4)	(3.0)
PBITA before share of profit from associates (Group PBITA)	413.0	308.4
Depreciation and amortisation of intangible assets other than acquisition-related	116.1	99.6
Loss (profit) on disposal of property, plant and equipment	2.1	(14.4)
Movement in working capital and provisions	(16.7)	(8.2)
Net cash flow from capital expenditure	(161.3)	(109.0)
Operating cash flow	353.2	276.4
Operating cash flow as a percentage of group PBITA	86%	90%

Working capital was largely unchanged in both 2008 and 2007 due to a programme of billing and collection process improvements that is being rolled out across the group offsetting the impact of the group's organic growth. Capital expenditure relative to the depreciation charge can vary from year to year due to the timing of asset replacements. It was 138% of depreciation in 2008, compared to 109% in 2007. Overall operating cash generation for the year was good, as a result of the maintenance of financial discipline across the organisation.

The management operating cash flow calculation is reconciled to the net cash from operating activities as disclosed in accordance with IAS7 Cash Flow Statements as follows:

	2008 £m	2007 £m
Cash flow from operating activities (IAS7 definition)	373.0	291.3
Net cash flow from capital expenditure	(161.3)	(109.0)
Add-back cash flow from discontinued operations	27.2	1.8
Add-back additional retirement benefit contributions	32.3	26.1
Add-back tax paid	82.0	66.2
Operating cash flow (G4S definition)	353.2	276.4

The additional retirement benefit contributions in 2008 included a one-off payment of £5.4m in respect of the acquired GSL schemes.

→ **NET CASH PROCEEDS FROM BUSINESS DISPOSALS** received in 2008 were £31.1m.

→ **ON 13 MAY 2008, THE GROUP COMPLETED A PLACING OF 127M ORDINARY SHARES.** Gross proceeds were £281.9m and issue costs £5.9m.

→ **ON 9 MARCH 2009, THE GROUP OBTAINED A BBB CREDIT RATING** from Standard & Poor's which provides the group with further flexibility as regards future funding.

The group's free cash flow, as defined by management, is analysed as follows:

	2008 £m	2007 £m
Operating cash flow	353.2	276.4
Net interest paid	(80.0)	(55.0)
Tax paid	(82.0)	(66.2)
New finance leases	(17.1)	(10.3)
Free cash flow	174.1	144.9

Free cash flow is reconciled to the total movement in net debt as follows:

	2008 £m	2007 £m
Free cash flow	174.1	144.9
Cash flow from discontinued operations	(27.2)	(1.8)
Additional retirement benefit contributions	(32.3)	(26.1)
Net cash outflow on acquisitions	(629.7)	(162.9)
Net cash inflow from disposals	31.1	7.9
Net cash flow from associates	12.2	1.0
Dividends paid to minority interests	(11.9)	(3.8)
Loan to minority interests	–	(13.3)
Share issues less share purchases	268.0	(2.2)
Dividends paid to equity holders of the parent	(75.0)	(59.3)
Net cash flow from hedging financial instruments	(65.9)	(4.3)
Movement in net debt in the year	(356.6)	(119.9)
Foreign exchange translation adjustments to net debt	(186.2)	(12.2)
Net debt at 1 January	(804.9)	(672.8)
Net debt at 31 December	(1,347.7)	(804.9)

Net debt represents the group's total borrowings less cash, cash equivalents and liquid investments. The components of net debt are detailed in note 39 on page 96.

Share capital On 13 May 2008, the group completed a placing of 127m ordinary shares of 25p at a price of 222p per share. Gross proceeds were £281.9m and issue costs £5.9m.

Financing and treasury activities The group's treasury function is responsible for ensuring the availability of cost-effective finance and for managing the group's financial risk arising from currency and interest rate volatility and counterparty credit. Treasury is not a profit centre and is not permitted to speculate in financial instruments. The treasury department's policies are set by the board. Treasury is subject to the controls appropriate to the risks it manages. These risks are discussed in note 33 on pages 84 to 86.

Financing The group's funding position is strong, with sufficient headroom against available committed facilities and very little debt maturing before 2012.

The group's primary source of finance is a £1.1bn multicurrency revolving credit facility provided by a consortium of lending banks at a margin of 0.225% over Libor and maturing on 28 June 2012.

The group also has US $550m in financing from the private placement of unsecured senior loan notes on 1 March 2007, maturing at various dates between 2014 and 2022 and bearing interest at rates between 5.77% and 6.06%. The fixed interest rates payable have been swapped into floating rates for the term of the notes, at an average margin of 0.60% over Libor.

Between 7 March and 15 July 2008 the group had available committed facilities amounting to £350m at an initial margin of 0.35% over Libor. The purpose of these facilities was to provide the group with headroom whilst the group assessed options in the capital markets.

On 15 July 2008, the group completed a further $514m and £69m private placement of unsecured senior loan notes, maturing at various dates between 2013 and 2020 and bearing interest at rates between 6.09% and 7.56%. The proceeds of the issue were used to reduce drawings against the revolving credit facility. $265m of the US dollar receipts have been swapped into sterling for the term of the notes.

The group has other short-term committed facilities of £45m and uncommitted facilities of £578m.

The group's net debt at 31 December 2008 of £1,347.7m represented a gearing of 92%. The group headroom at 31 December 2008 was £350m. The group has sufficient capacity to finance current investment plans.

On 9 March 2009, the group obtained a BBB credit rating from Standard & Poor's, which provides the group with further flexibility as regards future funding.

Interest rates The group's investments and borrowings at 31 December 2008 were, with the exception of the issue of private placement notes in July 2008, at variable rates of interest linked to Libor and Euribor, with the group's exposure being predominantly to interest rate risk in US dollar and euro. The group's interest risk policy requires treasury to fix a proportion of this exposure on a sliding scale utilising interest rate swaps. The maturity of these interest rate swaps at 31 December 2008 was limited to five years. The market value of the Loan Note-related pay-variable receive-fixed swaps outstanding at 31 December 2008, accounted for as fair value hedges, was a gain of £92.3m. The market value of the pay-fixed receive-variable swaps and the pay-fixed receive-fixed cross-currency swaps outstanding at 31 December 2008, accounted for as cash flow hedges, was a gain of £32.3m.

Operating & Financial Review (continued)

FINANCIAL REVIEW (continued)

Foreign currency The group has many overseas subsidiaries and associates denominated in various different currencies. Treasury policy is to manage significant translation risks in respect of net operating assets and income denominated in foreign currencies. The methods adopted are to use borrowings denominated in foreign currency supplemented by forward foreign exchange contracts.

During 2008 both the US dollar and euro appreciated significantly against sterling. The average rate for the dollar during 2008 was $1.86=£1 compared to $2.00=£1 for 2007. The rate at 31 December 2008 was $1.44=£1 compared to $1.99=£1 at 31 December 2007. This variance has impacted the group's dollar-denominated assets and assets denominated in New Market currencies that follow the dollar. The average rate for the euro during 2008 was €1.26=£1 compared to €1.46=£1 for 2007. The rate at 31 December 2008 was €1.03=£1 compared to €1.36=£1 at 31 December 2007. This variance has impacted the group's euro-denominated assets and assets denominated in European currencies that follow the euro.

Exchange differences on the translation of foreign operations included in the statement of recognised income and expense amount to a gain of £100.9m (2007: gain of £18.4m). These differences are net of a £186.2m loss (2007: £12.2m loss) on the retranslation of net debt and a £65.9m cash outflow (2007: £4.3m outflow) from forward exchange contracts.

The market value of forward contracts outstanding at 31 December 2008 was a loss of £28.6m.

Cash management To assist the efficient management of the group's interest costs and its short-term deposits, overdrafts and revolving credit facility drawings, the group operates a global cash management system. At 31 December 2008, 90 group companies participated in the pool. Debit balances of £128.4m and credit balances of £131.0m were held within the cash pool. IFRS does not permit the netting off of these balances, which are therefore disclosed gross within current assets and current liabilities.

Retirement benefit obligations The group's primary defined benefit retirement benefit schemes are those operated in the UK, but it also operates such schemes in a number of countries, particularly in Europe and North America. The latest full actuarial assessments of the UK schemes were carried out at 31 March 2007 in respect of the Group 4 scheme (approximately 8,000 members), at 5 April 2006 in respect of the Securicor scheme (approximately 20,000 members) and at 31 March 2005 in respect of the GSL scheme (approximately 2,000 members) acquired during the year. These assessments and those of the group's other schemes have been updated to 31 December 2008, including the review of longevity assumptions. The group's funding shortfall on the valuation basis specified in IAS19 Employee Benefits was £286m before tax or £206m after tax (2007: £136m and £98m respectively).

The valuation of gross liabilities decreased during 2008 largely due to an increase in the appropriate AA corporate bond rate in the UK from 5.8% to 6.3%, partially offset by an increase in expected longevity. However, the value of the assets held in the funds decreased by £245m during 2008.

The group believes that the short-term volatility in reported retirement benefit obligations, in response to movements in asset prices and financial circumstances, is of limited relevance in the context of liabilities which are exceptionally long-term in nature and furthermore that, over the long term, investment returns on the retirement benefit scheme assets will be sufficient to fund retirement benefit obligations. However, in recognition of the regulatory obligation upon pension fund trustees to address reported deficits if they arise, the group anticipates that additional cash contributions will continue to be made at least at a level similar to that in 2008. The three schemes in the UK have combined under one trustee body with effect from 1 January 2009 and will all be formally actuarially assessed at 5 April 2009.

Corporate governance The group's policies regarding risk management and corporate governance are set out in the Corporate Governance Statement on pages 33 to 35.

Going concern The directors are confident that, after making enquiries and on the basis of current financial projections and available facilities, they have a reasonable expectation that the group has adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the financial statements.

Risks All businesses are subject to risk and many individual risks are macro-economic or social and common across many businesses. Many risks are to a greater or lesser extent controllable, but some are not controllable. Through its internal risk management process, the group identifies business-specific risks. It classifies the key risks as those which could materially damage the group's strategy, reputation, business, profitability or assets and these risks are listed below. This list is in no particular order and is not an exhaustive list of all potential risks. Some risks may be unknown and it may transpire that others currently considered immaterial become material.

1. Price competition

The security industry comprises a number of very competitive markets. In particular, manned security markets can be fragmented with relatively low economic barriers to entry and the group competes with a wide variety of operators of varying sizes. Actions taken by the group's competitors may place pressure upon its pricing, margins and profitability.

2. Major changes in market dynamics

Such changes in dynamics could include new technologies, government legislation or customer consolidation and could, particularly if rapid or unpredictable, impact the group's revenues and profitability or the carrying value of goodwill and other assets.

3. Cash losses

The group is responsible for the cash held on behalf of its customers. Increases in the value of cash lost through criminal attack may increase the costs of the group's insurance. Were there to be failures in the control and reconciliation processes in respect to customer cash these could also adversely affect the group's profitability.

4. Onerous contractual obligations

Should the group commit to sales contracts specifying disadvantageous pricing mechanisms, unachievable service levels or excessive liability it could impact its margins and profitability.

5. Inappropriate sourcing of staff

The group's greatest asset is its large and committed work force. However, were the group to source inappropriate staff, whether it be as permanent employees, temporary workers or sub-contractors, the result could be detrimental to the group's reputation and could adversely affect the group's growth and profitability.

6. Poor operational service delivery

Should the group fail to meet the operational requirements of its customers it could impact its reputation, contract retention and growth.

7. Financing

If due to adverse financial market conditions insufficient or only very costly financial funding were available, the group might not be in a position to implement its strategy as it plans to do or invest in acquisitions or capital expenditure, adversely impacting its growth and profitability.

8. Defined benefit pension schemes

A prolonged period of poor asset returns and/or unexpected increases in longevity could require increases in the current levels of additional cash contributions to defined benefit pension schemes, which may constrain the group's ability to invest in acquisitions or capital expenditure, adversely impacting its growth and profitability.

9. Regulatory requirements

Security can be a high-profile industry. There is a wide and ever-changing variety of regulations applicable to the group's businesses across the world. Failure to comply with such regulations may adversely affect the group's revenues and profitability.

The group has a robust risk assessment and control process in place to identify and mitigate the controllable risks faced by the organisation. Mitigation measures include:

1. The group's diversity

The group operates around 150 businesses across over 110 countries and across a range of product areas. Most of the risks detailed above are market-specific and, therefore, any particular issue should only impact part of the group's operations.

2. Management structure

The group operates a management structure that is appropriate to the scale and breadth of its activities. Business performance and strategies are reviewed continuously by regional, divisional and group management. Potential issues requiring management attention are therefore identified and there is a wide range of expertise available throughout the organisation, which is utilised as necessary to address these issues.

3. Authorisation procedures

The group has clear authorisation limits and procedures which are cascaded throughout the organisation. For example, a contract approval process is in place, under which certain contracts are reviewed by the group's legal department.

4. Group standards

Each of the group's businesses applies the systems and procedures appropriate to its size and complexity. However, the group requires that these conform to group standards in respect of matters such as operational and financial controls, recruitment and vetting, financial reporting, contract risk management, business continuity planning and project management techniques. Further standards, including those in respect of IT systems, are applied on a divisional or regional basis.

5. Internal audit

The Internal Audit department operates under a wide remit, which includes ensuring adherence to group authorisation procedures and control standards. A separate dedicated cash audit function monitors compliance with the group's standards on cash management and reconciliation.

6. Diversified sources of finance

The group's treasury department monitors the group's financing requirements and extends its sources of finance as necessary. For example, during the last two years the group has raised around $1.1bn of funding in the form of long-term loan notes from the US private placement market.

7. Market engagement

Most of the risks to which the group is exposed are market risks. So as to better understand and influence the market, the group is committed to a policy of proactive engagement across its geographic range, with customers, industry associations, government regulators and employee representatives.

Operating & Financial Review (continued)

OUR PEOPLE

Core aims and standards – G4S has defined a number of core standards and processes to ensure that employees are treated with respect, fairness and dignity at work in line with the G4S values. These standards and processes cover issues such as:

- handling of disciplinary matters and grievances
- performance appraisals
- identification of training needs
- recruitment and selection processes
- health and safety
- employee representation and communication

Ethical employment goals – Our Business Ethics Policy sets out the group's core standards in relation to our employees, for example by supporting the principles of international standards such as the ILO Declaration on Fundamental Principles and Rights at Work. With significant G4S operations in many developing markets, real commitment to these international standards is essential.

Investing in the workforce – We place great focus on attracting and retaining the right talent at all levels, to ensure the continued success of the organisation.

Our international spread requires great strength and depth in management to allow us to continue operating and growing throughout diverse markets. In addition to our award winning international leadership development programme, we are investing in regional and country level employee development programmes around the world.

At front line level too, we continue to invest in practical training programmes to help refine the skills and capability of our service delivery staff. Through the commitment of our international training community, we share best practice, training materials and approaches around the world, ensuring that our employees benefit from the most appropriate training to enable them to deliver a great service to our customers and to create a pipeline of talent moving through the organisation.

Diversity – This is already a source of strength for the group and one that gives us a key competitive advantage. With such a diverse workforce, we are better placed to understand the needs of our customers and identify opportunities for innovation and improvement.

OUR EMPLOYEES ARE THE PUBLIC FACE OF G4S AND WE RECOGNISE AND RESPECT THE VALUE THEY ADD TO THE BUSINESS BY DELIVERING EXCELLENT SERVICE DAY AFTER DAY.

→ **ACROSS 585,000 EMPLOYEES, 50 DIFFERENT NATIONAL LANGUAGES ARE SPOKEN.** One in three of our employees works in North Africa and the Middle East, one in six in Africa and one in eleven in Latin America.

→ **EMPLOYEE FEEDBACK INITIATIVE LAUNCHED IN 2008.** From 2008 all G4S countries will undertake an employee survey at least once every two years.

→ **G4S EMITS AN AVERAGE OF 90T CO_2e EMISSIONS PER £1M OF REVENUE.** During 2009/10 the G4S Climate Action Programme co-ordinators will identify and implement opportunities for reducing our carbon emissions and share best practice.

CORPORATE CITIZENSHIP

Background As a major global organisation, we play a significant role in the lives of hundreds of thousands of people – both directly through employment and indirectly through our involvement in the communities in which our employees live and work.

We take that role very seriously and encourage all of our businesses to actively raise standards and invest in the communities in which they operate. At a group level, we also invest in programmes which contribute positively to the community and environment and we set international standards and policies to which our businesses must operate.

Business Ethics G4S is committed to operating to the highest levels of business ethics throughout its operations. We have an extensive business ethics policy which describes the company's minimum expected standards in a wide range of areas such as:

- human rights
- bribery and corruption
- compliance with the law
- accounting standards
- ILO Declaration on Fundamental Principles and Rights at Work
- health & safety
- whistle-blowing and complaints

This policy is communicated to managers throughout the group and, on an annual basis, they are required to declare individually their personal commitment by endorsing the policy and confirming compliance within their own area of responsibility.

Strict adherence to the principles of the business ethics policy is required of all group employees. Compliance with the policy is monitored through our internal and external audit functions and through the group's whistle-blowing facilities.

The risk-based three year group audit plan ensures that all businesses across 110 countries, including those in small and remote locations, receive at least one visit during the three year audit cycle. We take our responsibilities in this area very seriously and take swift and robust action against any non-compliance.

Environment – G4S recognises that its business activities have a direct and indirect impact on the natural environment and is committed to proactively managing these impacts in a responsible manner.

The G4S Environmental Policy and the G4S Climate Action Programme were launched in 2008. The policy outlines the key commitments from G4S to protect and preserve the environment for future generations and the programme will ensure everyone is encouraged to contribute to protecting and preserving the environment. The Climate Action Board meets monthly to review progress on the programme and reports directly to the group chief executive and provides a written statement to the group management board on a quarterly basis.

More information on the G4S Business Ethics Policy, corporate responsibility and related data and case studies will be available in the G4S Corporate Responsibility Report 2008

BOARD OF DIRECTORS

Alf Duch-Pedersen (62)
CHAIRMAN

Alf was appointed to the board in May 2004 and became chairman of the board in June 2006. He is also chairman of the Nomination Committee. Alf's career has involved managing multi-national companies based in both Scandinavia and the UK covering a range of industries from manufacturing and financial services to food and food products. He was president and chief executive of Tryg-Baltica A/S from 1991 to 1997 and fulfilled the same roles at Danisco A/S from 1997 to 2006. He is now chairman of the board of Danske Bank A/S, chairman of the British Chamber of Commerce in Denmark and a member of the executive committee of the Confederation of Danish Industries.

Lord Condon (62)
DEPUTY CHAIRMAN & SENIOR INDEPENDENT DIRECTOR

Lord Condon was appointed to the board in May 2004. He became deputy chairman of the board in September 2006 and is chairman of the Remuneration Committee, a member of the Nomination Committee and the senior independent director. Paul joined the Metropolitan Police in 1967 and, after holding various senior appointments in the police force, including a period as Chief Constable of Kent, served as Commissioner of the Metropolitan Police between 1993 and 2000. He was created a life peer in 2001 and is President of the British Security Industry Association, an advisor to international sports governing bodies and a member of the advisory board of Vidient Systems Inc.

Nick Buckles (48)
CHIEF EXECUTIVE

Nick was appointed to the board in May 2004 and was the company's deputy chief executive and chief operating officer. He became chief executive in July 2005. Nick joined Securicor in 1985 as a projects accountant. In 1996 he was appointed managing director of Securicor Cash Services (UK) and became chief executive of the security division of Securicor in 1999. He was appointed to the board of Securicor plc in 2000 and became its chief executive in January 2002. Nick is a non-executive director of Arriva plc.

Trevor Dighton (59)
CHIEF FINANCIAL OFFICER

Trevor was appointed to the board in May 2004. An accountant, he joined Securicor in 1995 after a previous career which included posts in both the accountancy profession and in industry, including five years in Papua New Guinea, three years in Zambia and seven years with BET plc. He joined Securicor's vehicle services division in 1995, was appointed finance director of its security division in 1997 and became its deputy group finance director in 2001. He was appointed to the board of Securicor plc as group finance director in June 2002. Trevor became the company's chief financial officer in July 2004.

Grahame Gibson (56)
CHIEF OPERATING OFFICER

Grahame was appointed to the board in April 2005. He joined Group 4 in 1983, starting as finance director (UK) followed by a number of senior roles, including deputy managing director (UK), vice president (corporate strategy), vice president (finance and administration), vice president operations (Central & South Eastern Europe and UK) and chief operating officer of Group 4 Falck. In July 2004, he became the company's divisional president for Americas & New Markets. Grahame became the company's chief operating officer in July 2005.

Mark Elliott (59)
NON-EXECUTIVE DIRECTOR

Mark was appointed to the board in September 2006 and is a member of the Remuneration Committee. Based in the USA, he worked for IBM between 1970 and 2008, having occupied a number of senior management positions including General Manager, IBM Europe, Middle East and Africa where he was responsible for that company's operations in over 120 countries. Mark is a non-executive director of Reed Elsevier PLC and Reed Elsevier Group plc, a member of the supervisory board of Reed Elsevier NV and chairman of Reed Elsevier's remuneration committee. He also serves on the Deans Advisory Council and the Technology Advisory Council at Indiana University.

Thorleif Krarup (56)
NON-EXECUTIVE DIRECTOR

Thorleif was appointed to the board in May 2004 and is chairman of the Audit Committee. A former chairman of TDC (Tele Danmark Corporation) and former group chief executive of Nykredit A/S, Unibank A/S and Nordea AB, Thorleif is currently chairman of Exiqon A/S and Sport One Danmark A/S. He is also deputy chairman of H. Lundbeck A/S, ALK-Abello A/S and LFI A/S and a director of Bang & Olufsen A/S, Brightpoint Inc. and the Lundbeck Foundation.

Bo Lerenius (62)
NON-EXECUTIVE DIRECTOR

Bo was appointed to the board in May 2004 and is a member of the Audit and Remuneration Committees. After a diverse early business career, he served as chief executive of Ernstromgruppen, a Swedish building materials business, between 1985 and 1992 when he joined Stena Line where he was chief executive and vice chairman. In 1999 he became group chief executive of Associated British Ports Holdings plc. He is a non-executive director of Mouchel Group Plc, Land Securities Group plc and Thomas Cook Group plc, chairman of the Swedish Chamber of Commerce for the United Kingdom and a senior advisor to the infrastructure fund of Swedish venture capital group, EQT.

Mark Seligman (53)
NON-EXECUTIVE DIRECTOR

Mark was appointed to the board in January 2006 and is a member of the Audit and Remuneration Committees. Having qualified as a chartered accountant with Price Waterhouse, Mark spent 12 years with SG Warburg before joining BZW in 1995 and then, following the takeover of BZW, becoming head of UK Investment Banking at CSFB and subsequently deputy chairman of CSFB Europe. In 2003 he became chairman of UK Investment Banking for CSFB and in 2005 became a senior adviser to Credit Suisse Europe. He is an alternate member of the Panel on Takeovers and Mergers and chairman of the Industrial Development Advisory Board.

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EXECUTIVE MANAGEMENT

1 Nick Buckles

CHIEF EXECUTIVE

Nick has worked in the security industry for 24 years, focusing throughout this time on the commercial and strategic aspects of all areas of security services.

After a variety of commercial roles throughout the group, he was responsible for driving significant profit improvements in many Securicor businesses throughout the 1990s as a business unit managing director and divisional chief executive of the security division. He was also instrumental in the development of Securicor's security sector focus, becoming Group Chief Executive in 2002, and in bringing together Group 4 Falck and Securicor to create the combined group. Nick became chief executive of G4S in July 2005. Nick is chairman of the Ligue Internationale des Societes de Surveillance, the international association of leading security companies.

2 Trevor Dighton

CHIEF FINANCIAL OFFICER

Trevor has worked in the security industry for 23 years. After several years in both the accountancy profession and commerce working in the finance function and general management, he joined BET in 1986 as finance director of their Security and Communications Division.

Trevor joined Securicor in 1995 and, following a number of years as finance director of the security division, he was appointed to the board of Securicor plc in June 2002 as group finance director. He became chief financial officer of G4S in July 2004.

Trevor is a Fellow of the Chartered Institute of Management Accountants.

3 Ken Niven

DIVISIONAL PRESIDENT – CASH SOLUTIONS

Ken has 13 years' experience in the security industry, having joined Securicor in 1996 as operations director of the UK cash services business where he was later promoted to managing director and was instrumental in the development of new product areas, including cash centre outsourcing and ATM solutions.

Ken was appointed to his current role in July 2004 and is responsible for the group's cash solutions division, which includes all of the major cash solutions business units, and for sharing cash solutions best practice throughout the entire organisation. Ken joined the security industry following a successful career within the logistics management industry where he held senior roles at Express Foods, Exel Logistics and Coca Cola.

Ken is president of ESTA, the European cash logistics association and is a member of the Chartered Institute of Logistics and Transport.

4 Grahame Gibson

COO & DIVISIONAL PRESIDENT – SECURITY SERVICES

Grahame has been involved in the security industry for 26 years, having joined Group 4's UK operating company in 1983 as finance director.

Since that time, Grahame has held a number of operational, management and board positions in the UK, USA, Denmark, the Netherlands and Austria.

His broad experience of the security industry and management of businesses across a diverse range of cultures has been invaluable to the group throughout its development. Grahame joined the board of Group 4 Securicor in April 2005.

Grahame is a board member of the Ligue Internationale des Societes de Surveillance.

5 Søren Lundsberg-Nielsen

GROUP GENERAL COUNSEL

Søren began his career as a lawyer in Denmark and since 1984 he has had a wide range of legal experience as general counsel for international groups in Denmark, Belgium and the US before joining Group 4 Falck in 2001 as general counsel. Søren has been involved in a wide range of successful mergers and acquisitions during his career, including the acquisition of Wackenhut and the merger of Group 4 Falck and Securicor. Søren now has overall responsibility for all internal and external legal services for G4S as well as the group's insurance programme.

Søren is a member of the Danish Bar and Law Society, a board member of the Danish Blood Donation Society, member of the Advisory Board of the Danish UK Chamber of Commerce and author of the book "Executive Management Contracts", published in Denmark.

6 Irene Cowden

GROUP HR DIRECTOR

Irene has spent her career in HR management, specialising in employee relations, organisational development, talent management and compensation issues. She has been involved in major change projects including the cultural and integration aspects of mergers and acquisitions as well as large scale organisational change involving workforce restructuring, working in partnership with major trade unions.

Irene has worked in the security industry for 31 years and has held director level positions at business unit, divisional and corporate level. She was appointed to the Board of Securicor plc in 2002 as Group HR Director.

Irene is a member of the Chartered Institute of Personnel and Development (MCIPD).

REPORT OF THE DIRECTORS

For the year ended 31 December 2008

The directors have pleasure in presenting their Annual Report together with the audited financial statements of G4S plc and the consolidated financial statements of that company and its subsidiaries, associated undertakings and joint ventures ("the group") for the year ended 31 December 2008.

G4S plc has its primary listing on the London Stock Exchange and a secondary listing on the Copenhagen Stock Exchange.

1 Principal activities of the group

G4S plc is a parent company with subsidiaries, associated undertakings and joint ventures.

The principal activities of the group comprise the provision of secure solutions (including manned security services, care and justice services and security systems) and cash solutions (including the management and transportation of cash and valuables).

2 Group results

The consolidated result for the year is shown in the consolidated income statement on page 47.

Details of major business activities during the year, future developments, principal risks and uncertainties and prospects of the group and information which fulfils the requirements of the Business Review are contained in the Operating and Financial Review on pages 8 to 25 and are incorporated in this report by reference. The group's financial risk management objectives and policies in relation to its use of financial instruments, and its exposure to price, credit, liquidity and cash-flow risk, to the extent material, are set out in note 33 to the consolidated financial statements on pages 84 to 86.

3 Dividends

The directors propose the following net dividend for the year:

> Interim dividend of 2.75p (DKK 0.2572) per share paid on 31 October 2008.
> Final dividend of 3.68p (DKK 0.3052) per share payable on 5 June 2009.*

Shareholders on the Danish VP Services register will receive their dividends in Danish krone. Shareholders who hold their shares through CREST or in certificated form will receive their dividends in sterling unless they prefer to receive Danish krone, in which case they should apply in writing to the Registrars by no later than 29 April 2009.

(* Shareholders on the VP Services register will receive payment on 8 June, as 5 June is a public holiday in Denmark).

4 Significant business acquisitions, disposals and developments

In January 2008, Travel Logistics Limited was acquired in the UK.

In March 2008, the Rock Steady group of companies was acquired in the UK.

In March 2008, 25% of Aktsiaselts G4S Baltics, the holding company of the G4S subsidiaries in Estonia, Latvia and Lithuania, was acquired, bringing G4S's holding in this company to 90%.

In March 2008, MJM Investigations, Inc. was acquired in the US.

In April 2008, RONCO Consulting Corporation was acquired in the US.

In April 2008, 49% of the shares in G4S Holdings (Macau) Limited were acquired, bringing G4S's holding in this company to 100%.

In April 2008, 70% of CSI SA was acquired in Greece (with a commitment to acquire the remaining 30% in 2009).

In April 2008, the business and assets of Warrior Alarms and Security Systems CC were acquired in South Africa.

In May 2008, G4S completed its acquisition of the shares of ArmorGroup International plc.

In May 2008, the company placed 127 million new ordinary shares with institutions at a price of 222 pence per placing share.

In May 2008, G4S completed its acquisition of De Facto 1119 Limited, the holding company of the Global Solutions group.

In May 2008, Servicios de Seguridad Owl S.A was acquired in Chile.

In June 2008, Touchcom, Inc. was acquired in the US.

REPORT OF THE DIRECTORS CONTINUED

For the year ended 31 December 2008

4 Significant business acquisitions, disposals and developments (continued)

In June 2008, the business and assets of Emirates International Security Services EST were acquired in the UAE.

In June 2008, G4S Sicherheitsdientse GmbH and G4S Alarm Solution GmbH were disposed of in Germany.

In July 2008, Progard Securitas d.o.o. was acquired in Serbia.

In July 2008, G4S Telesurveillance SAS and G4S Technologie SAS were disposed of in France.

In July 2008, MJM Investigations Australia Pty Limited was acquired in Australia.

In August 2008, Ahead Security Services (Pty) Ltd and Ferdi Fonics (Pty) Ltd t/a Coastal Security were acquired in South Africa.

In August 2008, Filotto Falco Security (Pty) Limited was acquired in Botswana.

In October 2008, the business and assets of Coastal Security Services CC and Master Security Systems CC were acquired in Namibia.

In October 2008, Quantico Limited was acquired in Thailand.

In October 2008, Wackenhut Valores SA was disposed of in Guatemala.

In November 2008, the business and assets of Checkpoint Systems (Israel) Limited were acquired in Israel.

In November 2008, the business and assets of Armored Express Services, Inc. were acquired in Guam.

In December 2008, Secpoint Limited was acquired in Ghana.

In December 2008, a further 9.9% of Aktsiaselts G4S Baltics was acquired, bringing G4S's total holding in this company to 99.9%.

In December 2008, CL Systems (China) Limited was acquired in China.

In January 2009, Wackenhut Valores SA was disposed of in Panama.

In January 2009, Gottschalk Feuerschutzanlagen GmbH & Co. KG was disposed of in Germany.

In February 2009, Secura Monde International Limited and Shiremoor International Engineering Limited were acquired in the UK.

In February 2009, G4S disposed of G4S Holdings (France) SAS, the holding company for the group's French security services businesses.

5 Capital

The authorised and issued share capital of G4S plc at 31 December 2008 is set out on page 94 (note 37 to the consolidated financial statements). There were 1,408,298,639 shares in issue as at 31 March 2009.

Information concerning the company's shares held under option is set out on page 94 (note 37 to the consolidated financial statements).

Resolutions granting the directors power, subject to certain conditions, to allot and make market purchases of the company's shares will be proposed at the company's Annual General Meeting. The resolutions are set out in the Notice of Meeting on pages 112 and 113 and further explanation is provided on pages 115 and 116.

The company does not hold any treasury shares as such. However the 5,832,653 shares held within the G4S Employee Benefit Trust ("the Trust") and referred to on page 95 (note 38 to the consolidated financial statement) are accounted for as treasury shares. The Trust has waived its right to receive dividends in respect of the company's shares which it held during the period under review.

REPORT OF THE DIRECTORS CONTINUED

For the year ended 31 December 2008

6 Research and development expenditure

Research in connection with the development of new services and products and the improvement of those currently provided by the group is carried out continuously. Research and development written off to profit and loss during the year amounted to £3.5m (2007: £2.1m).

7 Payment of suppliers

It is the company's and the group's policy to pay suppliers in accordance with the payment terms negotiated with them. Thus, prompt payment is normally made to those suppliers meeting their obligations. The company and the group do not follow any formal code or standard on payment practice.

At 31 December 2008 the trade creditors of the company represented 26 days (2007: 23 days) of annual purchases.

At 31 December 2008 the consolidated trade creditors of the group represented 50 days (2007: 50 days) of annual purchases.

8 Employees

In 2008 the company signed an Ethical Employment Partnership with UNI, the global union, which sets out how the organisations will work together to raise employment standards in the group and the wider industry. This landmark agreement provides further evidence of the group's commitment to engaging and involving employees and their representatives in the business, and helps to ensure that the group maintains its position as a leading global employer. At a local level, group companies continue to use a range of mechanisms to ensure employees are involved in the business and their views are sought and considered as appropriate in the local culture and context, for example by using joint project teams or suggestions schemes to address specific business issues, or establishing employee forums and dialogue with local unions to discuss matters directly affecting employees.

The company remains committed to its Diversity & Inclusion policy and in 2008 the group appointed a Head of Talent & Diversity with responsibility for developing and implementing a cohesive approach to diversity and inclusion across its businesses around the world. This policy is designed to ensure that the group continues to develop fair employment practices and creates a diverse workforce which is truly representative of all sections of society. The group strives to create an environment in which differences can be acknowledged, respected, and valued so that all may realise their full potential and the talents and resources of the workforce are utilised fully to enable it to provide the best service to its customers globally. This ensures that the group supports and develops employees regardless of any disability, and the company is proud to maintain an excellent record as a fair and inclusive employer.

Further details of the group's approach to employee engagement, social dialogue and diversity are included on pages 24 and 25 of this report and in the group's separate Corporate Responsibility Report.

9 Political and charitable contributions

The group remains committed to the support of charities, the community, job creation and training. Charitable contributions by the group during the year amounted to £313,000 (2007: £311,000).

There were no political contributions requiring disclosure under the Companies Acts.

10 Substantial holdings

The directors have been notified of the following substantial shareholdings at 31 March 2009 in the ordinary capital of G4S plc:

Skagen Stichting Administratiekantoor	171,939,961 (12.2%)
Legal & General Group Plc	51,880,641 (3.68%)

11 Auditor

A resolution to re-appoint KPMG Audit Plc, chartered accountants, as auditor to the company and for their remuneration to be fixed by the directors will be submitted to the company's Annual General Meeting.

REPORT OF THE DIRECTORS CONTINUED

For the year ended 31 December 2008

12 Directors

The directors, biographical details of whom are contained on page 27, held office throughout the year.

Sir Malcolm Williamson retired from the board on 30 May 2008.

The directors retiring by rotation are Trevor Dighton, Thorleif Krarup and Mark Seligman who, being eligible, offer themselves for re-election. The board believes that they possess experience and expertise relevant to the company's operations, that they continue to be effective, that they are committed to the success of the company and that they should be re-elected at the company's Annual General Meeting.

Of those directors proposed for re-election, Messrs Krarup and Seligman do not have contracts of service and Mr Dighton's contract of service has no unexpired term since it is not for a fixed term.

The contracts of service of the executive directors are terminable on 12 months' notice. None of the non-executive directors has a contract of service.

The company has executed deeds of indemnity for the benefit of each of the directors in respect of liabilities which may attach to them in their capacity as directors of the company. These deeds are qualifying third party indemnity provisions as defined by S.234 of the Companies Act 2006 and have been in effect since 3 November 2006. A copy of the form of indemnity is available on the company's website. In addition, indemnities have been granted by the company in favour of certain of the directors of certain of the group's subsidiaries in Germany. The company has maintained a directors' and officers' liability insurance policy throughout the year under review.

Details of directors' interests (including their family's interests) in the share capital of G4S plc and of the directors' remuneration are set out on pages 36 to 43.

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the company's auditor is unaware and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the company's auditor is aware of that information.

Each of the directors who held office at the date of approval of this directors' report, further confirms that, to the best of his knowledge: the financial statements in this annual report have been prepared in accordance with the applicable accounting standards and give a true and fair view of the assets, liabilities, financial position and profit of the company and the group taken as whole; and this directors' report, including the Operating and Financial Review on pages 8 to 25, includes a fair review of the development and performance of the business and the position of the company and the group taken as a whole, together with a description of the principal risks and uncertainties that they face.

None of the directors had a material interest in any contract significant to the business of the group during the financial year.

By order of the board

Peter David
Secretary
31 March 2009

The Manor
Manor Royal
Crawley
West Sussex RH10 9UN

CORPORATE GOVERNANCE STATEMENT

The board's statement on the company's corporate governance performance is based on the Combined Code on Corporate Governance published in June 2006 ("the Combined Code").

The Combined Code requires companies to disclose how they apply the code's principles, and to confirm that they comply with the code's provisions or, where they do not comply, to provide an explanation.

(a) Application of Combined Code principles

The board comprises the non-executive chairman (Alf Duch-Pedersen), a non-executive deputy chairman (Lord Condon), five other non-executive directors, the chief executive (Nick Buckles), the chief financial officer (Trevor Dighton) and the chief operating officer (Grahame Gibson). The board considers all the non-executive directors to be independent. The senior independent director is Lord Condon.

All continuing directors are subject to election by shareholders at the next Annual General Meeting following their appointment and will submit themselves for re-election at least every three years.

Membership of the three board committees is as follows:

Audit Committee

Thorleif Krarup (chairman)
Bo Lerenius
Mark Seligman

Remuneration Committee

Lord Condon (chairman)
Mark Elliott
Bo Lerenius
Mark Seligman

Nomination Committee

Alf Duch-Pedersen (chairman)
Lord Condon
Mark Elliott (joined May 2008)

Sir Malcolm Williamson left the Audit and Nomination Committees when he retired from the board on 30 May 2008. Mr Elliott joined the Nomination Committee on 30 May 2008. Mr Seligman is the member of the Audit Committee with recent and relevant financial experience. As previously announced, it is intended that Mr Seligman will become chairman of the Audit Committee following the company's Annual General Meeting in 2009. Mr Krarup will remain a member of that committee. The terms of reference of each of the above committees are available on the company's website.

It is intended that the chairmen of the three committees will be available to answer questions at the Annual General Meeting which is an important opportunity for communication between the board and shareholders, particularly private shareholders. Following each resolution at the Annual General Meeting, the meeting is informed of the numbers of proxy votes cast and the same information is subsequently published on the company's website.

There were nine regularly scheduled board meetings during the year ended 31 December 2008. Two additional meetings were called at short notice to consider specific transactions. One of the meetings was also an extended board and strategy session, at which presentations on implementation of the company's strategy were made to the board by senior executives. Another of the board meetings was held in Romania to enable the board to have greater inter-action with one of the group's rapidly developing businesses. All members attended each of the board meetings except that Mark Elliott was absent from two of the regularly scheduled meetings and Grahame Gibson, Thorlief Krarup and Sir Malcolm Williamson were each unable to attend one of the meetings called at short notice.

At each meeting, the board receives reports from the chief executive, the chief financial officer and the company secretary, an HR report which includes summaries of developments on HR matters and an investor relations report which includes analysts' reviews and any comments received from major shareholders since the previous board meeting. After meetings of the board committees, the respective committee chairmen report to the board on the matters considered by each committee. In addition, the board receives monthly management accounts.

There are nine board meetings scheduled for the current year, including an extended, two-day, strategy review session.

CORPORATE GOVERNANCE STATEMENT
CONTINUED

(a) Application of Combined Code principles (continued)

There is a detailed schedule of matters reserved to the board which are set out under five separate categories: (1) Board and management; (2) Operations; (3) Finance; (4) Business control; and (5) Secretarial. By way of example, board approval is required for (a) acquisitions, disposals, investments and capital projects exceeding £4m; (b) any changes to the group's business strategy; and (c) the annual trading, capital expenditure and cash flow budgets.

Each of the directors has disclosed to the board any situations which apply to them as a result of which they have or may have an interest which conflicts or may conflict with the interests of the company. In accordance with the company's articles of association (as amended in accordance with a resolution passed at the company's 2008 Annual General Meeting), the board has authorised such matters. The affected directors did not vote when their own positions were considered. Where the board deemed it appropriate, such authorisation was given subject to certain conditions. The board will review such matters on a regular basis.

In the year under review, the Audit and Remuneration Committees both met four times and the Nomination Committee met twice. All members attended each of the meetings except for Bo Lerenius who was absent from one meeting of the Remuneration Committee and Mark Elliott who was absent from two meetings of the Remuneration Committee.

An external consultancy was appointed by the board to conduct an evaluation of the performance of the board as a whole, each of the directors individually and the board's committees. Reports from the consultancy have been considered by the board, the chairman and by each committee and a number of areas for improvement have been identified and actions agreed. As a result the Remuneration Committee has scheduled an extra meeting, both the board and the Audit Committee will have greater contact with senior managers from around the group and the board will increase its focus on a number of matters including, amongst other things, oversight of risk management and executive succession management.

The chairman held meetings with the non-executive directors without the executives present and a review of the performance of the chairman by the non-executive directors, without the chairman present, was led by the senior independent director.

The chief executive and the chief financial officer hold regular meetings with individual institutional shareholders to discuss the group's strategy and financial performance, although price sensitive information is never divulged at these meetings. It is intended that all the directors will attend the company's Annual General Meeting and will be available to answer questions from shareholders.

The Nomination Committee is responsible for making recommendations on board appointments and on maintaining a balance of skills and experience on the board and its committees.

Audit Committee meetings are attended by representatives of the group auditor, the chief financial officer, the head of internal audit and the company secretary. The committee considers the group's annual and half-yearly financial statements and any questions raised by the auditor on the financial statements and financial systems. It also reviews, amongst other matters, the group's internal auditing process, whistle-blowing arrangements, risk management procedures and internal controls.

The Audit Committee has established a policy on the provision by the external auditor of non-audit services, so as to ensure that the independence of the audit is not compromised. Besides the formal audit function, the auditor is permitted to provide consultation and due diligence services related to mergers and acquisitions, audits of employee benefit plans, reviews of internal accounting and control policies, general advice on financial reporting standards and corporate tax services. The auditor is prohibited from providing other services without specific permission from the Audit Committee. The value of non-audit services provided by the auditor must not exceed the fees charged for the statutory audit, save in the event of a major transformation deal. The auditor has written to the Audit Committee confirming that, in its opinion, it is independent.

The work of the Remuneration Committee is more fully described in the Directors' Remuneration Report which appears on pages 36 to 43.

(b) Compliance with provisions of Combined Code

The company complied throughout the year under review with the provisions set out in Section 1 of the Combined Code.

CORPORATE GOVERNANCE STATEMENT
CONTINUED

(c) Risk Management and Internal Control

The directors acknowledge their responsibility for the group's system of internal control and for reviewing its effectiveness. The system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

The risks associated with the group's activities are reviewed regularly by the board, which considers major risks and evaluates their impact on the group. Policies and procedures, which are reviewed and monitored by the head of internal audit, are in place to deal with any matters which may be considered by the board to present significant exposure.

The key features of the group's risk management process are:

> A common risk management framework* is used to provide a profile of those risks which may have an impact on the achievement of business objectives.

> Each significant risk is documented, showing an overview of the risk, how the risk is managed, and any improvement actions. The risk profiles ensure that internal audit reviews of the adequacy, application and effectiveness of risk management and internal controls are targeted on the key risks.

> Risk management committees have been established at regional, divisional and group level. The regional committees meet at least annually and the divisional and group committees meet quarterly. A standard agenda covering risk and control issues is considered at each meeting and risk profiles are reviewed and updated at each meeting.

> Risk and control self-evaluation exercises are undertaken for each operating company, for most companies at least twice a year, and updated risk profiles are prepared. Similar exercises are undertaken as part of the integration process for all major acquisitions. The results of the company risk evaluations are assessed by the regional and divisional risk management committees*.

The process, which is reviewed regularly by the board in accordance with the internal control guidance for directors in the Combined Code, is carried out under the overall supervision of the group risk management committee. This committee, which reports to the Audit Committee, includes both the chief executive and the chief financial officer.

The Audit Committee undertakes a high level review of risk management and internal control. Both the divisional risk management committees and the group risk management committee receive internal audit reports and regular reports on risks. They monitor the actions taken to manage risks.

The internal control system includes clearly defined reporting lines and authorisation procedures, a comprehensive budgeting and monthly reporting system, and written policies and procedures. In addition to a wide range of internal audit reports, senior management also receive assurance from other sources including security inspections, third party reviews, company financial control reviews, external audit reports, summaries of whistle-blowing activity, and risk and control self-evaluations.

The board has reviewed the group's risk management and internal control system for the year to 31 December 2008 by considering reports from the Audit Committee and has taken account of events since 31 December 2008.

Peter David
Secretary
31 March 2009

* Because Wackenhut Services, Inc. ("WSI") is governed through a proxy agreement under which the group is excluded from access to certain information, it is not subject to the same risk management process as is applied to other group companies. The board has however satisfied itself as to the adequacy of the internal control processes adopted by WSI.

DIRECTORS' REMUNERATION REPORT

At 31 December 2008

This report, prepared on behalf of and approved by the board, provides details of the remuneration of each of the directors and sets out the company's remuneration policies for the current financial year and, subject to ongoing review, for subsequent financial years. The report will be put to the company's Annual General Meeting for approval by the shareholders.

The Remuneration Committee met four times during the period under review. The members of the committee, all of whom are considered to be independent, are Lord Condon (chairman), Mark Elliott, Bo Lerenius and Mark Seligman. The committee is responsible for setting all aspects of the remuneration of the chairman, the executive directors, the three other members of the group executive committee and the company secretary. It is also responsible for the operation of the company's share plans. Its terms of reference are available on the company's website.

Towers, Perrin, Forster & Crosby, Inc.* ("Towers Perrin") has been appointed by the committee to provide executive and senior management remuneration advice to the company. Their terms of appointment are available on the company's website. In addition Alithos Limited* ("Alithos") has been appointed by the committee to verify the calculation of certain elements of payments due under the company's performance share plan. In addition to its work for the committee, Towers Perrin has also provided a small amount of management remuneration information to the company during the period under review. Alithos has not provided any other services to the company during the period under review.

Nick Buckles, chief executive, provided guidance to the committee on remuneration packages for senior executives within the group. Further guidance was received from the group's HR director, Irene Cowden. Neither Mr Buckles nor Mrs Cowden participated in discussions regarding their own remuneration.

Remuneration policy

The policy for the remuneration of the executive directors and the executive management team aims to achieve:

> the ability to attract, retain and motivate high calibre executives;
> a strong link between executive reward and the group's performance;
> alignment of the interests of the executives and the shareholders; and
> provision of incentive arrangements which focus on both annual and longer-term performance.

In terms of market positioning, the overall objective is to achieve remuneration levels which provide a market competitive base salary with the opportunity to earn above market norms on the delivery of superior performance through the company's incentive schemes. A significant proportion of total remuneration is related to performance, through participation in both short-term and long-term incentive schemes. On average, the performance-related element of remuneration for executive directors amounts to around 45% of the total package for target performance and around 65% of the total package for stretch performance. The committee believes that the current balance is appropriate, although it is kept under review.

The committee is satisfied that the incentive structure for the board does not raise environmental, social or governance risks by inadvertently motivating irresponsible behaviour.

Bonus payments do not form part of salary for pension purposes.

Elements of remuneration

(a) Base salary and benefits

The salaries of the executive directors are reviewed with effect from 1 January each year. Interim salary reviews may be carried out following significant changes in responsibility. The salaries take account of a benchmarking exercise based on similarly sized companies with a significant part of their business overseas and also reflect responsibility, individual performance, internal relativities and salary and other market information supplied by Towers Perrin. Benefits include pension arrangements and the provision of a company car (or a cash allowance in lieu of a car), health insurance and life assurance. Notwithstanding the strong performance of the business, for 2009 the executive directors have requested that their base salaries are frozen at 2008 levels, given the current economic climate. Similarly, the non-executive directors have asked that their fee levels are not changed in 2009.

* Towers Perrin and Alithos have each given, and not withdrawn, their written consent to the issue of this document with the inclusion of the reference to their respective names in the form and content in which they appear. Copies of the consent letters are available for inspection at the company's registered office.

DIRECTORS' REMUNERATION REPORT
CONTINUED

At 31 December 2008

(b) Performance-related bonus scheme

For the year under review, the executive directors participated in an annual performance-related bonus scheme, payments under which were dependent on the attainment of defined PBTA (profit before tax and amortisation) targets of the group, adjusted for the effect of any exceptional items and discontinued operations and using constant exchange rates. The committee believes that PBTA best reflects the various key drivers of business success within the group. For achievement of a threshold level of profits which is slightly below the budgeted profit target, a bonus payment of 25% of base salary was due. 40% of base salary was payable on achievement of the budgeted target and the amount of bonus increases on a straight line basis up to 80% of base salary for achievement of a stretch profit target. A further 20% was payable on achievement of pre-defined key business objectives approved by the Remuneration Committee. These objectives vary for each individual according to their responsibilities and support longer-term business development. Any such bonus up to the value of 50% of the executive director's salary was payable in cash with any excess balance being awarded in the form of deferred shares. Any deferred shares will normally only be transferred to the executive director if he remains in employment (otherwise than where he leaves in certain specified circumstances) for a period of three years from the date of the award of the shares.

The company performed well in 2008, with PBTA increased by £75.6m (£53.3m at 2008 constant exchange rates) materially exceeding target, but falling below maximum full stretch target performance. As a result the Remuneration Committee agreed that the resulting payment for this component of the bonus should be at the 62.5% of base salary level. In addition the committee agreed that the element of bonus dependent on achievement of pre-defined key business objectives, including objectives linked to strategic development and organisational development issues, should be paid at between 17% and 20% of base salary.

Following a review of the level of bonus opportunities offered by the company in comparison with those of its peers, the committee has agreed that for 2009, the bonus opportunity for executive directors will be changed so that they may receive an amount equal to 125% of base salary (150% in the case of the chief executive). No specific element of bonus will be attributable to key business objectives as the committee believes it is preferable to concentrate on financial performance in the present economic conditions. The executive directors will however still be set key business objectives which will be used to monitor performance. Furthermore, any bonus due above 50% of the individual's maximum bonus entitlement will be awarded as deferred shares which will not vest for three years. The bonus will be entirely based on the achievement of PBTA targets which would result in the payment of 60% of maximum bonus entitlement. This amount of bonus would increase on a straight line basis up to 100% of maximum bonus entitlement for achievement of a stretch profit target. 35% of maximum bonus entitlement would be payable for achievement of a threshold level of profit which is at least 95% of the budgeted profit target. No bonus would be payable for performance below threshold. The committee believes that payment of at least part of the available bonus entitlement for a performance slightly below the PBTA target is justified because it would be desirable to incentivise the executives to push for the best result possible, even if it became apparent that the PBTA budget would not be met.

In addition, a claw-back provision has been included in the 2009 annual bonus rules. Any deferred shares awarded and dividends arising from these shares could be clawed back if the 2009 profit figures are restated materially in line with a recommendation by the Audit Committee within two years of the year end.

The PBTA targets used for the above schemes are the same as the company's budgeted PBTA for the corresponding period (assuming constant exchange rates). The committee is satisfied that in order to achieve the 2009 PBTA targets, the company would have to achieve a tough budget in what are likely to be testing times. The PBTA targets allow for adjustments in respect of any material, non-budgeted changes which take place during the year, such as acquisitions, disposals etc. Thus, for example, should a planned disposal not be completed by the year end, the committee reserves the right to re-insert the operating profit or loss for the business in question in the actual and budgeted PBTA targets.

(c) Performance Share Plan (long-term incentive plan)

The Performance Share Plan ("PSP") was introduced in July 2004. Under the plan, the executive directors and certain other senior executives receive conditional allocations of the company's shares which are released to them only on the achievement of demanding performance targets.

The maximum annual award of shares payable under the plan is two and a half times base salary. The annual award approved by the committee for the year under review is two times base salary for the chief executive, one and a half times base salary for the other executive directors and one times salary for senior executives below board level. The extent to which allocations of shares under the plan vest is determined, as to two thirds of the award, by the company's normalised earnings per share growth relative to the RPI over a single three-year period and, as to the remaining third of the award, by the company's ranking by reference to TSR (total shareholder return; being share price growth plus dividends paid) using a bespoke global group of 16 support services companies as a comparator group, again over a single three-year period.

In relation to awards made in years prior to 2007, the conditions subject to which allocations of shares vest under this plan differ in a number of respects: half of any award is determined by the company's normalised earnings per share growth relative to the RPI over a single three year period and the other half of the award by the company's ranking by reference to TSR using the FTSE 100 constituent companies as at the date of the award as a comparator group, again over a single three year period. There is no provision for retesting.

DIRECTORS' REMUNERATION REPORT
CONTINUED

At 31 December 2008

(c) Performance Share Plan (long-term incentive plan) (continued)

The following targets will continue to apply to two-thirds of awards granted since 2007, with the three year EPS (earnings per share) period ending on 31 December in the third year (so for awards granted in the year under review, the period ends on 31 December 2010):

Average annual growth in EPS	Proportion of allocation vesting
Less than RPI + 6% per annum	Nil
RPI + 6% per annum (18% over three years)	25%
RPI + 6-11% per annum	Pro rata between 25% and 100%
RPI + 11% per annum (33% over three years)	100%

The same targets apply to the first half of awards granted in years prior to 2007.

The following targets apply to the remaining one third of each award granted since 2007:

Ranking of the company against the bespoke comparator group by reference to TSR	Proportion of allocation vesting
Below median	Nil
Median	25%
Between median and upper quartile	Pro rata between 25% and 100%
Upper quartile	100%

The same targets apply to the second half of each award granted in years prior to 2007, but the ranking applied is that of the company against the FTSE 100 constituent companies as at the date of the award.

In addition, participants in the PSP will receive a further share award with a value equivalent to the dividends which would have been paid in respect of PSP awards vesting at the end of the performance period.

In relation to awards made before 2007, there will only be a transfer of shares under the second half if the growth in EPS of the company has exceeded the growth in RPI by 10% over a performance period of three financial years.

Furthermore, there will only be a transfer of shares under the final third (or second half in respect of awards made before 2007) if the Remuneration Committee is satisfied that the company's TSR performance is reflective of the company's underlying performance. For the 2009 PSP awards, a claw-back provision has been applied so that, in the event of a re-calculation of EPS and/or TSR within the two years of vesting, any over-payment must be returned.

The Remuneration Committee believes that a combination of earnings per share growth and total shareholder return targets is the most appropriate performance measure for the performance share plan, as it provides a transparent method of assessing the company's performance, both in terms of underlying financial performance and returns to shareholders. The company calculates whether the EPS performance targets have been achieved by reference to the company's audited accounts which provide an accessible and objective measure of the company's earnings per share, whilst TSR ranking will be determined by Towers Perrin whose findings are verified by Alithos.

Awards will not normally vest where an employee ceases to be employed within the group unless cessation of employment is due to death, injury, disability, redundancy, retirement or following a change of control of, or sale outside the group of, his or her employing company. In these situations, vesting will occur in the normal course and the performance targets will need to be satisfied pro rata to the time the allocation has been held. Only a proportion of the award, based on the time which has elapsed from the award date to the end of the last complete month in which the employee was employed, will vest in these circumstances in most cases. The Remuneration Committee does however retain the ability to allow for a greater award to vest if it considers it to be appropriate in exceptional circumstances.

The company's current policy is to use market purchased shares to satisfy performance share plan awards.

The Remuneration Committee believes that continued shareholding by executive directors will strengthen the alignment of their interests with shareholders' interests. Accordingly, executive directors of the company will be expected to retain shares to the value of 30% of the after-tax gains made on the vesting of performance share plan awards until they have built up a shareholding equivalent to one times base salary.

DIRECTORS' REMUNERATION REPORT
CONTINUED

At 31 December 2008

(c) Performance Share Plan (long-term incentive plan) (continued)

Following a review of the operation of the PSP by the Remuneration Committee including detailed analysis of the current EPS and TSR targets, the committee was satisfied that both measures and targets remained appropriate for 2009. In addition, the committee also recognised that the current method of calculating both EPS and TSR introduces inappropriate effects (both positive and negative) of fluctuations in currency exchange rates outside the control of participants.

In an effort to more closely align the PSP with the underlying performance of the company, the committee plans to remove the impact of currency movements from the calculation of both EPS and TSR.

In respect of EPS, the committee believes that this is the correct method of calculation because the company's exposure to currency risk is almost entirely translational and not transactional. The committee believes that if the impact of currencies is excluded from the EPS calculation, it is consistent to calculate TSR on a local currency basis so that currency movements do not impact either measure and instead focus on rewarding superior management performance.

The EPS for 2005, which is the base year for determining the EPS performance for the PSP awards vesting in 2009, is 11.7 pence if calculated on a constant exchange rate and lower, at 11.1 pence, if calculated on actual exchange rates.

For PSP awards based on EPS performance for the three years to 31 December 2008, vesting in 2009 will be unaffected as a result of the application of the committee's adjustment to EPS performance for currency fluctuations over the period. Similarly, TSR-based awards vesting in 2010 and thereafter will be calculated on a local currency basis.

Fees, service contracts and letters of appointment

The chairman's annual fee is £270,000. The annual fee for the non-executive directors, which is set by the chairman and the executive directors, is £54,100, with a further £44,550 for the role of deputy chairman, £16,700 for the chairmanship of each of the Audit and Remuneration Committees and £10,000 for the role of senior independent director. No other fees are paid for membership of the board committees. These fees are subject to periodic review which takes into account comparative fee levels in other groups of a similar size and the anticipated time commitment for the non-executive directors.

The service contracts of those who served as executive directors during the period are dated as follows:

Nick Buckles	2 June 2004
Trevor Dighton	2 June 2004
Grahame Gibson	6 December 2006

The contracts of Messrs Buckles, Dighton and Gibson are terminable by the company on 12 months' notice. The contracts are terminable by the executive directors on 12 months' notice. There are no liquidated damages provisions for compensation payable upon early termination, but the company reserves the right to pay salary in lieu of notice. It is the company's policy that it should be able to terminate service contracts of executive directors on no more than 12 months' notice and that payments for termination of contract are restricted to the value of salary and other contractual entitlements for the notice period. The Remuneration Committee is satisfied that the current arrangements are appropriate and in line with best practice.

The chairman and the other non-executive directors do not have service contracts but letters of appointment. Mr Elliott's three year term of appointment began on 1 September 2006. Mr Seligman has been granted a two year extension to his initial three year term of appointment. That extension began on 1 January 2009. The other non-executive directors were granted three year extensions to their initial letters of appointment, such extensions having begun on 19 May 2007. All continuing directors are required to stand for re-election by the shareholders at least once every three years.

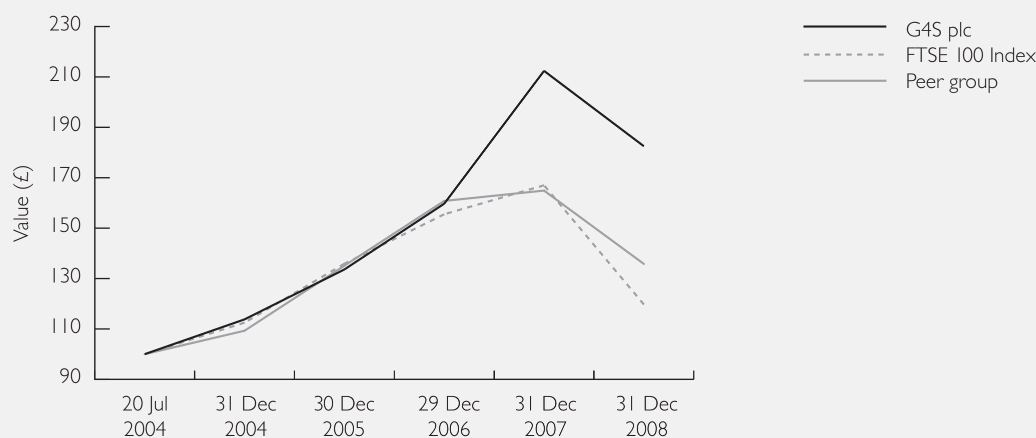
It is the company's policy that executive directors may each hold not more than one external non-executive appointment and may retain any associated fees. Mr Buckles is a non-executive director of Arriva plc for which he received fees of £45,000 in the year ended 31 December 2008. Neither of the other executive directors currently holds an external non-executive appointment.

DIRECTORS' REMUNERATION REPORT CONTINUED

At 31 December 2008

Performance graph

The performance graph below shows the total cumulative shareholder return of the company from its first day of listing, 20 July 2004, until 31 December 2008, based on a hypothetical shareholding worth £100, compared with the return achieved by the FTSE 100 constituent companies over the same period. The directors believe this to be an appropriate form of broad equity market index against which to base a comparison given the size and geographic coverage of the company and the fact that the company is itself a member of the FTSE 100. The graph also compares the company's performance over the same period with the bespoke group of companies which is used now for comparative total shareholder return purposes in the company's performance share plan. (Until 2007, the FTSE 100 constituent companies were used for this purpose). The values attributable to the bespoke comparator group companies have been weighted in accordance with the market capitalisation of the companies and spot exchange rates were used at each of the relevant dates to obtain constant currency.



The peer group currently comprises: Atkins WS, Brambles, Brink's, Bunzl, Capita, Compass, Garda, G4S, Hays, MITIE, Prosegur, Rentokil Initial, Rexam, Securitas, Serco and Sodexho.

THE FOLLOWING INFORMATION HAS BEEN AUDITED

Base salaries and bonuses

	Salary and Fees £	Benefits (excluding pension contribution) £	Performance Related Bonus £	2008 Total £	2007 Total £
Chairman (non-executive) Alf Duch-Pedersen	260,000	–	–	260,000	237,500
Executive directors Nick Buckles (see note 1 below)	761,400	28,222	628,155	1,417,777	1,406,271
Trevor Dighton (see note 1 below)	475,240	18,560	392,073	885,873	851,715
Grahame Gibson (see notes 1,2 & 3 below)	559,534	16,480	499,958	1,075,972	960,258
Other non executive directors Lord Condon	117,065	–	–	117,065	106,190
Mark Elliott	52,265	–	–	52,265	49,815
Thorleif Krarup	68,790	–	–	68,790	65,190
Bo Lerenius	52,265	–	–	52,265	49,815
Mark Seligman	52,265	–	–	52,265	49,815
Sir Malcolm Williamson (retired 30 May 2008)	27,825	–	–	27,825	65,190
Total	2,426,649	63,262	1,520,186	4,010,097	3,841,759

DIRECTORS' REMUNERATION REPORT
CONTINUED

At 31 December 2008

Notes:

1. The performance-related bonuses derived from the company's bonus scheme were paid as 50% of basic salary in cash and between 29.5% and 32.5% of basic salary through the award of deferred G4S shares, based on a share price of 185.7p, being the average middle market closing price of the company's ordinary shares over the three days immediately following the date of the company's preliminary results announcement, 10 March 2009. The deferred share awards were:

Nick Buckles	133,255 shares
Trevor Dighton	83,173 shares
Grahame Gibson	82,658 shares

2. The company paid air fares amounting to £29,930 for flights between the UK and the USA for Mr Gibson's wife and children. This sum is taxable in the USA.

3. Mr Gibson receives part of his salary in sterling and part in US$. The US$ element has been translated into sterling for the purposes of this section of the report at the exchange rates prevailing in each month in which Mr Gibson was paid.

The annual base salaries of the executive directors and the annual fees of the non-executive directors at 31 December 2008 were:

Executive directors	
Nick Buckles	£761,400
Trevor Dighton	£475,240
Grahame Gibson	£52,033 & $936,594

Non-executive directors	£
Alf Duch-Pedersen (chairman)	270,000
Lord Condon	125,350
Mark Elliott	54,100
Thorleif Krarup	70,800
Bo Lerenius	54,100
Mark Seligman	54,100

Directors' share options

	Option	At 31.12.07	Granted during 2008	Outstanding at 31.12.08	Option price (p)
Nick Buckles	A	72,901	–	–	107.98
	B	95,000	–	95,000	164.00
	C	75,000	–	75,000	133.75
	D	55,000	–	55,000	153.00
	E	700,000	–	700,000	108.00
Trevor Dighton	B	55,000	–	55,000	164.00
	C	40,000	–	40,000	133.75
	D	30,000	–	30,000	153.00
	E	350,000	–	350,000	108.00

Option A = 1996 Securicor Executive Share Option Scheme, exercisable until June 2008
Option B = Securicor Executive Share Option Scheme, exercisable until December 2009
Option C = Securicor Executive Share Option Scheme, exercisable until June 2010
Option D = Securicor Executive Share Option Scheme, exercisable until December 2010
Option E = Securicor Executive Share Option Scheme, exercisable until December 2011

The above options, which had been granted over Securicor plc shares, were rolled over into options over G4S plc shares. No further grants of options under these schemes will be made.

Mr Buckles exercised his option over the "Option A" shares described above on 11 June 2008 when the market price was 204.00p per share. Neither of the above directors exercised any other options under any of the above schemes during the year.

DIRECTORS' REMUNERATION REPORT
CONTINUED

At 31 December 2008

As a result of implementation of the Scheme of Arrangement of Securicor plc in July 2004, the performance conditions for the executive share options referred to above ceased to apply. This would not occur under the current Performance Share Plan.

The market price of the ordinary shares at 31 December 2007 was 244.75p. At 31 December 2008 it was 205.00p.

The highest and lowest market prices of an ordinary share during the year to 31 December 2008 were 240.00p and 156.90p respectively.

Directors' interests in Performance Share Plan

	At 31.12.07	Shares awarded conditionally during year	Date of award	Market price at date of award	Vesting date	2005 awards	At 31.12.08
Nick Buckles	1,176,495	683,880	17.03.08	215.50p	17.03.11	352,160	1,508,215
Trevor Dighton	769,230	320,140	17.03.08	215.50p	17.03.11	263,650	825,720
Grahame Gibson	819,130	350,520	17.03.08	215.50p	17.03.11	241,050	928,600

The conditions subject to which allocations of shares vest under this plan are described under (c) Performance Share Plan on pages 37 to 39.

During the year under review the following performance share plan awards vested:

Nick Buckles – 262,359 shares gross (352,160 maximum award; 74.5% vested; 154,791 shares released after tax, NIC etc)
Trevor Dighton – 196,419 shares gross (263,650 maximum award; 74.5% vested; 115,887 shares released after tax, NIC etc)
Grahame Gibson – 179,582 shares gross (241,050 maximum award; 74.5% vested; 129,648 shares released after tax, NIC etc)

The market price at date of award (17 March 2005) was 135.25p per share, the market price at the vesting date (19 March 2008) was 221.25p per share.

Directors' interests in shares of G4S plc (unaudited)

(including awards of deferred shares but excluding shares under option and shares awarded conditionally under the performance share plan, both as shown above)

	At 31.12.08	At 31.12.07
Nick Buckles	1,399,773	1,079,849
Lord Condon	2,029	2,000
Trevor Dighton	920,493	729,427
Alf Duch-Pedersen	128,560	128,560
Mark Elliott	25,000	–
Grahame Gibson	763,594	512,409
Thorleif Krarup	3,206	3,206
Bo Lerenius	16,000	16,000
Mark Seligman	50,496	50,496

All interests shown above are beneficial.

Changes in the executive directors' holdings have taken place since 31 December 2008 relating to the vesting of the 2006 Performance Share Plan, the vesting of deferred shares arising from the 2005 annual bonus scheme and the award of deferred shares relating to the 2008 annual bonus scheme, as a result of which their interests as at 31 March 2009 are:

Nick Buckles	1,591,228
Trevor Dighton	1,045,528
Grahame Gibson	920,310

As at 31 December 2008, each of Nick Buckles, Trevor Dighton and Grahame Gibson also had a deemed interest in 5,832,653 ordinary shares held in the G4S Employee Benefit Trust.

DIRECTORS' REMUNERATION REPORT
CONTINUED

At 31 December 2008

Directors' pension entitlements

For the period under review, both Nick Buckles and Trevor Dighton participated in non-contributory categories of the group's defined benefit pension schemes with a normal retirement age of 60. Trevor Dighton accrued pension at a rate of 1/30ths and Nick Buckles accrued pension at a rate of 1/52ths of their final pensionable salaries. An actuarial reduction is applied to pensions payable before normal retirement age. Pension can continue to accrue at the same rates beyond normal retirement age.

For death before retirement a capital sum equal to four times pensionable salary is payable, together with a spouse's pension of 50% of the member's prospective pension at the age of 60 plus a return of any contributions paid prior to the admission to the non-contributory category.

For death in retirement, a spouse's pension of 50% of the member's pre-commutation pension is payable.

Post retirement pension increases are payable at the rate of 5% per annum in respect of pension earned up to 31 December 1994 and in line with the increase in the Retail Prices Index subject to a maximum of 5% per annum in respect of pension earned after that date.

With effect from 6 April 2006, Grahame Gibson opted for enhanced protection and receives a salary supplement in lieu of pension of 40% of his basic salary.

Pension entitlements and corresponding transfer values increased as follows during the 12 months ended 31 December 2008 (all figures are in £'000s):

	Gross increase in accrued pension (1)	Increase in accrued pension net of inflation (2)	Total accrued pension at 31.12.08 (3)	Value of net increase in accrual over period (4)	Total change in transfer value during period (5)	Transfer value of accrued pension at 31.12.08 (6)	Transfer value of accrued pension at 31.12.07 (7)
Nick Buckles	38	23	332	375	2,054	5,789	3,735
Trevor Dighton	20	17	81	381	742	1,870	1,128
Grahame Gibson	13	2	230	34	674	3,649	2,975

Notes:

(i) Pension accruals shown are the amounts which would be paid annually on retirement based on service to the end of the year with the exception of Mr Gibson whose accrual ended on 5 April 2006.

(ii) Transfer values have been calculated in accordance with version 8.1 of guidance note GN11 issued by the actuarial profession.

(iii) The value of net increase (4) represents the incremental value to the director of his service during the year, calculated on the assumption that service terminated at the year-end. It is based on the increase in accrued pension (2) with the exception of Mr Gibson whose accrual ended on 5 April 2006.

(iv) The change in transfer value (5) includes the effect of fluctuations in such value due to factors beyond the control of the company and the directors, such as stock market movements.

(v) Mr Gibson receives a salary supplement in lieu of pension of 40% of his base salary.

(vi) A large part of the increase in transfer values over the year is due to the assumptions underlying the year end transfer values being different to those at the start of the year. This is due partly to changing market conditions over the year, in particular falling government bond yields, on which the transfer values are based. In the case of Messrs Buckles and Gibson, around 70% of the increase in their transfer values is due to changing assumptions. In Mr Dighton's case, the corresponding figure is around 40%.

Lord Condon
Chairman of the Remuneration Committee
31 March 2009

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ANNUAL REPORT AND THE FINANCIAL STATEMENTS

The directors are responsible for preparing the Annual Report, and the group and parent company financial statements, in accordance with applicable law and regulations.

Company law requires the directors to prepare group and parent company financial statements for each financial year. Under that law they are required to prepare the group financial statements in accordance with IFRSs as adopted by the EU and applicable law and have elected to prepare the parent company financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

The group financial statements are required by law and IFRSs as adopted by the EU to present fairly the financial position and the performance of the group; the Companies Act 1985 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

The parent company financial statements are required by law to give a true and fair view of the state of affairs of the parent company.

In preparing each of the group and parent company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- for the group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- for the parent company financial statements, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the parent company financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and the parent company will continue in business.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the directors are also responsible for preparing a Report of the Directors, Directors' Remuneration Report and Corporate Governance Statement which comply with that law and those regulations.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF G4S PLC

We have audited the group and parent company financial statements (the 'financial statements') of G4S plc for the year ended 31 December 2008 which comprise the Consolidated Income Statement, the Consolidated and Parent Company Balance Sheets, the Consolidated Cash Flow Statement, the Consolidated Statement of Recognised Income and Expense and the related notes. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the group financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU, and for preparing the parent company financial statements and the Directors' Remuneration Report in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 44.

Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the group financial statements, Article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. The information given in the Directors' Report includes that specific information presented in the Operating and Financial Review that is cross referred from the Business Review section of the Directors' Report.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We review whether the Corporate Governance Statement reflects the company's compliance with the nine provisions of the 2006 Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's and company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the Directors' Remuneration Report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Directors' Remuneration Report to be audited.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF G4S PLC CONTINUED

Opinion

In our opinion:

- the group financial statements give a true and fair view, in accordance with IFRSs as adopted by the EU, of the state of the group's affairs as at 31 December 2008 and of its profit for the year then ended;
- the group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation;
- the parent company financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the parent company's affairs as at 31 December 2008;
- the parent company financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

KPMG Audit Plc
Chartered Accountants
Registered Auditor
31 March 2009

8 Salisbury Square
London
EC4Y 8BB

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2008

	Notes	2008 £m	2007 £m
Continuing operations			
Revenue	5, 6	5,942.9	4,483.5
Profit from operations before amortisation of acquisition-related intangible assets and share of profit from associates		413.0	308.4
Share of profit from associates		3.4	3.0
Profit from operations before amortisation of acquisition-related intangible assets (PBITA)	6	416.4	311.4
Amortisation of acquisition-related intangible assets		(67.8)	(41.6)
Profit from operations before interest and taxation (PBIT)	6, 8	348.6	269.8
Finance income	12	104.9	92.6
Finance costs	13	(189.3)	(146.3)
Profit before taxation (PBT)		264.2	216.1
Taxation:			
– Before amortisation of acquisition-related intangible assets		(89.3)	(70.9)
– On amortisation of acquisition-related intangible assets		19.1	14.9
	14	(70.2)	(56.0)
Profit after taxation		194.0	160.1
(Loss)/profit from discontinued operations	7	(29.1)	0.5
Profit for the year		164.9	160.6
Attributable to:			
Equity holders of the parent		151.2	147.2
Minority interests		13.7	13.4
Profit for the year		164.9	160.6
Earnings per share attributable to equity shareholders of the parent	16		
For profit from continuing operations:			
Basic		13.3p	11.5p
Diluted		13.3p	11.5p
For profit from continuing and discontinued operations:			
Basic		11.1p	11.5p
Diluted		11.1p	11.5p

CONSOLIDATED BALANCE SHEET

At 31 December 2008

	Notes	2008 £m	2007 £m
ASSETS			
Non-current assets			
Goodwill	19	**2,060.4**	1,331.3
Other acquisition-related intangible assets	19	**392.2**	224.2
Other intangible assets	19	**61.0**	31.3
Property, plant and equipment	20	**528.6**	403.2
Investment in associates	22	**7.4**	10.2
Trade and other receivables	25	**198.0**	69.4
Deferred tax assets	36	**155.0**	84.5
		3,402.6	2,154.1
Current assets			
Inventories	23	**85.5**	58.2
Investments	24	**92.7**	73.2
Trade and other receivables	25	**1,362.8**	887.1
Cash and cash equivalents	28	**562.1**	382.1
Assets classified as held for sale	27	**71.0**	130.9
		2,174.1	1,531.5
Total assets	6	**5,576.7**	3,685.6
LIABILITIES			
Current liabilities			
Bank overdrafts	28,29	**(195.1)**	(110.7)
Bank loans	29	**(87.9)**	(80.6)
Obligations under finance leases	30	**(22.1)**	(16.2)
Trade and other payables	31	**(1,216.1)**	(852.1)
Current tax liabilities		**(16.2)**	(18.4)
Retirement benefit obligations	34	**(48.9)**	(47.3)
Provisions	35	**(33.9)**	(23.6)
Liabilities associated with assets classified as held for sale	27	**(74.1)**	(78.3)
		(1,694.3)	(1,227.2)
Non-current liabilities			
Bank loans	29	**(877.8)**	(729.1)
Loan notes	29	**(901.9)**	(290.4)
Obligations under finance leases	30	**(63.6)**	(46.0)
Trade and other payables	31	**(63.5)**	(38.7)
Retirement benefit obligations	34	**(278.6)**	(120.1)
Provisions	35	**(91.3)**	(38.2)
Deferred tax liabilities	36	**(135.0)**	(75.9)
		(2,411.7)	(1,338.4)
Total liabilities	6	**(4,106.0)**	(2,565.6)
Net assets		**1,470.7**	1,120.0
EQUITY			
Share capital	37	**352.1**	320.2
Share premium and reserves	38	**1,074.9**	766.9
Equity attributable to equity holders of the parent		**1,427.0**	1,087.1
Minority interests		**43.7**	32.9
Total equity		**1,470.7**	1,120.0

The consolidated financial statements were approved by the board of directors and authorised for issue on 31 March 2009.

They were signed on its behalf by:

Nick Buckles
Director

Trevor Dighton
Director

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2008

	Notes	2008 £m	2007 £m
Profit before taxation		264.2	216.1
(Loss)/profit before taxation from discontinued operations		(29.1)	0.4
Adjustments for:			
Finance income		(104.9)	(92.6)
Finance costs		189.3	146.3
Finance costs attributable to discontinued operations		1.4	3.3
Depreciation of property, plant and equipment		105.0	91.1
Amortisation of acquisition-related intangible assets		67.8	41.6
Amortisation of other intangible assets		11.1	8.5
Loss/(profit) on disposal of property, plant and equipment and intangible assets other than acquisition-related		2.1	(14.4)
Loss/(profit) on disposal of discontinued operations		15.8	(12.0)
Share of profit from associates		(3.4)	(3.0)
Equity-settled transactions		5.0	4.1
Operating cash flow before movements in working capital		524.3	389.4
Increase in inventories		(7.4)	(9.6)
Increase in receivables		(40.3)	(69.7)
Increase in payables		29.3	84.1
Decrease in provisions		(50.9)	(36.7)
Cash generated by operations		455.0	357.5
Tax paid		(82.0)	(66.2)
Net cash flow from operating activities		373.0	291.3
Investing activities			
Interest received		17.2	24.9
Cash flow from associates		12.2	1.0
Purchases of property, plant and equipment and intangible assets other than acquisition-related		(174.5)	(134.5)
Proceeds on disposal of property, plant and equipment and intangible assets other than acquisition-related		13.2	25.5
Acquisition of subsidiaries		(419.4)	(151.6)
Net cash balances acquired		19.7	11.6
Disposal of subsidiaries		31.1	7.9
Sale/(purchase) of investments		5.6	(0.3)
Own shares purchased		(8.8)	(3.1)
Net cash used in investing activities		(503.7)	(218.6)
Financing activities			
Share issues		276.8	0.9
Dividends paid to minority interests		(11.9)	(3.8)
Loan to minority interests		–	(13.3)
Dividends paid to equity shareholders of the parent		(75.0)	(59.3)
Proceeds on issue of loan notes		327.0	280.6
Repayment of revolving credit facilities with proceeds from issue of loan notes		(327.0)	(280.6)
Other net movement in borrowings		173.7	140.4
Interest paid		(97.2)	(79.9)
Net cash flow from hedging financial instruments		(65.9)	(4.3)
Repayment of obligations under finance leases		(13.5)	(4.6)
Net cash flow from financing activities		187.0	(23.9)
Net increase in cash, cash equivalents and bank overdrafts	39	56.3	48.8
Cash, cash equivalents and bank overdrafts at the beginning of the year		270.7	210.0
Effect of foreign exchange rate fluctuations on cash held		33.7	11.9
Cash, cash equivalents and bank overdrafts at the end of the year	28	360.7	270.7

CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE

For the year ended 31 December 2008

	2008 £m	2007 £m
Exchange differences on translation of foreign operations	**182.0**	37.4
Change in fair value of net investment hedging financial instruments	**(81.1)**	(19.0)
Change in fair value of cash flow hedging financial instruments	**36.4**	(7.0)
Actuarial (losses)/gains on defined retirement benefit schemes	**(196.9)**	64.7
Tax on items taken directly to equity	**50.3**	(14.0)
Net (expense)/income recognised directly in equity	**(9.3)**	62.1
Profit for the year	**164.9**	160.6
Net recognised income	**155.6**	222.7
Attributable to:		
Equity holders of the parent	**141.9**	209.3
Minority interests	**13.7**	13.4
Net recognised income	**155.6**	222.7

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 General information

G4S plc is a company incorporated in the United Kingdom under the Companies Act 1985. 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 associates and jointly controlled entities made up to 31 December each year. The nature of the group's operations and its principal activities are set out in note 6 and in the Operating and Financial Review on pages 8 to 25. The group operates throughout the world and in a wide range of functional currencies, the most significant being the euro, the US dollar and sterling. The group's financial statements are presented in sterling, as the group's primary listing is in the UK. Foreign operations are included in accordance with the policies set out in note 3. The address of the registered office is given on page 117.

2 Statement of compliance

The consolidated financial statements of the group have been prepared in accordance with International Financial Reporting Standards adopted for use in the European Union (adopted IFRSs). The company has elected to prepare its parent company financial statements in accordance with UK Generally Accepted Accounting Practice (UK GAAP). These are presented on pages 101 to 110.

3 Significant accounting policies

(a) Basis of preparation

The consolidated financial statements of the group have been prepared under the going concern basis and using the historical cost basis, except for the revaluation of certain non-current assets and financial instruments. The principal accounting policies adopted are set out below. Judgements made by the directors in the application of these accounting polices which have a significant effect on the financial statements, and estimates with a significant risk of material adjustment, are discussed in note 4.

The comparative income statement for the year ended 31 December 2007 has been re-presented for operations qualifying as discontinued during the current year. Revenue from continuing operations has been reduced by £6.9m and PBT has been reduced by £0.7m compared to the figures published previously. Further details of discontinued operations are presented within note 7. In addition, the comparative balance sheet as at 31 December 2007 has been restated to reflect the completion during 2008 of the initial accounting in respect of acquisitions made during 2007. Adjustments made to the provisional calculation of the fair values of assets and liabilities acquired amount to £1.1m, with an equivalent decrease in the reported value of goodwill. The impact of these adjustments on the net assets acquired is presented in note 17.

(b) Basis of consolidation

Subsidiaries

Subsidiaries are entities controlled by the group. Control is achieved where the group has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities, determined either by the group's ownership percentage, or by the terms of any shareholder agreement.

On acquisition, the assets and liabilities and contingent liabilities of the acquired business are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. Any deficiency in the cost of acquisition below the fair values of the identifiable net assets acquired (i.e. discount on acquisition) is credited to the income statement in the year of acquisition. The cost of acquisition includes the present value of consideration payable in respect of put options held by minority shareholders. The interest of minority shareholders is stated at the minority's proportion of the fair values of the assets and liabilities recognised. Subsequently, any losses applicable to the minority interest in excess of the carrying value of the minority interest are allocated against the interest of the parent, except to the extent that the minority has both a binding obligation and the ability to make an additional investment to cover the losses.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of control or up to the effective date of disposal, as appropriate.

Joint ventures

A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control, in that strategic financial and operating decisions require the unanimous consent of the parties.

The group's interest in joint ventures is accounted for using the proportionate consolidation method, whereby the group's share of the results and assets and liabilities of a jointly-controlled entity is combined line by line with similar items in the group's consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

3 Significant accounting policies (continued)

(b) Basis of consolidation (continued)

Associates

An associate is an entity over which the group is in a position to exercise significant influence, but not control or joint control, through participation in the financial and operating policy decisions of the investee.

The results and assets and liabilities of associates are incorporated in the group's consolidated financial statements using the equity method of accounting. Investments in associates are carried in the balance sheet at cost as adjusted by post-acquisition changes in the group's share of the net assets of the associates, less any impairment in the value of individual investments. Losses of the associates in excess of the group's interest in those associates are not recognised.

Transactions eliminated on consolidation

All intra-group transactions, balances, income and expenses are eliminated on consolidation. Where a group company transacts with a joint venture or associate of the group, profits and losses are eliminated to the extent of the group's interest in the relevant joint venture or associate.

(c) Foreign currencies

The financial statements of each of the group's businesses are prepared in the functional currency applicable to that business. Transactions in currencies other than the functional currency are translated at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities which are denominated in other currencies are retranslated at the rates prevailing on that date. Non-monetary assets and liabilities carried at fair value which are denominated in other currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items measured at historical cost denominated in other currencies are not retranslated. Gains and losses arising on retranslation are included in the income statement for the period.

On consolidation, the assets and liabilities of the group's overseas operations, including goodwill and fair value adjustments arising on their acquisition, are translated into sterling at exchange rates prevailing on the balance sheet date. Income and expenses are translated into sterling at the average exchange rates for the period (unless this is not a reasonable approximation of the cumulative effect of the rate prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions). Exchange differences arising are recognised in equity, together with exchange differences arising on monetary items that are in substance a part of the group's net investment in foreign operations and on borrowings and other currency instruments designated as hedges of such investments where and to the extent that the hedges are deemed to be effective. On disposal translation differences are recognised in the income statement in the period in which the operation is disposed of.

In order to hedge its translation exposure to certain foreign currencies in which more than 1% of the group's consolidated net operating assets are denominated, the group utilises derivative financial instruments (see note 3(d) for details of the group's accounting policies in respect of such instruments).

(d) Derivative financial instruments and hedge accounting

In accordance with its treasury policy, the group only holds or issues derivative financial instruments to manage the group's exposure to financial risk, not for trading purposes. Such financial risk includes the interest risk on the group's variable-rate borrowings, the fair value risk on the group's fixed-rate borrowings, and foreign exchange risk on transactions, on the translation of the group's results and on the translation of the group's net assets measured in foreign currencies, to the extent that these are not matched by foreign currency borrowings. The group manages these risks through a range of derivative financial instruments, including interest rate swaps, fixed rate agreements, forward foreign exchange contracts and currency swaps.

Derivative financial instruments are recognised in the balance sheet as financial assets or liabilities at fair value. The gain or loss on re-measurement to fair value is recognised immediately in the income statement, unless the derivatives qualify for hedge accounting. Where derivatives do qualify for hedge accounting, the treatment of any resultant gain or loss depends on the nature of the item being hedged as described below.

Fair value hedge

The change in the fair value of both the hedging instrument and the related portion of the hedged item is recognised immediately in the income statement.

Cash flow hedge

The change in the fair value of the portion of the hedging instrument that is determined to be an effective hedge is recognised in equity and subsequently recycled to the income statement when the hedged cash flow impacts the income statement. The ineffective portion of the fair value of the hedging instrument is recognised immediately in the income statement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

3 Significant accounting policies (continued)

(d) Derivative financial instruments and hedge accounting (continued)

Net investment hedge

The change in the fair value of the portion of the hedging instrument that is determined to be an effective hedge is recognised in equity and subsequently recycled to the income statement when the hedged net investment impacts the income statement. The ineffective portion of the fair value of the hedging instrument is recognised immediately in the income statement.

(e) Intangible assets

Goodwill

All business combinations are accounted for by the application of the purchase method. Goodwill arising on consolidation represents the excess of the cost of acquisition over the group's interest in the fair value of the identifiable assets and liabilities and contingent liabilities of a subsidiary, associate or jointly-controlled entity at the date of acquisition. Goodwill arising on the acquisition of an additional interest from a minority in a subsidiary represents the excess of the cost of the additional investment over the carrying amount of the net assets acquired at the date of exchange. Goodwill is stated at cost, less any accumulated impairment losses, and is tested annually for impairment or more frequently if there are indications that amounts may be impaired. In respect of associates, the carrying amount of goodwill is included within the net investment in associates. On disposal of a subsidiary, associate or jointly controlled entity, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Goodwill arising on acquisitions before transition to IFRS on 1 January 2004 has been retained at the previous UK GAAP amounts, subject to being tested for impairment at that date. Goodwill written off to reserves under UK GAAP prior to 1998 has not been reinstated and is not included in determining any subsequent profit or loss on disposal.

Acquisition-related intangible assets

Intangible assets on acquisitions that are either separable or arising from contractual rights are recognised at fair value at the date of acquisition. Such acquisition-related intangible assets include trademarks, technology, customer contracts and customer relationships. The fair value of acquisition-related intangible assets is determined by reference to market prices of similar assets, where such information is available, or by the use of appropriate valuation techniques, including the royalty relief method and the excess earnings method.

Acquisition-related intangible assets are amortised by equal annual instalments over their expected economic life. The directors review acquisition-related intangible assets on an ongoing basis and, where appropriate, provide for any impairment in value.

The estimated useful lives are as follows:

Trademarks	up to a maximum of five years
Customer contracts and customer relationships	up to a maximum of ten years
Technology	up to a maximum of five years

Other intangible assets – development expenditure

Development expenditure represents expenditure incurred in establishing new services and products of the group. Such expenditure is recognised as an intangible asset only if the following can be demonstrated: the expenditure creates an identifiable asset, its cost can be measured reliably, it is probable that it will generate future economic benefits, it is technically and commercially feasible and the group has sufficient resources to complete development. In all other instances, the cost of such expenditure is taken directly to the income statement.

Capitalised development expenditure is amortised over the period during which the expenditure is expected to be revenue-producing, up to a maximum of ten years. The directors review the capitalised development expenditure on an ongoing basis and, where appropriate, provide for any impairment in value.

Research expenditure is written off in the year in which it is incurred.

Other intangible assets – software

Computer software is capitalised as an intangible asset if such expenditure (both internally generated and externally purchased) creates an identifiable asset, if its cost can be measured reliably and if it is probable that it will generate future economic benefits. Capitalised computer software is stated at cost, net of amortisation and any provision for impairment. Amortisation is charged on software so as to write off the cost of the assets to their estimated residual values by equal annual instalments over their expected useful economic lives up to a maximum of five years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

3 Significant accounting policies (continued)

(f) Property, plant and equipment

Property, plant and equipment is stated at cost, net of accumulated depreciation and any provision for impairment. Depreciation is provided on all property, plant and equipment other than freehold land. Depreciation is calculated so as to write off the cost of the assets to their estimated residual values by equal annual instalments over their expected useful economic lives as follows:

Freehold and long leasehold buildings	up to 2%
Short leasehold buildings (under 50 years)	over the life of the lease
Equipment and motor vehicles	10% – 33.3%

Assets held under finance leases are depreciated over their expected useful economic lives on the same basis as owned assets or, where shorter, over the term of the relevant lease.

Where significant, the residual values and the useful economic lives of property, plant and equipment are re-assessed annually. The directors review the carrying value of property, plant and equipment on an ongoing basis and, where appropriate, provide for any impairment in value.

(g) Financial instruments

Financial assets and financial liabilities are recognised when the group becomes a party to the contractual provisions of the instruments.

Trade receivables

Trade receivables do not carry interest and are stated initially at their fair value. The carrying amount of trade receivables is reduced through the use of an allowance account. The group provides for bad debts based upon an analysis of those that are past due in accordance with local conditions and past default experience.

PFI assets

Under the terms of a Private Finance Initiative (PFI) or similar project, where the risks and rewards of ownership of an asset remain largely with the purchaser of the associated services, the group's interest in the asset is classified as a financial asset and included at its discounted value within trade and other receivables.

Current asset investments

Current asset investments comprise investments in securities, which are classified as held-for-trading. They are initially recognised at cost, including transaction costs, and subsequently measured at fair value. Gains and losses arising from changes in fair value are recognised in the income statement.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the group's cash management are included as a component of cash and cash equivalents for the purpose of the cash flow statement.

Interest-bearing borrowings

Interest-bearing bank overdrafts, loans and loan notes are recognised at the value of proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are recognised in the income statement on an accrual basis using the effective interest method.

Trade payables

Trade payables are not interest-bearing and are stated initially at fair value.

Equity instruments

Equity instruments issued by the group are recorded at the value of proceeds received, net of direct issue costs.

(h) Inventories

Inventories are valued at the lower of cost and net realisable value. Cost represents expenditure incurred in the ordinary course of business in bringing inventories to their present condition and location and includes appropriate overheads. Cost is calculated using either the weighted average or the first-in-first-out method. Net realisable value is based on estimated selling price, less further costs expected to be incurred to completion and disposal. Provision is made for obsolete, slow-moving or defective items where appropriate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

3 Significant accounting policies (continued)

(i) Impairment

The carrying value of the group's assets, apart from inventories and deferred tax assets, is reviewed on an ongoing basis for any indication of impairment and, if any such indication exists, the assets' recoverable amount is estimated. An impairment loss is recognised in the income statement whenever the carrying value of an asset or its cash-generating unit exceeds its recoverable amount.

The recoverable amount of an asset is the greater of its net selling price and its value in use, where value in use is assessed as the estimated pre-tax future cash flows deriving from the asset discounted to their present value using a pre-tax discount rate which reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash flows, the recoverable amount is determined with respect to the cash-generating unit to which the asset attaches.

The recoverable amount of goodwill is tested annually through assessing the carrying values of the cash generating units to which the goodwill attaches. An impairment loss recognised in respect of a cash-generating unit is allocated first so as to reduce the carrying value of any goodwill allocated to the cash-generating unit, and then to reduce the carrying value of the other assets in the unit on a pro-rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of any other asset, an impairment loss is reversed if there has been a change in the estimates used to determine its recoverable amount. The amount of the reversal is limited such that the asset's carrying amount does not exceed that which would have been determined (after depreciation and amortisation) if no impairment loss had been recognised.

(j) Repurchase of share capital

When share capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs net of any tax effects, is recognised as a deduction from equity. Where repurchased shares are held by an employee benefit trust, they are classified as treasury shares and presented as a deduction from equity.

(k) Employee benefits

Retirement benefit costs

Payments to defined contribution schemes are charged as an expense as they fall due. Payments made to state-managed retirement benefit schemes are dealt with as payments to defined contribution schemes where the group's obligations under the schemes are equivalent to those arising in a defined contribution retirement benefits scheme.

For defined benefit schemes, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at each balance sheet date. The discount rate used is the yield at the balance sheet date on AA credit rated corporate bonds that have maturity dates approximating to the terms of the group's obligations. The expected finance income on assets and the finance cost on liabilities are recognised in the income statement as components of finance income and finance cost respectively. Actuarial gains and losses are recognised in full in the period in which they occur and presented outside the income statement in the statement of recognised income and expense.

Past service cost is recognised immediately to the extent that the benefits are already vested. Otherwise it is amortised on a straight-line basis over the average period until the benefits vest.

The retirement benefit obligation recognised in the balance sheet represents the present value of the defined benefit obligation as adjusted for unrecognised past service cost, reduced by the fair value of scheme assets. Any asset resulting from this calculation is limited to unrecognised past service cost plus the present value of available refunds and reductions in future contributions to the scheme.

Long-term service benefits

The group's net obligation in respect of long-term service benefits other than retirement benefits represents the present value of the future benefit that employees have earned at the balance sheet date, less the fair value of scheme assets out of which the obligations are to be settled directly.

Share-based payments

The group issues equity-settled share-based payments to certain employees. The fair value of share-based payments is determined at the date of grant and expensed, with a corresponding increase in equity, on a straight-line basis over the vesting period, based on the group's estimate of the shares that will eventually vest. The amount expensed is adjusted over the vesting period for changes in the estimate of the number of shares that will eventually vest, save for changes resulting from any market-related performance conditions.

The fair value of share-based payments granted in the form of options is measured by the use of the Black-Scholes valuation technique, adjusted for future dividend receipts and for any market-related performance conditions.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

3 Significant accounting policies (continued)

(l) Provisions

Provisions are recognised when a present legal or constructive obligation exists for a future liability in respect of a past event and where the amount of the obligation can be estimated reliably. Items within provisions include loss-making contracts, claims against the group's captive insurance businesses, costs of meeting lease requirements on unoccupied properties and restructuring provisions for the costs of a business reorganisation where the plans are sufficiently detailed and where the appropriate communication to those affected has been undertaken at the balance sheet date.

Where the time value of money is material, provisions are stated at the present value of the expected expenditure using an appropriate discount rate.

(m) Revenue recognition

Revenue

Revenue represents amounts receivable for goods and services provided in the normal course of business and is measured at the fair value of the consideration received or receivable, net of discounts, VAT and other sales related taxes. Revenue for manned security and cash solutions products and for recurring services in security systems products is recognised to reflect the period in which the service is provided. Revenue on security systems installations is recognised either on completion in respect of product sales, or in accordance with the stage of completion method in respect of construction contracts.

Construction contracts

Where significant, security system installations with a contract duration in excess of one month are accounted for as construction contracts. Where the outcome of a construction contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the balance sheet date. This is normally measured by the proportion that contract costs incurred for work to date bear to the estimated total contract costs, except where this would not be representative of the stage of completion. Variations in contract work, claims and incentive payments are included to the extent that it is likely that they will be agreed with the customer.

Where the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that are deemed likely to be recoverable. Contract costs are recognised as expenses as they are incurred. Where it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised immediately as an expense.

Construction contracts are recognised on the balance sheet at cost plus profit recognised to date, less provision for foreseeable losses and less progress billings. Balances are not offset.

Government grants

Government grants in respect of items expensed in the income statement are recognised as deductions from the associated expenditure. Government grants in respect of property, plant and equipment are treated as deferred income and released to the income statement over the lives of the related assets.

Interest

Interest income is accrued on a time basis by reference to the principal outstanding and at the effective interest rate applicable. This is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Dividends

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

(n) Borrowing costs

All borrowing costs are recognised in the income statement.

(o) Profit from operations

Profit from operations is stated after the share of results of associates but before finance income and finance costs. Exceptional items of particular significance, including restructuring costs, are included within profit from operations but are disclosed separately.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

3 Significant accounting policies (continued)

(p) Income taxes

Tax is recognised in the income statement except to the extent that it relates to items recognised in equity, in which case it is recognised in equity. The tax expense represents the sum of current tax and deferred tax.

Current tax is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill in a business combination or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and interests in joint ventures, except where the group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of each deferred tax asset is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised.

(q) Leasing

Leases are classified as finance leases when the terms of the lease transfer substantially all of the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are recognised at the inception of the lease at their fair value or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Amounts due from lessees under finance leases are recorded as receivables at the amount of the group's net investment in the leases. Lease payments made or received are apportioned between finance charges or income and the reduction of the lease liability or asset so as to produce a constant rate of interest on the outstanding balance of the liability or asset.

Rentals payable or receivable under operating leases are charged or credited to income on a straight-line basis over the lease term, as are incentives to enter into operating leases.

(r) Segment reporting

A segment is a significant component of the group which is subject to risks and rewards distinguishable from those of other segments either by the nature of the services provided (business segment) or by the economic environment in which it transacts business (geographical segment).

(s) Non-current assets held for sale and discontinued operations

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell.

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. The group must be committed to the sale which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

A discontinued operation is a component of the group's business that represents a separate major line of business or geographical area of operations or is a subsidiary acquired exclusively with a view to resale, that has been disposed of, has been abandoned or meets the criteria to be classified as held for sale.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

3 Significant accounting policies (continued)

(t) Dividends

Dividends are recognised as distributions to equity holders in the period in which they are declared. Dividends proposed but not declared are not recognised but are disclosed in the notes to the consolidated financial statements.

(u) Adoption of new and revised accounting standards and interpretations

At the balance sheet date, the following were in issue but not yet effective:

- IFRS 8 *Operating Segments* will apply to the group from 1 January 2009. This standard supersedes IAS 14 *Segment Reporting* and will require the group to adopt the "management approach" to reporting on the financial performance of its operating segments. This standard introduces some additional disclosures but will not result in a significant change to the group's existing segmental analysis, which is closely aligned to management reporting;

- IFRIC 14 *IAS19 – The limit on a defined benefit asset, minimum funding requirements and their interaction* will apply to the group from 1 January 2009. This interpretation provides guidance on assessing the limit under IAS 19 on the amount of any surplus that can be recognised as an asset. It also explains how the pension asset or liability may be affected by a statutory or contractual minimum funding requirement. This interpretation does not have any impact on the group's financial statements as any minimum funding requirements in excess of eventual actual liabilities are recoverable by the group in the form of either refunds or reduced future contributions paid to the schemes;

- IAS 1 (revised) *Presentation of financial statements* will apply to the group from 1 January 2009. This revised standard introduces the concept of "total comprehensive income", being all changes in equity other than those changes resulting from transactions with owners in their capacity as owners. Total comprehensive income can be presented either within a single statement or in two statements, the first of which is the income statement. The group will elect to continue to present an income statement, but the presentation of the statement of other comprehensive income will differ from the current presentation of the statement of recognised income and expense; and

- IFRS 2 (amendment) *Share based payment* will apply to the group from 1 January 2009. This amendment clarifies the definition of vesting conditions in respect of share-based payments, but will have no impact on the group's presentation of its current share-based payment schemes.

At 31 December 2008, a number of statements, revisions, amendments and interpretations had been published by the IASB but not yet endorsed by the EU. The directors anticipate that the only one of these which, if endorsed, would have a material impact on the financial statements of the group is IFRS 3 (revised) *"Business combinations"*.

4 Accounting estimates, judgements and assumptions

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of the group's accounting policies, which are described in note 3, 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 period. These judgements, 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 judgements, 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 ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

The judgements, estimates and assumptions which are of most significance to the group are detailed below:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

4 Accounting estimates, judgements and assumptions (continued)

Valuation of acquired businesses

The initial accounting for an acquisition involves identifying and determining the fair values to be assigned to identifiable assets, liabilities and contingent liabilities as well as the acquisition cost. In some instances, this initial accounting can only be determined provisionally by the end of the period in which the acquisition is effected because the fair values and/or the cost is not known with full certainty. In such an event, the initial accounting can be completed using provisional values with any adjustments to those provisional values being completed within 12 months of the acquisition date. Additionally, in determining the fair value of acquisition-related intangible assets, in the absence of market prices for similar assets, valuation techniques are applied. These techniques use a variety of estimates including projected future results and expected future cash flows, discounted using the weighted average cost of capital. Furthermore, management make an assessment of the useful economic life of acquired intangible assets upon recognition. Full details of the fair values of assets and liabilities of acquired businesses are presented in note 17.

Assessment of the recoverable amounts in respect of assets tested for impairment

The group tests tangible and intangible assets, including goodwill, for impairment on an annual basis or more frequently if there are indications that amounts may be impaired. The impairment analysis for such assets is based principally upon discounted estimated future cash flows from the use and eventual disposal of the assets. Such an analysis includes an estimation of the future anticipated results and cash flows, annual growth rates and the appropriate discount rates. The full methodology and results of the group's impairment testing is presented in note 19.

Valuation of retirement benefit obligations

The valuation of defined retirement benefit schemes is arrived at using the advice of qualified independent actuaries who use the projected unit credit method for determining the group's obligations. This methodology requires the use of a variety of assumptions and estimates, including the appropriate discount rate, the expected return on scheme assets, mortality assumptions, future service and earnings increases of employees and inflation. Full details of the group's retirement benefit obligations, including an analysis of the sensitivity of the calculations to the key assumptions are presented in note 34.

5 Revenue

An analysis of the group's revenue is as follows:

	Notes	2008 £m	2007 £m
Continuing operations			
Sale of goods		190.2	105.3
Rendering of services		5,633.3	4,281.8
Revenue from construction contracts		119.4	96.4
Revenue from continuing operations as presented in the consolidated income statement	6	5,942.9	4,483.5
Discontinued operations			
Sale of goods		–	9.3
Rendering of services		208.9	266.1
Revenue from construction contracts		8.0	16.4
Revenue from discontinued operations	6, 7	216.9	291.8
Other operating income			
Interest income		18.4	15.1
Net gain in fair value of loan note derivative financial instruments and hedged items		–	0.2
Expected return on defined retirement benefit scheme assets		86.5	77.3
Total other operating income		104.9	92.6

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

6 Business and geographical segments

The group operates in two core product areas: secure solutions and cash solutions. The group operates on a worldwide basis and derives a substantial proportion of its revenue and PBIT from each of the following geographical regions: Europe (comprising the United Kingdom and Ireland, and Continental Europe), North America, and New Markets (comprising the Middle East and Gulf States, Latin America and the Caribbean, Africa, and Asia Pacific).

The current management structure of the group is a combination of product area and geography, within which the larger businesses generally report by product area. The group's primary segmentation is therefore by business segment and its secondary segmentation is by geography.

Segment information is presented below:

Segment revenue

Revenue by business segment	Continuing operations 2008 £m	Discontinued operations 2008 £m	Total 2008 £m	Continuing operations 2007 £m	Discontinued operations 2007 £m	Total 2007 £m
Secure Solutions						
UK and Ireland	929.9	–	929.9	593.0	–	593.0
Continental Europe	1,389.6	204.2	1,593.8	1,078.3	258.6	1,336.9
Europe	2,319.5	204.2	2,523.7	1,671.3	258.6	1,929.9
North America	1,222.3	–	1,222.3	1,043.8	–	1,043.8
Middle East and Gulf States	315.6	–	315.6	177.9	–	177.9
Latin America and the Caribbean	223.9	7.0	230.9	158.0	1.7	159.7
Africa	248.6	–	248.6	183.9	–	183.9
Asia Pacific	412.0	0.1	412.1	268.9	3.3	272.2
New Markets	1,200.1	7.1	1,207.2	788.7	5.0	793.7
Total Secure Solutions	4,741.9	211.3	4,953.2	3,503.8	263.6	3,767.4
Cash Solutions						
Europe	859.1	0.2	859.3	706.3	17.2	723.5
North America	87.0	–	87.0	78.0	–	78.0
New Markets	254.9	5.4	260.3	195.4	11.0	206.4
Total Cash Solutions	1,201.0	5.6	1,206.6	979.7	28.2	1,007.9
Total revenue	5,942.9	216.9	6,159.8	4,483.5	291.8	4,775.3

Revenue by geographical market	Total 2008 £m	Total 2007 £m
UK and Ireland	1,397.7	1,007.5
Continental Europe	1,985.3	1,645.9
Europe	3,383.0	2,653.4
North America	1,309.3	1,121.8
Middle East and Gulf States	353.9	202.5
Latin America and the Caribbean	272.6	203.3
Africa	343.6	257.2
Asia Pacific	497.4	337.1
New Markets	1,467.5	1,000.1
Total revenue	6,159.8	4,775.3

Revenue from internal and external customers by business segment	Total gross segment revenue 2008 £m	Inter-segment revenue 2008 £m	External revenue 2008 £m	Total gross segment revenue 2007 £m	Inter-segment revenue 2007 £m	External revenue 2007 £m
Secure Solutions	4,960.3	(7.1)	4,953.2	3,773.7	(6.3)	3,767.4
Cash Solutions	1,207.1	(0.5)	1,206.6	1,008.5	(0.6)	1,007.9
Total revenue	6,167.4	(7.6)	6,159.8	4,782.2	(6.9)	4,775.3

Inter-segment sales are charged at prevailing market prices.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

6 Business and geographical segments (continued)

Segment result

PBITA by business segment	Continuing operations 2008 £m	Discontinued operations 2008 £m	Total 2008 £m	Continuing operations 2007 £m	Discontinued operations 2007 £m	Total 2007 £m
Secure Solutions						
UK and Ireland	76.8	(0.5)	76.3	48.4	–	48.4
Continental Europe	74.9	(8.6)	66.3	61.5	(4.3)	57.2
Europe	151.7	(9.1)	142.6	109.9	(4.3)	105.6
North America	70.6	(1.6)	69.0	61.5	–	61.5
Middle East and Gulf States	26.4	–	26.4	14.2	–	14.2
Latin America and the Caribbean	14.8	(0.8)	14.0	10.3	(0.5)	9.8
Africa	22.4	–	22.4	16.0	–	16.0
Asia Pacific	32.6	(0.2)	32.4	22.9	(1.4)	21.5
New Markets	96.2	(1.0)	95.2	63.4	(1.9)	61.5
Total Secure Solutions	318.5	(11.7)	306.8	234.8	(6.2)	228.6
Cash Solutions						
Europe	94.0	(0.1)	93.9	77.4	(2.2)	75.2
North America	0.8	–	0.8	0.6	–	0.6
New Markets	38.6	(0.1)	38.5	29.0	0.1	29.1
Total Cash Solutions	133.4	(0.2)	133.2	107.0	(2.1)	104.9
Total PBITA before head office costs	451.9	(11.9)	440.0	341.8	(8.3)	333.5
Head office costs	(35.5)	–	(35.5)	(30.4)	–	(30.4)
Total PBITA	416.4	(11.9)	404.5	311.4	(8.3)	303.1
PBITA by geographical market						
Europe	245.7	(9.2)	236.5	187.3	(6.5)	180.8
North America	71.4	(1.6)	69.8	62.1	–	62.1
New Markets	134.8	(1.1)	133.7	92.4	(1.8)	90.6
Total PBITA before head office costs	451.9	(11.9)	440.0	341.8	(8.3)	333.5
Head office costs	(35.5)	–	(35.5)	(30.4)	–	(30.4)
Total PBITA	416.4	(11.9)	404.5	311.4	(8.3)	303.1

Result by business segment	Continuing operations 2008 £m	Discontinued operations 2008 £m	Total 2008 £m	Continuing operations 2007 £m	Discontinued operations 2007 £m	Total 2007 £m
Total PBITA	416.4	(11.9)	404.5	311.4	(8.3)	303.1
Amortisation of acquisition-related intangible assets	(67.8)	–	(67.8)	(41.6)	–	(41.6)
Total PBIT	348.6	(11.9)	336.7	269.8	(8.3)	261.5
Secure Solutions	272.9	(11.7)	261.2	215.4	(6.2)	209.2
Cash Solutions	111.2	(0.2)	111.0	84.8	(2.1)	82.7
Head office costs	(35.5)	–	(35.5)	(30.4)	–	(30.4)
Total PBIT	348.6	(11.9)	336.7	269.8	(8.3)	261.5

Continuing PBIT as stated above is equal to PBIT as disclosed in the income statement. Discontinued PBIT as stated above is analysed in note 7.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

6 Business and geographical segments (continued)

Segment assets and liabilities

The following information is analysed by business segment and by the geographical area in which the assets are located:

Total assets	2008 £m	2007 £m
By business segment		
Secure Solutions	**3,962.7**	2,144.3
Cash Solutions	**639.3**	954.8
Head office	**180.5**	103.5
Inter-segment trading balances	**(86.6)**	(64.1)
Total segment operating assets	**4,695.9**	3,138.5
By geographical segment		
UK and Ireland	**1,541.3**	938.1
Continental Europe	**1,162.7**	923.9
Europe	**2,704.0**	1,862.0
North America	**953.1**	615.5
Middle East and Gulf States	**171.7**	105.1
Latin America and the Caribbean	**165.8**	104.7
Africa	**247.2**	190.3
Asia Pacific	**320.9**	213.2
New Markets	**905.6**	613.3
Head office	**219.6**	103.4
Inter-segment trading balances	**(86.4)**	(55.7)
Total segment operating assets	**4,695.9**	3,138.5
Non-operating assets	**880.8**	547.1
Total assets	**5,576.7**	3,685.6

Total liabilities	2008 £m	2007 £m
By business segment		
Secure Solutions	**(1,025.3)**	(730.2)
Cash Solutions	**(356.9)**	(233.6)
Head office	**(109.3)**	(119.2)
Inter-segment trading balances	**86.6**	64.1
Total segment operating liabilities	**(1,404.9)**	(1,018.9)
Non-operating liabilities	**(2,701.1)**	(1,546.7)
Total liabilities	**(4,106.0)**	(2,565.6)

Non-operating assets and liabilities comprise financial assets and liabilities, taxation assets and liabilities and retirement benefit obligations.

Included within operating and non-operating assets are £64.5m (2007: £123.2m) and £6.5m (2007: £7.6m) respectively relating to assets classified as held for sale. Included within operating and non-operating liabilities are £58.4m (2007: £66.3m) and £15.7m (2007: £12.0m) respectively relating to liabilities associated with assets classified as held for sale. Disposal groups are analysed in note 27.

Other information by geographical location

By business segment	Impairment losses recognised in income 2008 £m	Depreciation and amortisation 2008 £m	Capital additions 2008 £m	Impairment losses recognised in income 2007 £m	Depreciation and amortisation 2007 £m	Capital additions 2007 £m
Secure Solutions	**29.4**	**113.0**	**723.3**	–	72.5	204.8
Cash Solutions	**–**	**70.9**	**109.6**	–	68.1	194.1
Head office	**–**	**–**	**2.5**	–	0.6	2.9
Total	**29.4**	**183.9**	**835.4**	–	141.2	401.8

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

6 Business and geographical segments (continued)

By geographical segment	Capital additions 2008 £m	Capital additions 2007 £m
UK and Ireland	506.3	84.8
Continental Europe	97.2	124.7
Europe	603.5	209.5
North America	72.1	13.2
Middle East and Gulf States	69.4	29.4
Latin America and the Caribbean	22.3	13.6
Africa	31.3	108.1
Asia Pacific	34.3	25.1
New Markets	157.3	176.2
Head office	2.5	2.9
Total	835.4	401.8

7 Discontinued operations

Operations qualifying as discontinued in the current year comprise primarily the security services businesses in France, which include principally Group 4 Securicor SAS, disposed of on 28 February 2009; and the security services businesses in Germany, which include principally G4S Sicherheitsdienste GmbH and G4S Sicherheitssysteme GmbH, Berlin, disposed on 15 May 2008.

Additionally, operations qualifying as discontinued in the prior year comprise primarily: G4S Cash Services (France) SAS, disposed of on 2 July 2007; the secure solutions businesses in France, which include principally Group 4 Securicor SAS; and the security services businesses in Germany, which include principally G4S Sicherheitsdienste GmbH and G4S Sicherheitssysteme GmbH, Berlin.

The results of the discontinued operations which have been included in the consolidated income statement are presented below:

	2008 £m	2007 £m
Revenue	216.9	291.8
Expenses	(228.8)	(300.1)
Operating loss before interest and taxation (PBIT)	(11.9)	(8.3)
Net finance costs	(1.4)	(3.3)
Attributable tax credit	–	0.1
Total operating loss for the year	(13.3)	(11.5)
Profit on disposal of discontinued operations (note 18)	12.0	9.1
Goodwill impairment	(29.4)	–
Adjustment in respect of disposals in the prior year	1.6	2.9
Net (loss)/profit attributable to discontinued operations	(29.1)	0.5

The 2008 goodwill impairment charge relates to the security services businesses in France, which includes principally Group 4 Securicor SAS, to write down net assets to their recoverable amount based on the post year end disposal.

The 2008 adjustment in respect of disposals in the prior year comprises £0.1m relating to the finalisation of the disposal of Cognisa Transportation, Inc. and £1.5m to write off of assets and liabilities relating to the disposal of G4S Cash Services (France) SAS.

The 2007 adjustment in respect of disposals in the prior year comprises £0.4m relating to the disposal of the German cash solutions business of G4S Geld-und Wertdienste GmbH, and £2.5m relating to the finalisation of the disposal of Cognisa Transportation, Inc.

The effect of discontinued operations on segment results is disclosed in note 6.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

7 Discontinued operations (continued)

Cash flows from discontinued operations included in the consolidated cash flow statement are as follows:

	2008 £m	2007 £m
Net cash flows from operating activities	(21.1)	12.5
Net cash flows from investing activities	1.1	(1.4)
Net cash flows from financing activities	3.0	2.7
	(17.0)	13.8

8 Profit from operations before interest and taxation (PBIT)

The income statement can be analysed as follows:

Continuing operations	2008 £m	2007 £m
Revenue	5,942.9	4,483.5
Cost of sales	(4,627.9)	(3,479.2)
Gross profit	1,315.0	1,004.3
Administration expenses	(969.8)	(737.5)
Share of profit from associates	3.4	3.0
PBIT	348.6	269.8

Included within administration expenses is £67.8m (2007: £41.6m) of amortisation of acquisition-related intangible assets.

Revenue and expenses relating to discontinued operations are disclosed in note 7.

9 Profit from operations

Profit from continuing and discontinued operations has been arrived at after charging/(crediting):

	2008 £m	2007 £m
Cost of sales		
Cost of inventories recognised as an expense	83.1	92.4
Write-down of inventories to net realisable value	0.2	0.6
Administration expenses		
Amortisation of acquisition-related intangible assets	67.8	41.6
Amortisation of other intangible assets	11.1	8.5
Goodwill impairment	29.4	–
Depreciation of property, plant and equipment	105.0	91.1
Loss/(profit) on disposal of property, plant and equipment and intangible assets other than acquisition-related	2.1	(14.4)
Impairment of trade receivables	4.5	5.4
Litigation settlements	0.5	0.7
Research and development expenditure	3.5	2.1
Operating lease rentals payable	124.3	96.7
Operating sub-lease rentals receivable	(6.2)	(3.0)
Cost of equity-settled transactions	5.0	4.1
Government grants received as a contribution towards wage costs	(1.5)	(2.2)
Net foreign translation adjustments	2.4	(0.2)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

10 Auditors' remuneration

	2008 £m	2007 £m
Fees payable to the company's auditor for the audit of the company's annual report and accounts	**1.0**	1.0
Fees payable to the company's auditor and its associates for other services:		
The audit of the company's subsidiaries pursuant to legislation	**3.2**	2.6
Other services pursuant to legislation	**0.1**	0.2
Taxation services	**0.3**	0.3
Corporate finance services	**0.4**	0.4
Fees payable to other auditors for the audit of the company's subsidiaries pursuant to legislation	**0.3**	0.5

The Corporate Governance Statement on pages 33 to 35 outlines the company's established policy for ensuring that audit independence is not compromised through the provision by the company's auditor of other services.

11 Staff costs and employees

The average monthly number of employees, in continuing and discontinued operations, including executive directors was:

	2008 Number	2007 Number
By business segment		
Secure Solutions	**520,766**	466,035
Cash Solutions	**40,811**	41,255
Not allocated, including shared administration and head office	**299**	190
Total average number of employees	**561,876**	507,480
By geographical segment		
Europe	**129,224**	115,951
North America	**51,918**	53,414
New Markets	**380,619**	337,925
Not allocated, including shared administration and head office	**115**	190
Total average number of employees	**561,876**	507,480

Their aggregate remuneration, in continuing and discontinued operations, comprised:

	2008 £m	2007 £m
Wages and salaries	**3,536.9**	2,772.2
Social security costs	**467.2**	410.2
Employee benefits	**113.3**	75.3
Total staff costs	**4,117.4**	3,257.7

Information on directors' remuneration, share options, long-term incentive plans, and pension contributions and entitlements is set out in the Directors' Remuneration Report on pages 36 to 43.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

12 Finance income

	2008 £m	2007 £m
Interest income on cash, cash equivalents and investments	17.8	12.4
Other interest income	0.6	2.7
Expected return on defined retirement benefit scheme assets	86.5	77.3
Gain arising from change in fair value of derivative financial instruments hedging loan notes	–	14.3
Loss arising from fair value adjustment to the hedged loan note items	–	(14.1)
Total finance income	104.9	92.6

13 Finance costs

	2008 £m	2007 £m
Interest on bank overdrafts and loans	63.5	53.0
Interest on loan notes	31.6	13.5
Interest on obligations under finance leases	3.9	3.3
Other interest charges	6.3	4.2
Gain arising from change in fair value of derivative financial instruments hedging loan notes	(78.0)	–
Loss arising from fair value adjustment to the hedged loan note items	79.2	–
Total group borrowing costs	106.5	74.0
Finance costs on defined retirement benefit obligations	82.8	72.3
Total finance costs	189.3	146.3

Included within interest on bank overdrafts and loans is a debit of £1.5m (2007: credit of £2.1m) relating to cash flow hedges that were transferred from equity during the year.

14 Taxation

	Continuing operations 2008 £m	Discontinued operations 2008 £m	Total 2008 £m	Continuing operations 2007 £m	Discontinued operations 2007 £m	Total 2007 £m
Current taxation expense/(credit)						
UK corporation tax	10.5	–	10.5	2.6	–	2.6
Overseas tax	72.9	(0.2)	72.7	64.3	(0.1)	64.2
Adjustments in respect of prior years:						
UK corporation tax	(3.8)	–	(3.8)	(7.1)	–	(7.1)
Overseas tax	(4.0)	–	(4.0)	–	–	–
Total current taxation expense/(credit)	75.6	(0.2)	75.4	59.8	(0.1)	59.7
Deferred taxation (credit)/expense (see note 36)						
Current year	(12.1)	0.2	(11.9)	(7.4)	–	(7.4)
Adjustments in respect of prior years	6.7	–	6.7	3.6	–	3.6
Total deferred taxation (credit)/expense	(5.4)	0.2	(5.2)	(3.8)	–	(3.8)
Total income tax expense/(credit) for the year	70.2	–	70.2	56.0	(0.1)	55.9

UK corporation tax is calculated at 28.5% (2007: 30.0%) of the estimated assessable profits for the period. Taxation is calculated at the corporation tax rates prevailing in the relevant jurisdictions.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

14 Taxation (continued)

The tax charge for the year can be reconciled to the profit per the income statement as follows:

	2008 £m	2007 £m
Profit before taxation		
Continuing operations	264.2	216.1
Discontinued operations	(29.1)	0.4
Total profit before taxation	235.1	216.5
Tax at UK corporation tax rate of 28.5% (2007: 30.0%)	67.0	65.0
Expenses that are not deductible in determining taxable profit	10.1	2.2
Tax losses not recognised in the current year	3.1	1.5
Different tax rates of subsidiaries operating in non-UK jurisdictions	(8.9)	(9.3)
Adjustments for previous years	(1.1)	(3.5)
Total income tax charge	70.2	55.9
Effective tax rate	29.9%	25.8%

In addition to the income tax expense charged to the income statement, a tax credit of £50.3m (2007: tax charge of £14.0m) has been recognised in equity.

15 Dividends

	Pence per share	DKK per share	2008 £m	2007 £m
Amounts recognised as distributions to equity holders of the parent in the year				
Final dividend for the year ended 31 December 2006	2.52	0.2766	–	32.0
Interim dividend for the six months ended 30 June 2007	2.11	0.2319	–	27.3
Final dividend for the year ended 31 December 2007	2.85	0.2786	36.4	–
Interim dividend for the six months ended 30 June 2008	2.75	0.2572	38.6	–
			75.0	59.3
Proposed final dividend for the year ended 31 December 2008	3.68	0.3052	51.8	

The proposed final dividend is subject to approval by shareholders at the Annual General Meeting. If so approved, it will be paid on 5 June 2009 to shareholders who are on the UK register on 1 May 2009 and on 8 June 2009 to shareholders who are on the Danish register on 1 May 2009 due to a Danish public holiday. The exchange rate used to translate it into Danish krone is that at 9 March 2009.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

16 Earnings/(loss) per share attributable to equity shareholders of the parent

	2008 £m	2007 £m
From continuing and discontinued operations		
Earnings		
Profit for the year attributable to equity holders of the parent	151.2	147.2
Effect of dilutive potential ordinary shares (net of tax)	0.2	0.2
Profit for the purposes of diluted earnings per share	151.4	147.4
Number of shares (m)		
Weighted average number of ordinary shares	1,357.7	1,275.2
Effect of dilutive potential ordinary shares	1.3	1.5
Weighted average number of ordinary shares for the purposes of diluted earnings/(loss) per share	1,359.0	1,276.7
Earnings per share from continuing and discontinued operations (pence)		
Basic	11.1p	11.5p
Diluted	11.1p	11.5p
From continuing operations		
Earnings		
Profit for the year attributable to equity holders of the parent	151.2	147.2
Adjustment to exclude loss/(profit) for the year from discontinued operations (net of tax) (note 7)	29.1	(0.5)
Profit from continuing operations	180.3	146.7
Effect of dilutive potential ordinary shares (net of tax)	0.2	0.2
Profit from continuing operations for the purpose of diluted earnings per share	180.5	146.9
Earnings per share from continuing operations (pence)		
Basic	13.3p	11.5p
Diluted	13.3p	11.5p
From discontinued operations		
Loss per share from discontinued operations (pence)		
Basic	(2.2)p	–
Diluted	(2.2)p	–
From adjusted earnings		
Earnings		
Profit from continuing operations	180.3	146.7
Adjustment to exclude net retirement benefit finance income (net of tax)	(2.7)	(3.6)
Adjustment to exclude amortisation of acquisition-related intangible assets (net of tax)	48.7	26.7
Adjusted profit for the year attributable to equity holders of the parent	226.3	169.8
Weighted average number of ordinary shares (m)	1,357.7	1,275.2
Adjusted earnings per share (pence)	16.7p	13.3p

In the opinion of the directors, the earnings per share figure of most use to shareholders is that which is adjusted. This figure better allows the assessment of operational performance, the analysis of trends over time, the comparison of different businesses and the projection of future earnings.

The denominators used in all earnings/(loss) per share calculations are those disclosed in respect of continuing and discontinued operations.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

17 Acquisitions

Current year acquisitions

The most significant acquisition in subsidiary undertakings in the period was the purchase of De Facto 1119 Limited, the holding company of the Global Solutions group ("GSL") an international leader in the provision of support services for governments, companies and public authorities, based in the UK, which was completed on 12 May 2008. Other principal acquisitions in subsidiary undertakings in the period include the purchases of ArmorGroup International plc, an international provider of defensive, protective security services, head-quartered in the UK; Touchcom, Inc., a security consultancy and design business in the US; RONCO Consulting Corporation, an international provider of humanitarian mine action and ordnance services, specialised security and training, head-quartered in the US; MJM Investigations, Inc., a provider of insurance fraud mitigation and claims services in the US; the Rock Steady group of companies, providing event security in the UK; Travel Logistics Limited, a provider of passport and visa services in the UK; and Progard, the market leader in professional security services in the Republic of Serbia.

In addition, the group completed the acquisition of a further 35% of Aktsiaselts G4S Baltics, increasing to 100% its holding in this company, the holding company of the G4S subsidiaries in Estonia, Latvia and Lithuania, which provide both secure solutions and cash solutions. This transaction was largely accrued at 31 December 2007 through the recognition of a put option. The group also acquired the 49% of G4S Macau Limitada, a provider of both secure solutions and cash solutions that it did not already own.

A summary of the provisional fair value of net assets acquired by geographical location is presented below:

	Europe £m	North America £m	New Markets £m	**Total group £m**
Provisional fair value of net (liabilities)/assets acquired of subsidiary undertakings	(81.0)	21.3	15.0	**(44.7)**
Acquisition of minority interests	0.3	–	5.7	**6.0**
Total provisional fair value of net (liabilities)/assets acquired	(80.7)	21.3	20.7	**(38.7)**
Goodwill	304.4	34.0	70.1	**408.5**
Total purchase consideration	223.7	55.3	90.8	**369.8**

The following table sets out the book values of the identifiable assets and liabilities acquired and their provisional fair value to the group in respect of all acquisitions made in the year:

	Book value £m	Fair value adjustments £m	**Fair value £m**
Intangible assets	5.8	198.1	**203.9**
Property, plant and equipment	45.6	(16.3)	**29.3**
Investment in associates	1.4	–	**1.4**
Inventories	5.5	(0.8)	**4.7**
Trade and other receivables	140.0	(4.2)	**135.8**
Deferred tax assets	8.9	6.4	**15.3**
Cash and cash equivalents	58.4	1.5	**59.9**
Trade and other payables	(112.4)	(22.2)	**(134.6)**
Current tax liabilities	(2.7)	(1.0)	**(3.7)**
Obligations under finance leases	(13.5)	–	**(13.5)**
Provisions	2.9	(30.8)	**(27.9)**
Borrowings	(256.7)	–	**(256.7)**
Deferred tax liabilities	(1.3)	(57.3)	**(58.6)**
Net (liabilities)/assets acquired of subsidiary undertakings	(118.1)	73.4	**(44.7)**
Acquisition of minority interests	5.3	0.7	**6.0**
Goodwill			**408.5**
Total purchase consideration			**369.8**
Satisfied by:			
Cash			**339.0**
Transaction costs			**19.2**
Contingent consideration			**11.6**
Total purchase consideration			**369.8**

17 Acquisitions (continued)

Current year acquisitions (continued)

Adjustments made to identifiable assets and liabilities on acquisition are to reflect their fair value. These include the recognition of customer-related intangible assets amounting to £180.5m. The fair values of net assets acquired are provisional and represent estimates following a preliminary valuation exercise. These estimates may be adjusted to reflect any development in the issues to which they relate.

The goodwill arising on acquisitions can be ascribed to the existence of a skilled, active workforce and the opportunities to obtain new contracts and develop the business. Neither of these meet the criteria for recognition as intangible assets separable from goodwill. Goodwill arising on acquisition includes £19.1m arising on the acquisition of minority interests.

From their respective dates of acquisition, the acquired businesses' contribution to the results of the group for the period was as follows:

Contribution from acquired businesses	Revenue £m	PBITA £m	Profit £m
GSL	316.9	30.0	11.0
ArmorGroup	111.2	6.0	2.4
Touchcom	4.8	(0.2)	(0.4)
RONCO	34.5	5.0	2.6
MJM	14.8	0.9	0.3
Rock Steady	10.5	1.0	0.3
Travel Logistics	7.7	1.3	0.7
Progard	8.2	1.2	0.6
Others	10.0	1.4	0.5
Total contribution from acquired businesses	518.6	46.6	18.0

If all the acquisitions had occurred on 1 January 2008 the results of the group for the period would have been as follows:

Group's results if all acquisitions had occurred on 1 January 2008	Revenue £m	PBITA £m	Profit £m
Group results for the period	5,942.9	416.4	164.9
Impact of backdating acquisitions to 1 January 2008			
GSL	158.5	15.0	5.6
ArmorGroup	55.6	3.0	1.2
Touchcom	3.4	(0.1)	(0.3)
RONCO	17.3	2.5	1.3
MJM	4.9	0.3	0.1
Rock Steady	3.5	0.3	0.1
Travel Logistics	1.5	0.3	0.2
Progard	8.2	1.2	0.6
Others	7.8	0.7	0.3
Group result for the period if all acquisitions had occurred on 1 January 2008	6,203.6	439.6	174.0

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

17 Acquisitions (continued)

Acquisition of GSL

The separately identifiable assets and liabilities of GSL as at the acquisition date are presented in the table below.

	Book value £m	Fair value adjustments £m	**Fair value £m**
Intangible assets	1.9	146.7	**148.6**
Investment in associates	1.4	–	**1.4**
Property, plant and equipment	18.8	(5.5)	**13.3**
Inventories	0.6	–	**0.6**
Trade and other receivables	75.7	(0.5)	**75.2**
Deferred tax assets	4.8	(0.3)	**4.5**
Cash and cash equivalents	54.7	–	**54.7**
Trade and other payables	(84.0)	(5.4)	**(89.4)**
Current tax liabilities	(1.2)	–	**(1.2)**
Obligations under finance leases	(12.6)	–	**(12.6)**
Provisions	3.2	3.9	**7.1**
Borrowings	(238.8)	–	**(238.8)**
Deferred tax liabilities	(1.9)	(41.5)	**(43.4)**
Net assets acquired of subsidiary undertakings	(177.4)	97.4	**(80.0)**
Goodwill			**256.1**
Total purchase consideration			**176.1**
Satisfied by:			
Cash			**167.7**
Transaction costs			**8.4**
Total purchase consideration			**176.1**

Prior year acquisitions

The group undertook a number of acquisitions in 2007, none of which were individually material. Principal acquisitions in subsidiary undertakings included the purchase of controlling interests in: Fidelity Cash Management Services (Pty) Ltd, in South Africa; al Majal Service Master LLC, a facilities management business in Saudi Arabia; and in RIG – PR Ltd, a specialist police recruitment agency in the United Kingdom. In addition, the group increased its interests in Israel and Mozambique, and recognised put options that increased the group's interest in the Baltic states.

17 Acquisitions (continued)

Prior year acquisitions (continued)

At 31 December 2007, the fair value adjustments made against net assets acquired were provisional. The initial accounting in respect of acquisitions made during 2007 has since been finalised. The net assets acquired and goodwill arising in respect of all acquisitions made in the year are as follows:

	Book value £m	Fair value adjustments £m	**Fair value £m**
Acquisition-related intangible assets	–	41.5	**41.5**
Other intangible assets	1.0	(0.7)	**0.3**
Property, plant and equipment	26.3	(1.4)	**24.9**
Inventories	4.2	0.5	**4.7**
Trade and other receivables	50.6	(1.9)	**48.7**
Deferred tax assets	0.1	0.3	**0.4**
Cash and cash equivalents	11.6	0.8	**12.4**
Trade and other payables	(48.0)	(6.0)	**(54.0)**
Current tax liabilities	(1.6)	(1.5)	**(3.1)**
Provisions	(7.7)	(7.4)	**(15.1)**
Borrowings	(23.3)	(0.4)	**(23.7)**
Deferred tax liabilities	–	(10.6)	**(10.6)**
Minority interests	(10.7)	4.5	**(6.2)**
Net assets acquired of subsidiary undertakings	2.5	17.7	**20.2**
Acquisition of minority interests	17.8	6.1	**23.9**
Goodwill			**178.1**
Total purchase consideration			**222.2**
Satisfied by:			
Cash			**150.0**
Transaction costs			**5.6**
Contingent consideration			**66.6**
Total purchase consideration			**222.2**

Adjustments made to identifiable assets and liabilities on acquisition are to reflect their fair value. These include the recognition of customer-related intangible assets amounting to £41.5m. On completion of the fair value exercise during 2008, adjustments made to the provisional calculation amounted to £1.1m, with an equivalent decrease in the reported value of goodwill. The comparative balance sheet at 31 December 2007 has been restated accordingly.

The goodwill arising on acquisitions can be ascribed to the existence of a skilled, active workforce and the opportunities to obtain new contracts and develop the business. Neither of these meet the criteria for recognition as intangible assets separable from goodwill. Goodwill arising on acquisition includes £47.5m arising on the acquisition of minority interests.

In the year of acquisition, in aggregate, the acquired businesses contributed £171.2m to revenues, £10.0m to PBITA and £(0.3)m to profit for the part year they were under the group's ownership. If all acquisitions had occurred on 1 January 2007, group revenue would have been £4,572.2m, PBITA would have been £321.0m and profit for the year would have been £162.4m.

Post balance sheet acquisitions

A number of acquisitions were effected after the balance sheet date, but before the financial statements were authorised for issue, none of which were individually material. In aggregate, the acquisitions, primarily within Europe, Asia Pacific and Africa, were satisfied by total consideration of £26.5m.

It is considered impractical to disclose any further information in relation to acquisitions effected after the balance sheet date because the preliminary assessment of the fair value of assets and liabilities acquired is in progress.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

18 Disposal of subsidiaries

On 15 May 2008, the group disposed of the security services business in Germany, which principally comprises G4S Sicherheitsdienste GmbH and G4S Sicherheitssysteme GmbH.

On 31 July 2008, the group disposed of the security systems business in France, being G4S Telesurveillance SAS and G4S Technologie SAS.

On 28 February 2009, the group disposed of the manned security business in France, which includes principally Group 4 Securicor SAS.

On 2 July 2007, the group disposed of G4S Cash Services (France) SAS.

The net assets of operations disposed of were as follows:

	2008 £m	2007 £m
Goodwill	**20.8**	–
Property, plant and equipment and intangible assets other than acquisition-related	**4.3**	12.9
Current assets	**13.0**	6.6
Liabilities	**(19.0)**	(8.3)
Net assets of operations disposed	**19.1**	11.2
Profit on disposal	**12.0**	9.1
Total consideration	**31.1**	20.3
Satisfied by:		
Cash	**31.1**	20.3

In the prior year, £12.4m was paid relating to the disposal of the German cash services business G4S Geld-und Wertdienste GmbH.

The impact of the disposals, combined with other operations qualifying as discontinued, on the group's results and cash flows in the current and prior year is disclosed in note 7.

19 Intangible assets

2008	Goodwill	Acquisition-related intangible assets			Other intangible assets		Total
	£m	Trademarks £m	Customer related £m	Technology £m	Development expenditure £m	Software £m	£m
Cost							
At 1 January 2008	1,357.0	16.2	322.2	10.7	7.0	60.5	1,773.6
Acquisition of businesses	408.5	16.3	180.5	5.2	–	1.9	612.4
Additions	–	–	2.0	–	3.9	19.2	25.1
Disposals	–	–	(0.1)	–	–	(1.8)	(1.9)
Translation adjustments	328.8	1.0	50.8	3.5	1.5	23.9	409.5
At 31 December 2008	2,094.3	33.5	555.4	19.4	12.4	103.7	2,818.7
Amortisation and accumulated impairment losses							
At 1 January 2008	(25.7)	(11.0)	(106.7)	(7.2)	(0.8)	(35.4)	(186.8)
Amortisation charge	–	(4.0)	(61.2)	(2.6)	(1.7)	(9.4)	(78.9)
Disposals	–	–	–	–	–	1.1	1.1
Translation adjustments	(8.2)	(1.4)	(18.9)	(3.1)	(0.4)	(8.5)	(40.5)
At 31 December 2008	(33.9)	(16.4)	(186.8)	(12.9)	(2.9)	(52.2)	(305.1)
Carrying amount							
At 1 January 2008	1,331.3	5.2	215.5	3.5	6.2	25.1	1,586.8
At 31 December 2008	**2,060.4**	**17.1**	**368.6**	**6.5**	**9.5**	**51.5**	**2,513.6**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

19 Intangible assets (continued)

2007	Goodwill	Acquisition-related intangible assets			Other intangible assets		Total
	£m	Trademarks £m	Customer related £m	Technology £m	Development expenditure £m	Software £m	£m
Cost							
At 1 January 2007	1,218.0	16.4	274.8	10.9	4.8	47.1	1,572.0
Acquisition of businesses	178.1	–	41.5	–	0.2	0.1	219.9
Additions	–	–	–	–	2.3	15.1	17.4
Disposals	–	–	–	–	(0.1)	(0.3)	(0.4)
Disposal of businesses	–	–	–	–	–	(1.3)	(1.3)
Reclassified as held for sale	(85.1)	(0.7)	–	–	(0.3)	(3.2)	(89.3)
Translation adjustments	46.0	0.5	5.9	(0.2)	0.1	3.0	55.3
At 31 December 2007	1,357.0	16.2	322.2	10.7	7.0	60.5	1,773.6
Amortisation and accumulated impairment losses							
At 1 January 2007	(42.4)	(7.9)	(68.4)	(5.2)	(0.3)	(29.4)	(153.6)
Amortisation charge	–	(3.3)	(36.2)	(2.1)	(0.7)	(7.8)	(50.1)
Disposals	–	–	–	–	0.1	0.2	0.3
Disposal of businesses	–	–	–	–	–	1.0	1.0
Reclassified as held for sale	27.8	0.4	–	–	0.2	2.6	31.0
Translation adjustments	(11.1)	(0.2)	(2.1)	0.1	(0.1)	(2.0)	(15.4)
At 31 December 2007	(25.7)	(11.0)	(106.7)	(7.2)	(0.8)	(35.4)	(186.8)
Carrying amount							
At 1 January 2007	1,175.6	8.5	206.4	5.7	4.5	17.7	1,418.4
At 31 December 2007	1,331.3	5.2	215.5	3.5	6.2	25.1	1,586.8

Included within software is internally generated software with a gross carrying value of £6.7m (2007: £4.7m), and accumulated amortisation of £0.9m (2007: £2.2m), giving a net book value of £5.8m (2007: £2.5m). During the year, additions amounted to £3.9m (2007: £1.2m) and the amortisation charge associated to these assets was £0.9m (2007: £0.8m).

Customer-related intangibles comprise the contractual relationship with customers and the customer relationships which meet the criteria for identification as intangible assets in accordance with IFRS. Customer contracts and relationships recognised upon the acquisition of Securicor plc on 19 July 2004 are considered significant to the group. The carrying amount at 31 December 2008 was £138.6m (2007: £152.3m), and the amortisation period remaining in respect of these assets is five and a half years.

Goodwill acquired in a business combination is allocated to the cash generating units (CGUs) which are expected to benefit from that business combination. The majority of goodwill was generated by the merger of the security services businesses of Group 4 Falck and Securicor in 2004 which was accounted for as an acquisition of Securicor by Group 4 Falck.

The group tests tangible and intangible assets, including goodwill, for impairment on an annual basis or more frequently if there are indications that amounts may be impaired. The annual impairment test is performed prior to the year end when the budgeting process is finalised and reviewed post year end. The group's impairment test compares the carrying value of each CGU to its recoverable amount. CGUs are identified on a country level basis including significant business units, as per the group's detailed management accounts. Under IAS 36 *Impairment of Assets*, an impairment is deemed to have occurred where the recoverable amount of a CGU is less than its carrying value.

The recoverable amount of a CGU is determined by its value in use which is derived from discounted cash flow calculations. These calculations include forecast pre-tax cash flows for a period of five years. The five year cash flow forecasts are based on the budget for the following year (year one) and the business plans for years two and three, the results of which are reviewed by the board, and projections for years four and five, all of which reflect past experience as well as future expected market trends. Budgeted and forecast cash flows are based on management's assessment of current contract portfolio, contract wins, contract retention and price increases. Cash flows beyond the five year forecast period are projected into perpetuity at the lower of the planned growth rate in year three and the forecast underlying economic growth rate for the economies in which the CGU operates.

Where the planned growth rate in year three exceeds the forecast underlying economic growth rate, the excess is reduced progressively in the projections for years four and five. Growth rates across the group's CGUs range from 0% to 20%, and the into-perpetuity growth rates for the significant CGUs are disclosed in the table below. Future cash flows are discounted at a pre-tax, weighted average cost of capital which for the group is 11.4% (2007: 11.3%), and the discount rates for the significant CGUs are disclosed in the table below. Pre-tax cash flows discounted using pre-tax discount rates broadly approximate to post-tax cash flows discounted at post-tax rates. The group rate is adjusted where appropriate to reflect the different financial risks in each country in which the CGUs operate. Risk-adjusted discount rates applicable to group entities range from 7.7% in Singapore to 71.7% in Madagascar.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

19 Intangible assets (continued)

In applying the group's model, no impairment has been identified and recognised in any of the group's CGUs for the year ended 31 December 2008 or for the year ended 31 December 2007. Management believe that there is currently no reasonably possible change in the underlying factors used in the impairment model which would lead to a material impairment of goodwill.

The following CGUs have significant carrying amounts of goodwill:

	Discount rate 2008	Discount rate 2007	**Growth rate 2008***	Growth rate 2007*	**Goodwill 2008 £m**	Goodwill 2007 £m
US secure solutions (manned security)	**10.1%**	11.0%	**5.0%**	3.0%	**388.9**	246.6
GSL	**11.4%**	–	**5.3%**	–	**256.1**	–
UK cash solutions	**11.4%**	11.3%	**5.3%**	4.4%	**244.5**	226.1
Netherlands secure solutions	**10.5%**	9.9%	**3.9%**	3.0%	**136.6**	103.8
UK secure solutions (manned security)	**11.4%**	11.3%	**5.3%**	4.4%	**122.8**	65.7
UK secure solutions (justice services)	**11.4%**	11.3%	**5.3%**	4.4%	**95.3**	105.8
Baltics secure solutions and cash solutions	**14.3%**	15.8%	**3.9%**	5.5%	**76.1**	55.8
Other (all allocated)					**740.1**	527.5
Total goodwill					**2,060.4**	1,331.3

* Growth rate is the long-term into-perpetuity growth rate

The key assumptions used in the discounted cash flow calculations relate to the discount rates and underlying economic growth rates for each CGU. With all other variables being equal, a 1% increase in the group discount rate from 11.4% to 12.4% with equivalent increases to the discount rates in all countries would result in a goodwill impairment to the group of £15m, however no impairment would be required to any of the significant CGUs. A significant increase of 3% in the group discount rate from 11.4% to 14.4%, and an equivalent increase in all countries, would result in a group impairment of £125m including impairments of £65m to GSL and £26m to Netherlands secure solutions.

A decrease in the underlying growth rate in all countries of 1% would result in a group impairment of £10m, with no impairment required for any of the significant CGUs. A more dramatic decrease of 3% in growth rate would result in a group impairment of £93m including impairments to GSL of £40m and to Netherlands secure solutions of £17m. These approximations indicate the sensitivity of the impairment test to changes in the underlying assumptions. However, it is highly unlikely that any variations in the assumptions would impact on all CGUs at the same time.

20 Property, plant and equipment

2008	Land and buildings £m	Equipment and vehicles £m	Total £m
Cost			
At 1 January 2008	158.5	630.5	789.0
Acquisition of businesses	7.4	21.9	29.3
Additions	36.4	132.2	168.6
Disposals	(2.3)	(65.4)	(67.7)
Translation adjustments	29.8	142.2	172.0
At 31 December 2008	229.8	861.4	1,091.2
Depreciation and accumulated impairment losses			
At 1 January 2008	(35.6)	(350.2)	(385.8)
Depreciation charge	(10.6)	(94.4)	(105.0)
Disposals	1.3	53.4	54.7
Translation adjustments	(14.3)	(112.2)	(126.5)
At 31 December 2008	(59.2)	(503.4)	(562.6)
Carrying amount			
At 1 January 2008	122.9	280.3	403.2
At 31 December 2008	**170.6**	**358.0**	**528.6**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

20 Property, plant and equipment (continued)

2007	Land and buildings £m	Equipment and vehicles £m	Total £m
Cost			
At 1 January 2007	137.8	540.4	678.2
Acquisition of businesses	4.0	20.9	24.9
Additions	34.5	105.1	139.6
Disposals	(12.4)	(35.9)	(48.3)
Disposal of businesses	(12.4)	(11.9)	(24.3)
Reclassified as held for sale	(0.6)	(21.6)	(22.2)
Translation adjustments	7.6	33.5	41.1
At 31 December 2007	158.5	630.5	789.0
Depreciation and accumulated impairment losses			
At 1 January 2007	(30.5)	(292.8)	(323.3)
Depreciation charge	(12.1)	(79.0)	(91.1)
Disposals	6.9	19.1	26.0
Disposal of businesses	3.5	8.2	11.7
Reclassified as held for sale	0.3	16.8	17.1
Translation adjustments	(3.7)	(22.5)	(26.2)
At 31 December 2007	(35.6)	(350.2)	(385.8)
Carrying amount			
At 1 January 2007	107.3	247.6	354.9
At 31 December 2007	122.9	280.3	403.2

The carrying amount of equipment and vehicles includes the following in respect of assets held under finance leases:

	2008 £m	2007 £m
Net book value	**59.5**	50.8
Accumulated depreciation	**68.2**	47.9
Depreciation charge for the year	**16.6**	14.0

The rights over leased assets are effectively security for lease liabilities. These rights revert to the lessor in the event of default.

The carrying amount of equipment and vehicles includes the following in respect of assets leased by the group to third parties under operating leases:

	2008 £m	2007 £m
Net book value	**39.2**	32.5
Accumulated depreciation	**74.1**	49.0
Depreciation charge for the year	**9.4**	7.5

The net book value of land and buildings comprises:

	2008 £m	2007 £m
Freeholds	**57.2**	52.2
Long leaseholds (50 years and over)	**9.8**	17.0
Short leaseholds (under 50 years)	**103.6**	53.7

At 31 December 2008 the group had entered into contractual commitments for the acquisition of property, plant and equipment amounting to £3.3m (2007: £2.1m).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

21 Investment in joint ventures

At the year end the group owned 59% of the equity of Bridgend Custodial Services Ltd and 50% of the equity in STC (Milton Keynes) Ltd. In both cases, the group jointly shares operational and financial control over the operations and is therefore entitled to a proportionate share of the results of each, which are consolidated on the basis of the equity shares held. The group's correctional facilities in South Africa are under a similar arrangement other than that the group's holding is 20%.

The group's 100% interest in the equity of Wackenhut Services, Inc ("WSI"), previously classified as a joint venture, is now accounted for as a subsidiary as the group now exercises sufficient influence over WSI's operations for it to be so classified. WSI is governed through a proxy agreement under which the group is excluded from access to certain information relating to its business.

The results of each of the jointly controlled operations are prepared in accordance with group accounting policies. Amounts proportionately consolidated into the group's financial statements are as follows:

Results	2008 £m	2007 £m
Income	30.8	320.6
Expenses	(27.4)	(307.1)
Profit after tax	3.4	13.5

Balance sheet	2008 £m	2007 £m
Assets		
Non-current assets	4.0	54.5
Current assets	47.8	92.6
	51.8	147.1
Liabilities		
Current liabilities	(11.3)	(56.3)
Non-current liabilities	(18.1)	(52.5)
	(29.4)	(108.8)
Net assets	22.4	38.3

22 Investment in associates

The group's share of associates' profit and net assets and the reconciliation to the net investment are as follows:

	2008 £m	2007 £m
Total assets	11.6	14.2
Total liabilities	(4.2)	(4.0)
Net investment in associates	7.4	10.2
Revenue	76.3	75.8
Profit for the year	3.4	3.0

The net investment and results presented above relate largely to Space Gateway Support LLC, in the USA, in which the group holds an investment of 46%. The results of Space Gateway Support LLC are reported in the North America security segment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

23 Inventories

	2008 £m	2007 £m
Raw materials	23.4	12.7
Work in progress	11.5	7.4
Finished goods including consumables	50.6	38.1
Total inventories	85.5	58.2

24 Investments

Investments comprise primarily listed securities of £70.2m (2007: £61.6m) held by the group's wholly-owned captive insurance subsidiaries stated at their fair values based on quoted market prices. Use of these investments is restricted to the settlement of claims against the group's captive insurance subsidiaries.

25 Trade and other receivables

	2008 £m	2007 £m
Within current assets		
Trade debtors	1,220.2	789.7
Allowance for doubtful debts	(59.4)	(36.4)
Amounts owed by associated undertakings	4.4	3.3
Other debtors	88.3	65.3
Prepayments and accrued income	89.1	51.6
Amounts due from construction contract customers (see note 26)	10.6	11.3
Derivative financial instruments at fair value (see note 32)	9.6	2.3
Total trade and other receivables included within current assets	1,362.8	887.1
Within non-current assets		
Derivative financial instruments at fair value (see note 32)	143.6	15.1
Other debtors	11.1	13.9
Amounts receivable under PFI contracts	43.3	40.4
Total trade and other receivables included within non-current assets	198.0	69.4

Credit risk on trade receivables

There is limited concentration of credit risk with respect to trade receivables, as the group's customers are both large in number and dispersed geographically in over 110 countries.

Credit terms vary across the group and can range from 0 to 90 days to reflect the different risks within each country in which the group operates. There is no group-wide rate of provision, and provision is made for debts that are past due according to local conditions and past default experience.

The movement in the allowance for doubtful debts is as follows:

	2008 £m	2007 £m
At 1 January	(36.4)	(25.7)
Amounts written off during the year	3.8	5.4
Increase in allowance	(26.8)	(16.1)
At 31 December	(59.4)	(36.4)

Included within trade receivables are trade debtors with a carrying amount of £384m (2007: £290m) which are past due at the reporting date for which no provision has been made as there has not been a significant change in credit quality and the group believes that the amounts are still recoverable. The group does not hold any collateral over these balances. The proportion of trade debtors at 31 December 2008 that were overdue for payment was 36% (2007: 39%). The group-wide average age of all trade debtors at year end was 68 days (2007: 58 days).

The directors believe the fair value of trade and other receivables, being the present value of future cash flows, approximates to their book value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

25 Trade and other receivables (continued)

Amounts receivable under PFI contracts

Amounts receivable under PFI contracts comprise the group's proportion of amounts receivable in respect of the Private Finance Initiative (PFI) projects undertaken by the group's joint ventures. During the year the group acquired a share of Bloemfontein Correctional Contracts (Pty) Ltd within the acquisition of GSL Global Ltd. The group's interests under PFI contracts consist primarily of the design, construction, financing and management of HM Prison and Young Offenders Institution Parc in Bridgend, South Wales, for the Home Office; and the Oakhill Secure Training Centre for young people in Milton Keynes for the Youth Justices Board. The Bridgend contract commenced in January 1996 and expires in December 2022. The Milton Keynes contract commenced in June 2003 and expires in June 2028. Both contracts can be terminated by the customer either in the event of a severe failure to comply with the contract or voluntarily with six months notice and the payment of appropriate compensation. The specified assets remain the property of the customers. The group's joint ventures have the right to provide services using the specified assets during the life of the contracts. There is currently no obligation to acquire or build further assets and any such obligation would be agreed with the customers as variations to the contracts. The pricing basis is inflation-indexed.

Amounts receivable under PFI contracts are pledged as security against borrowings of the group.

26 Construction contracts

Contracts in place at the balance sheet date are as follows:

	2008 £m	2007 £m
Amounts due from contract customers included in trade and other receivables	10.6	11.3
Amounts due to contract customers included in trade and other payables	(2.6)	(1.7)
Net balances relating to construction contracts	8.0	9.6
Contract costs incurred plus recognised profits less recognised losses to date	23.6	32.2
Less: Progress billings	(15.6)	(22.6)
Net balances relating to construction contracts	8.0	9.6

At 31 December 2008, advances received from customers for contract work amounted to £6.0m (2007: £2.8m). There were no retentions held by customers for contract work at either balance sheet date. All trade and other receivables arising from construction contracts are due for settlement within one year.

The directors believe the fair value of amounts due from and to contract customers, being the present value of future cash flows, approximates to their book value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

27 Disposal groups classified as held for sale

Disposal groups classified as held for sale as at 31 December 2008 comprise primarily the assets and liabilities associated with the manned security business in France, which includes principally Group 4 Securicor SAS.

The major classes of assets and liabilities comprising the operations classified as held for sale are as follows:

	2008 £m	2007 £m
ASSETS		
Goodwill and acquisition-related intangible assets	15.1	57.6
Property, plant and equipment and intangible assets other than acquisition-related	4.2	5.8
Interest in associates	(0.8)	3.3
Trade and other receivables	45.2	56.6
Deferred tax asset	2.3	–
Cash and cash equivalents	5.0	7.6
Total assets classified as held for sale	71.0	130.9
LIABILITIES		
Bank overdrafts	(11.3)	(8.3)
Bank loans	(1.0)	(0.6)
Trade and other payables	(58.1)	(62.3)
Current tax liabilities	(2.6)	(2.0)
Retirement benefit obligations	(0.8)	(1.1)
Provisions	(0.3)	(4.0)
Total liabilities associated with assets classified as held for sale	(74.1)	(78.3)
Net (liabilities)/assets of disposal group	(3.1)	52.6

28 Cash, cash equivalents and bank overdrafts

A reconciliation of cash and cash equivalents reported within the consolidated cash flow statement to amounts reported within the balance sheet is presented below:

	2008 £m	2007 £m
Cash and cash equivalents	562.1	382.1
Bank overdrafts	(195.1)	(110.7)
Cash, cash equivalents and bank overdrafts included within disposal groups classified as held for sale	(6.3)	(0.7)
Total cash, cash equivalents and bank overdrafts	360.7	270.7

Cash and cash equivalents comprise principally short-term money market deposits, current account balances and cash held in ATM machines and at 31 December 2008 bore interest at a weighted average rate of 1.2% (2007: 3.3%). The credit risk on cash and cash equivalents is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

The group operates a multi-currency notional pooling cash management system which included in excess of 90 group companies at 31 December 2008. It is anticipated that the number of participants in the group will continue to grow. At 31 December 2008 £128.4m (2007: £82.9m) of the cash balances and the equivalent amount of the overdraft balances were effectively offset for interest purposes within the cash pool.

Cash and cash equivalents of £33.7m (2007: £28.1m) are held by the group's wholly-owned captive insurance subsidiaries. Their use is restricted to the settlement of claims against the group's captive insurance subsidiaries.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

29 Bank overdrafts, bank loans and loan notes

	2008 £m	2007 £m
Bank overdrafts	**195.1**	110.7
Bank loans	**965.7**	809.7
Loan notes	**901.9**	290.4
Total bank overdrafts, bank loans and loan notes	**2,062.7**	1,210.8
The borrowings are repayable as follows:		
On demand or within one year	**283.0**	191.3
In the second year	**10.0**	10.7
In the third to fifth years inclusive	**900.8**	702.1
After five years	**868.9**	306.7
Total bank overdrafts, bank loans and loan notes	**2,062.7**	1,210.8
Less: Amount due for settlement within 12 months (shown under current liabilities):		
– Bank overdrafts	**(195.1)**	(110.7)
– Bank loans	**(87.9)**	(80.6)
	(283.0)	(191.3)
Amount due for settlement after 12 months	**1,779.7**	1,019.5

Analysis of bank overdrafts, bank loans and loan notes by currency:

	Sterling £m	Euros £m	US Dollars £m	Others £m	Total £m
Bank overdrafts	64.0	55.0	36.2	39.9	195.1
Bank loans	236.6	351.5	313.6	64.0	965.7
Loan notes	69.0	–	832.9	–	901.9
At 31 December 2008	**369.6**	**406.5**	**1,182.7**	**103.9**	**2,062.7**
Bank overdrafts	64.8	12.4	2.6	30.9	110.7
Bank loans	184.9	329.2	242.2	53.4	809.7
Loan notes	–	–	290.4	–	290.4
At 31 December 2007	249.7	341.6	535.2	84.3	1,210.8

Of the borrowings in currencies other than sterling, £1,272m (2007: £821m) is designated as net investment hedging instruments.

The weighted average interest rates on bank overdrafts, bank loans and loan notes at 31 December 2008 were as follows:

	2008 %	2007 %
Bank overdrafts	**2.2**	6.0
Bank loans	**4.6**	5.7
Loan notes	**6.4**	5.9

The group's committed bank borrowings comprise two multicurrency revolving credit facilities totalling £1,087m with a maturity date of June 2012 and a revolving credit facility of £45m maturing March 2010, and the group's uncommitted facilities amount to £578.0m (2007: £410.9m). At 31 December 2008, undrawn committed available facilities amounted to £350.4m (2007: £427.9m). Interest on all committed bank borrowing facilities is at prevailing Libor or Euribor rates, dependent upon the period of drawdown, plus an agreed margin, and repriced within one year or less.

Borrowing at floating rates exposes the group to cash flow interest rate risk. The management of this risk is discussed in note 33.

The group issued fixed rate loan notes in the US Private Placement market totalling US$550m (£382.5m) on 1 March 2007. The notes mature in March 2014 ($100m), March 2017 ($200m), March 2019 ($145m) and March 2022 ($105m).

The group issued further fixed rate loan notes in the US Private Placement market totalling US$513.5m (£357.1m) and £69m on 15 July 2008. The notes mature in July 2013 ($65m), July 2015 ($150m), July 2016 (£25m), July 2018 ($224m) and (£44m), and July 2020 ($74.5m).

The committed bank facilities and the loan notes are subject to one financial covenant (net debt to EBITDA ratio) and any non-compliance with the covenant may lead to an acceleration of maturity. The group complied with the financial covenant throughout the year to 31 December 2008 and the year to 31 December 2007. The group has not defaulted on, or breached the terms of, any material loans during the year.

29 Bank overdrafts, bank loans and loan notes (continued)

Bank overdrafts, bank loans and the loan notes issued in July 2008 are stated at amortised cost. The loan notes issued in March 2007 are stated at amortised cost recalculated at an effective interest rate current at the balance sheet date as they are part of a fair value hedge relationship. The directors believe the fair value of the group's bank overdrafts, bank loans and the loan notes issued in March 2007, calculated from market prices, approximates to their book value. US$265m (£184.3m) of the loan notes issued in July 2008 have a fair value market gain of £60.9m. The fair value of the remaining notes approximates to their book value.

30 Obligations under finance leases

	Minimum lease payments 2008 £m	Minimum lease payments 2007 £m	Present value of minimum lease payments 2008 £m	Present value of minimum lease payments 2007 £m
Amounts payable under finance leases:				
Within one year	**24.0**	18.7	**22.1**	16.2
In the second to fifth years inclusive	**55.9**	40.3	**49.3**	35.6
After five years	**16.3**	11.2	**14.3**	10.4
	96.2	70.2	**85.7**	62.2
Less: Future finance charges on finance leases	**(10.5)**	(8.0)		
Present value of lease obligations	**85.7**	62.2		
Less: Amount due for settlement within 12 months (shown under current liabilities)			**(22.1)**	(16.2)
Amount due for settlement after 12 months			**63.6**	46.0

It is the group's policy to lease certain of its fixtures and equipment under finance leases. The weighted average lease term is eight years. For the year ended 31 December 2008, the weighted average effective borrowing rate was 7.2% (2007: 5.4%). Interest rates are fixed at the contract date. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

The directors believe the fair value of the group's finance lease obligations, being the present value of future cash flows, approximates to their book value.

The group's obligations under finance leases are secured by the lessors' charges over the leased assets.

31 Trade and other payables

	2008 £m	2007 £m
Within current liabilities:		
Trade creditors	**197.0**	141.1
Amounts due to construction contract customers (see note 26)	**2.6**	1.7
Amounts owed to associated undertakings	**0.5**	0.7
Other taxation and social security costs	**182.6**	129.1
Other creditors	**519.5**	411.4
Accruals and deferred income	**294.7**	153.0
Derivative financial instruments at fair value (see note 32)	**19.2**	15.1
Total trade and other payables included within current liabilities	**1,216.1**	852.1
Within non-current liabilities:		
Derivative financial instruments at fair value (see note 32)	**39.1**	6.7
Other creditors	**24.4**	32.0
Total trade and other payables included within non-current liabilities	**63.5**	38.7

Trade and other payables comprise principally amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 40 days (2007: 46 days). The directors believe the fair value of trade and other payables, being the present value of future cash flows, approximates to their book value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

32 Derivative financial instruments

The carrying values of derivative financial instruments at the balance sheet date are presented below:

	Assets 2008 £m	Assets 2007 £m	Liabilities 2008 £m	Liabilities 2007 £m
Forward foreign exchange contracts	–	–	28.6	13.6
Cross currency swaps designated as cash flow hedges	60.9	–	–	–
Interest rate swaps designated as cash flow hedges	–	3.1	28.6	8.2
Interest rate swaps designated as fair value hedges	92.3	14.3	–	–
Commodity swaps	–	–	1.1	–
	153.2	17.4	58.3	21.8
Less: Non-current portion	(143.6)	(15.1)	(39.1)	(6.7)
Current portion	9.6	2.3	19.2	15.1

Derivative financial instruments are stated at fair value, based upon market prices where available or otherwise on discounted cash flow valuations. The source of the market prices is Bloomberg and in addition the third party relationship counterparty banks. 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. This value is compared to the original transaction value giving a fair value of the instrument at the balance sheet date.

The mark to market valuation of the derivatives has risen by £99.3m during the year.

The interest rate, cross-currency and commodity swaps which qualify as cash flow hedges have the following maturities:

	Assets 2008 £m	Assets 2007 £m	Liabilities 2008 £m	Liabilities 2007 £m
Within one year	–	0.1	3.2	0.1
In the second year	–	1.0	4.0	0.9
In the third year	–	0.6	7.8	1.1
In the fourth year	–	0.7	10.0	2.2
In the fifth year or greater	60.9	0.7	4.7	3.9
Total carrying value of cash flow hedges	60.9	3.1	29.7	8.2

Projected settlement of cash flows (including accrued interest) associated with derivatives that are cash flow hedges:

	Assets 2008 £m	Assets 2007 £m	Liabilities 2008 £m	Liabilities 2007 £m
Within one year	2.3	1.7	11.1	1.6
In the second year	1.6	0.6	10.7	3.1
In the third year	1.6	0.4	4.9	1.7
In the fourth year	1.6	0.2	2.1	0.9
In the fifth year or greater	54.5	0.2	1.4	0.9
Total cash flows	61.6	3.1	30.2	8.2

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

33 Financial risk

Capital management

The group's capital management objective is to ensure that the businesses within it can continue and develop as going concerns whilst returns to stakeholders are maximised. The group believes that these returns are maximised when the group's Weighted Average Cost of Capital (WACC) is minimised and that this is the case when the group broadly has the characteristics of an investment grade BBB rated entity. The group therefore aims generally to maintain its net debt expressed as a multiple of cash generated from operations broadly within a range corresponding to those of BBB rated entities. On 9 March 2009 the group obtained a BBB credit rating from Standard & Poor's.

The group has a range of return on capital targets in respect of potential acquisitions, depending upon their size. Most proposals for "bolt-on" acquisitions must demonstrate a post-tax return of at least 12% on the capital investment within three years. Medium-sized acquisitions are required to return a minimum of 10% within this timeframe and relatively rare, large, strategic acquisitions a minimum equal to the group's WACC. The group's calculation of its post-tax WACC at 31 December 2008 was 8.2%.

The group monitors the financial performance of acquired businesses during the years following acquisition against the return targets. In addition, the group monitors the Return on Net Assets (RONA) of all its businesses on a monthly basis. The group regards RONA as a measure of operational performance and therefore calculates it as EBITA divided by net assets excluding goodwill, tax, dividends payable and retirement benefit obligations.

The group has no current intention to commence a share buy-back plan. The group operates a programme to purchase its own shares on the market on a regular basis so as to provide a pool of shares from which to satisfy share awards to employees as the awards vest.

The group is not subject to externally-imposed capital requirements and there were no changes in the group's approach to capital management during the year.

Liquidity risk

The group mitigates liquidity risk by ensuring there are sufficient undrawn committed facilities available to it. For more details of the group's bank overdrafts, bank loans and loan notes see note 29.

The percentage of available, but undrawn committed facilities during the course of the year was as follows:

31 December 2007	38%
31 March 2008	29%
30 June 2008	24%
30 September 2008	16%
31 December 2008	19%

The availability of undrawn committed facilities during 2008 has been impacted by the deterioration in the value of sterling against the US dollar and euro, being currencies in which a significant proportion of drawn facilities is denominated. To reduce re-financing risk, group treasury obtains finance with a range of maturities and hence minimises the impact of a single material source of finance terminating on a single date.

The group's committed facilities have the following maturity dates:

March 2010	£45m
June 2012	£1,087m
July 2013	£45m
March 2014	£70m
July 2015	£104m
July 2016	£25m
March 2017	£139m
July 2018	£200m
March 2019	£101m
July 2020	£52m
March 2022	£73m

Re-financing risk is further reduced by group treasury opening negotiations to either replace or extend any major facility at least 18 months before its termination date.

The group will continue to seek to diversify its sources of finance and reduce further the proportion of bank supplied finance.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

33 Financial risk (continued)

Market risk

Currency risk and forward foreign exchange contracts

The group conducts business in many currencies. Transaction risk is limited since, wherever possible, each business operates and conducts its financing activities in local currency. However, the group presents its consolidated financial statements in sterling and it is in consequence subject to foreign exchange risk due to the translation of the results and net assets of its foreign subsidiaries. The group hedges a substantial proportion of its exposure to fluctuations in the translation into sterling of its overseas net assets by holding loans in foreign currencies.

Translation adjustments arising on the translation of foreign currency loans are recognised in equity to match translation adjustments on foreign currency equity investments as they qualify as net investment hedges.

The group enters into forward foreign exchange contracts so as to hedge a high proportion of the translation risk not hedged by way of loans. The group hedges those foreign currencies in which more than 1% of the group's consolidated net operating assets are denominated, provided there is a sufficiently liquid and large enough foreign exchange market in which to hedge the currency. Other currencies below the 1% threshold will also be considered where the cost of hedging is acceptable. Gains and losses on such forward foreign exchange contracts are recognised in equity. The notional value of outstanding forward foreign exchange contracts at 31 December 2008 was £304.8m (2007: £373.2m). All these contracts had matured by 28 February 2009. All the foreign exchange hedging instruments are designated and fully effective as net investment hedges and movements in their fair value have been deferred in equity.

At 31 December 2008, the group's US dollar, euro, Canadian dollar and Danish krone net assets were approximately 89%, 97%, 86% and 70% respectively hedged by foreign currency loans and foreign exchange forward contracts (2007: US dollar 98%, euro 90%, Canadian dollar 93% and Danish krone 83%).

The financial instruments used to hedge the foreign currency translation exposure had a fair value loss of £28.6m at 31 December 2008. Assuming a 1% depreciation of sterling against each of the hedged currencies, the fair value loss on these instruments would increase by a further £3.4m. This additional fair value loss would be posted to equity.

Following maturity of the forward foreign exchange contracts in February, the contracts were not renewed. The group is currently assessing its options with regards to hedging this portion of translation risk.

Cross currency swaps with a nominal value of £134.2m were arranged to hedge the foreign currency risk on US$265m of the second US Private Placement notes issued in July 2008, effectively fixing the sterling value of this portion of debt at an exchange rate of 1.9750.

Interest rate risk and interest rate swaps

Borrowing at floating rates as described in note 29 exposes the group to cash flow interest rate risk, which the group manages within policy limits approved by the directors. Interest rate swaps and, to a limited extent, forward rate agreements are utilised to fix the interest rate on a proportion of borrowings on a reducing scale over forward periods up to a maximum of five years. At 31 December 2008 the nominal value of such contracts was £246.9m (in respect of US dollar) (2007: £213.5m) and £271.7m (in respect of euro) (2007: £183.6m), their weighted average interest rate was 5.0% (US dollar) (2007: 4.9%) and 3.8% (euro) (2007: 3.8 %), and their weighted average period to maturity was two and a half years. All the interest rate hedging instruments are designated and fully effective as cash flow hedges and movements in their fair value have been deferred in equity.

The US Private Placement market is predominantly a fixed rate market, with investors looking for a fixed rate return over the life of the loan notes. At the time of the first issue in March 2007, the group was comfortable with the proportion of floating rate exposure not hedged by interest rate swaps and therefore rather than take on a higher proportion of fixed rate debt arranged fixed to floating swaps effectively converting the fixed coupon on the Private Placement to a floating rate. Following the swaps the resulting average coupon on the US Private Placement is Libor + 60bps. These swaps have been documented as fair value hedges of the US Private Placement fixed interest loan notes, with the movements in their fair value posted to profit and loss at the same time as the movement in the fair value of the hedged item.

The interest on the US Private Placement notes issued in July 2008 was kept at fixed rate.

The core group borrowings are held in US dollar, euro and sterling. Although the impact of rising interest rates is partly shielded by fixed rate loans and interest rate swaps which fix a portion of the exposure, some interest rate risk remains. Assuming a 1% increase in interest rates across the yield curve in each of these currencies and keeping the 31 December 2008 debt position constant throughout 2009, an additional interest charge of £8.1m would be expected in the 2009 financial year.

33 Financial risk (continued)

Market risk (continued)

Commodity risk and commodity swaps

The group's principal commodity risk relates to the fluctuating level of diesel prices, particularly affecting its cash solutions businesses. Commodity swaps and commodity options are frequently used to fix synthetically part of the exposure and reduce the associated cost volatility. Commodity swaps hedging 24 million litres of projected 2009 diesel consumption were in place at 31 December 2008.

Counterparty credit risk

The group's strategy for credit risk management is to set minimum credit ratings for counterparties and monitor these on a regular basis.

For treasury-related transactions, the policy limits the aggregate credit risk assigned to a counterparty. The utilisation of a credit limit is calculated by applying a weighting to the notional value of each transaction outstanding with each counterparty based on the type and duration of the transaction. The total mark to market value outstanding with each counterparty is closely monitored. For short-term transactions (under one year), at inception of the transaction, the financial counterparty must be investment grade rated by either the Standard & Poor's or Moody's rating agencies. For long-term transactions, at inception of the transaction, the financial counterparty must have a minimum rating of A+/A1 from Standard & Poor's or Moody's.

Treasury transactions are dealt with the group's relationship banks, all of which have a strong investment grade rating. At 31 December 2008 the largest two counterparty exposures related to treasury transactions were £61.8m and £36.3m and both held with institutions with long term Standard & Poor's credit ratings of A+. These exposures represent 40% and 24% of the carrying values of derivative financial instruments, with a fair value gain at the balance sheet date. Both of these banks had significant loans outstanding to the group at 31 December 2008.

The group operates a multi-currency notional pooling cash management system with a wholly owned subsidiary of a AA rated bank. At year end, credit balances of £131.0m were pooled with debit balances of £128.4m, resulting in a net pool balance of £2.6m. There is legal right of set off under the pooling agreement.

At an operating level the minimum investment grade rating criteria applies. Exceptionally, where required by local country circumstances, counterparties with no, or a non-investment grade, rating can be approved as counterparties for a period of up to 12 months. Due to the group's global geographical footprint and exposure to multiple industries, there is minimal concentration risk.

34 Retirement benefit obligations

The group operates a wide range of retirement benefit arrangements which are established in accordance with local conditions and practices within the countries concerned. These include funded defined contribution and funded and unfunded defined benefit schemes.

Defined contribution arrangements

The majority of the retirement benefit arrangements operated by the group are of a defined contribution structure, where the employer contribution and resulting income statement charge is fixed at a set level or is a set percentage of employees' pay. Contributions made to defined contribution schemes and charged to the income statement totalled £95.6m (2007: £57.9m).

In the UK, following the closure of the defined benefit schemes to new entrants, the main scheme for new employees is a contracted-in defined contribution scheme.

Wackenhut Services, Inc ("WSI") is the administrator of several defined benefit schemes. WSI is responsible for making periodic cost-reimbursable deposits to the various defined benefit schemes as determined by independent actuaries. In each instance, the US Department of Energy ("DOE") acknowledged within the contract entered between the DOE and WSI its responsibility for all unfunded pension and benefit liabilities. Therefore, these schemes are accounted for as defined contribution schemes.

In the Netherlands, most employees are members of industry-wide defined benefit schemes which are not valued on an IAS 19 basis as it is not possible to identify separately the group's share of the schemes' assets and liabilities. As a result the schemes are accounted for as defined contribution schemes. Contributions made to the schemes and charged to the income statement in 2008 totalled £7.3m (2007: £4.7m). The estimated amounts of contributions expected to be paid to the schemes during the financial year commencing 1 January 2009 in respect of the ongoing accrual of benefits is approximately £7.5m assuming consistent exchange rates.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

34 Retirement benefit obligations (continued)

Defined benefit arrangements

The group operates a number of defined benefit retirement arrangements where the benefits are based on employees' length of service. In most cases these are calculated on the basis of final pensionable pay other than for the smallest of the three UK schemes and one scheme in the Netherlands where they are based on career average pay. Liabilities under these arrangements are stated at the discounted value of benefits accrued to date, based upon actuarial advice.

Under unfunded arrangements, the group does not hold the related assets separate from the group. The amount charged to the income statement in respect of these arrangements in 2008 totalled £2.3m (2007: £1.8m). Under funded arrangements, the assets of defined benefit schemes are held in separate trustee-administered funds. The pension costs are assessed on the advice of qualified independent actuaries using the projected unit credit method. The group operates several funded defined retirement benefit schemes. Whilst the group's primary schemes are in the UK, it also operates other material schemes in the Netherlands, Ireland, Canada and Israel. During 2007, two defined benefit schemes (one in the Netherlands and one in Israel) were reclassified, for disclosure purposes, into the material funded defined retirement benefit schemes category.

The carrying values of retirement benefit obligations at the balance sheet date are presented below:

	2008 £m	2007 £m
UK	256.2	121.6
Rest of World	30.0	13.9
Net liability on material funded defined retirement benefit schemes	286.2	135.5
Unfunded and other funded defined retirement benefit obligations	41.3	31.9
	327.5	167.4
Less: Amounts included within current liabilities	(48.9)	(47.3)
Included within non-current liabilities	278.6	120.1

The defined benefit schemes in the UK account for 90% of the net balance sheet liability on material funded defined retirement benefit schemes. They comprise three arrangements: the pension scheme demerged from the former Group 4 Falck A/S with total membership of approximately 8,000, the Securicor scheme, responsibility for which the group assumed on 20 July 2004 with the acquisition of Securicor plc, with total membership of approximately 20,000 and the GSL scheme, responsibility for which the group assumed on 12 May 2008 with the acquisition of GSL, with total membership of approximately 2,000. Regular actuarial assessments of the schemes are carried out, the latest being at 31 March 2007 in respect of the Group 4 scheme, 5 April 2006 in respect of the Securicor scheme and 5 April 2005 in respect of the GSL scheme. Pension obligations stated in the balance sheet take account of future service and earnings increases, have been updated to 31 December 2008 and use the valuation methodologies specified in IAS 19 *Employee Benefits*.

The weighted average principal assumptions used for the purposes of the actuarial valuations were as follows:

	UK	Rest of World
Key assumptions used at 31 December 2008		
Discount rate	6.3%	5.8%
Expected return on scheme assets (as at 1 January 2008)	6.9%	6.2%
Expected rate of salary increases	4.9%	2.9%
Future pension increases	3.1%	2.0%
Inflation	3.1%	2.0%
Key assumptions used at 31 December 2007		
Discount rate	5.8%	5.5%
Expected return on scheme assets (as at 1 January 2007)	6.7%	6.2%
Expected rate of salary increases	5.2%	3.3%
Future pension increases	3.4%	2.1%
Inflation	3.4%	2.2%

In addition to the above, the group uses appropriate mortality assumptions when calculating the schemes' obligations. The mortality tables used for the schemes in the UK are as follows:

- Current and future pensioners 125% of PMA92 (YOB) Medium Cohort Male
- Current and future pensioners 115% of PFA92 (YOB) Medium Cohort Female

34 Retirement benefit obligations (continued)

The amounts recognised in the income statement in respect of these defined benefit schemes are as follows:

	UK £m	Rest of World £m	Total £m
Amounts recognised in income 2008			
Current service cost	(11.8)	(3.6)	(15.4)
Finance cost on defined retirement benefit obligations	(77.8)	(5.0)	(82.8)
Expected return on defined retirement benefit scheme assets	82.2	4.3	86.5
Total amounts recognised in income	(7.4)	(4.3)	(11.7)
Amounts recognised in income 2007			
Current service cost	(11.5)	(4.1)	(15.6)
Finance cost on defined retirement benefit obligations	(68.4)	(3.9)	(72.3)
Expected return on defined retirement benefit scheme assets	73.9	3.4	77.3
Total amounts recognised in income	(6.0)	(4.6)	(10.6)

The amounts recognised in income are included within the following categories in the income statement:

	2008 £m	2007 £m
Cost of sales	**(11.1)**	(11.3)
Administration expenses	**(4.3)**	(4.3)
Finance income	**86.5**	77.3
Finance costs	**(82.8)**	(72.3)
Total	**(11.7)**	(10.6)

Actuarial gains and losses recognised cumulatively in the statement of recognised income and expense are as follows:

	2008 £m	2007 £m
At 1 January	**(7.8)**	(72.5)
Actuarial (losses)/gains recognised in the year	**(196.9)**	64.7
At 31 December	**(204.7)**	(7.8)

The amounts included in the balance sheet arising from the group's obligations in respect of its defined benefit schemes are as follows:

	UK £m	Rest of World £m	Total £m
2008			
Present value of defined benefit obligations	1,296.3	110.8	1,407.1
Fair value of scheme assets	(1,040.1)	(80.8)	(1,120.9)
Deficit in scheme recognised in the balance sheet	256.2	30.0	286.2
2007			
Present value of defined benefit obligations	1,291.3	84.6	1,375.9
Fair value of scheme assets	(1,169.7)	(70.7)	(1,240.4)
Deficit in scheme recognised in the balance sheet	121.6	13.9	135.5
2006			
Present value of defined benefit obligations	1,328.8	61.1	1,389.9
Fair value of scheme assets	(1,118.1)	(45.4)	(1,163.5)
Deficit in scheme recognised in the balance sheet	210.7	15.7	226.4
2005			
Present value of defined benefit obligations	1,199.3	61.1	1,260.4
Fair value of scheme assets	(1,004.5)	(39.3)	(1,043.8)
Deficit in scheme recognised in the balance sheet	194.8	21.8	216.6
2004			
Present value of defined benefit obligations	1,038.6	87.0	1,125.6
Fair value of scheme assets	(845.8)	(59.6)	(905.4)
Deficit in scheme recognised in the balance sheet	192.8	27.4	220.2

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

34 Retirement benefit obligations (continued)

Movements in the present value of defined benefit obligations in the current year and the fair value of scheme assets during the year were as follows:

2008	UK £m	Rest of World £m	Total £m
Obligations			
At 1 January 2008	1,291.3	84.6	1,375.9
Service cost	11.8	3.6	15.4
Interest cost	77.8	5.0	82.8
Contributions from scheme members	4.6	2.5	7.1
Actuarial gains	(129.2)	(5.6)	(134.8)
Benefits paid	(45.9)	(1.5)	(47.4)
Acquisitions of subsidiary undertakings	85.9	–	85.9
Translation adjustments	–	22.2	22.2
At 31 December 2008	**1,296.3**	**110.8**	**1,407.1**
Assets			
At 1 January 2008	1,169.7	70.7	1,240.4
Expected return on scheme assets	82.2	4.3	86.5
Actuarial losses	(315.1)	(16.6)	(331.7)
Actual return on scheme assets	(232.9)	(12.3)	(245.2)
Contributions from the sponsoring companies	47.5	5.1	52.6
Contributions from scheme members	4.6	2.5	7.1
Benefits paid	(45.9)	(1.5)	(47.4)
Acquisition of subsidiary undertakings	97.1	–	97.1
Translation adjustments	–	16.3	16.3
At 31 December 2008	**1,040.1**	**80.8**	**1,120.9**

2007	UK £m	Rest of World £m	Total £m
Obligations			
At 1 January 2007	1,328.8	61.1	1,389.9
Service cost	11.5	4.1	15.6
Interest cost	68.4	3.9	72.3
Contributions from scheme members	3.3	1.9	5.2
Actuarial gains	(77.5)	(8.4)	(85.9)
Benefits paid	(44.5)	(1.3)	(45.8)
Other	1.3	15.9	17.2
Translation adjustments	–	7.4	7.4
At 31 December 2007	1,291.3	84.6	1,375.9
Assets			
At 1 January 2007	1,118.1	45.4	1,163.5
Expected return on scheme assets	73.9	3.4	77.3
Actuarial losses	(16.6)	(4.6)	(21.2)
Actual return on scheme assets	57.3	(1.2)	56.1
Contributions from the sponsoring companies	34.2	3.8	38.0
Contributions from scheme members	3.3	1.9	5.2
Benefits paid	(44.5)	(1.3)	(45.8)
Other	1.3	15.7	17.0
Translation adjustments	–	6.4	6.4
At 31 December 2007	1,169.7	70.7	1,240.4

The contribution from sponsoring companies in 2008 included £26.9m (2007: £26.1m) of additional contributions in respect of the deficit in the schemes and a one-off £5.4m special payment in respect of the acquired GSL scheme. The other movements in the rest of the world in 2007 represent the reclassification as material of two funded plans.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

34 Retirement benefit obligations (continued)

The composition of the scheme assets at the balance sheet date is as follows:

Analysis of scheme assets	UK	Rest of World	Total
2008			
Equity instruments	57%	39%	56%
Debt instruments	28%	27%	28%
Property	1%	4%	1%
Other assets	14%	30%	15%
	100%	100%	100%
2007			
Equity instruments	68%	50%	67%
Debt instruments	30%	21%	30%
Property	–	4%	–
Other assets	2%	25%	3%
	100%	100%	100%

None of the pension scheme assets are held in the entity's own financial instruments or in any assets held or used by the entity.

The expected weighted average rates of return on scheme assets for the following year at the balance sheet date are as follows:

	UK	Rest of World	Total
2008 (return expected in 2009)	6.3%	5.9%	6.3%
2007 (return expected in 2008)	6.9%	6.2%	6.9%
2006 (return expected in 2007)	6.7%	6.2%	6.7%

The expected rates of return on individual categories of scheme assets are determined with respect to bonds by reference to relevant indices, and with respect to other assets by reference to relevant indices of the historical return and economic forecasts of future returns relative to inflation in respect of assets of a similar nature. The overall expected rate of return is the weighted average of the rates on the individual asset categories.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

34 Retirement benefit obligations (continued)

The history of experience adjustments is as follows:

2008	UK	Rest of World	Total
Experience adjustments on scheme liabilities			
Amount (£m)	0.1	0.5	0.6
Percentage of scheme liabilities (%)	–	1	–
Experience adjustments on scheme assets			
Amount (£m)	(315.1)	(16.6)	(331.7)
Percentage of scheme assets (%)	(30)	(21)	(30)
2007			
Experience adjustments on scheme liabilities			
Amount (£m)	5.5	(3.1)	2.4
Percentage of scheme liabilities (%)	–	(4)	–
Experience adjustments on scheme assets			
Amount (£m)	(16.6)	(4.6)	(21.2)
Percentage of scheme assets (%)	(1)	(7)	(2)
2006			
Experience adjustments on scheme liabilities			
Amount (£m)	29.0	0.1	29.1
Percentage of scheme liabilities (%)	2	–	2
Experience adjustments on scheme assets			
Amount (£m)	45.4	2.6	48.0
Percentage of scheme assets (%)	4	6	4
2005			
Experience adjustments on scheme liabilities			
Amount (£m)	(17.5)	1.1	(16.4)
Percentage of scheme liabilities (%)	(1)	2	(1)
Experience adjustments on scheme assets			
Amount (£m)	99.0	2.4	101.4
Percentage of scheme assets (%)	10	6	10
2004			
Experience adjustments on scheme liabilities			
Amount (£m)	(2.7)	–	(2.7)
Percentage of scheme liabilities (%)	(1)	–	(1)
Experience adjustments on scheme assets			
Amount (£m)	30.2	3.7	33.9
Percentage of scheme assets (%)	4	6	4

The estimated amounts of contributions expected to be paid to the schemes during the financial year commencing 1 January 2009 in respect of the ongoing accrual of benefits is approximately £20m and it is anticipated that these will remain at a similar level in the medium term subject to changes in financial conditions. Additional contributions of at least £28m will also be made in 2009 in respect of the deficit in the schemes.

IAS 19 specifies that pension liabilities should be discounted at appropriate high quality corporate bond rates. The directors consider that it is appropriate to apply the average of the yields on those AA corporate bonds which most closely approximate to the timescale of the liability profile of the schemes and have therefore used such a rate, being 6.3%, in respect of the UK schemes at 31 December 2008 (5.8% at 31 December 2007). The effect of a 0.1% movement in the discount rate applicable in the UK is to alter reported liabilities (before associated deferred tax) by approximately £25m.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

34 Retirement benefit obligations (continued)

Liability calculations are also impacted heavily by the mortality projections included in the actuarial assumptions. The weighted average life expectancy of a male member of the UK schemes currently aged 65 has been assumed as 20.3 years. The weighted average life expectancy at 65 of a male currently aged 52 has been assumed as 21.1 years. The directors consider, on actuarial advice, these assumptions to be appropriate to the profile of the membership of the schemes. The effect of a one year change in this UK life expectancy assumption is to alter reported liabilities (before associated deferred tax) by approximately £42m.

Pension obligations in respect of deferred members increase in line with inflation. Increases in salaries and increases in pensions-in-payment generally move in line with inflation. Inflation is therefore an important assumption in the calculation of defined retirement benefit liabilities. The effect of a 0.1% movement in the rate of inflation assumption applicable in the UK is to alter reported liabilities (before associated deferred tax) by approximately £14m.

35 Provisions

	Employee benefits £m	Restructuring £m	Claims reserves £m	Onerous contracts £m	Total £m
At 1 January 2008	11.0	7.5	30.3	13.0	61.8
Additional provision in the year	8.0	3.4	20.6	1.1	33.1
On acquisition of subsidiary	0.8	1.3	2.3	34.7	39.1
Utilisation of provision	(7.6)	(10.8)	(18.2)	(7.5)	(44.1)
Unused amounts reversed	–	0.4	(1.0)	–	(0.6)
Reversals on disposal of a subsidiary	–	–	0.1	–	0.1
Translation adjustments	8.6	3.3	11.1	12.8	35.8
At 31 December 2008	**20.8**	**5.1**	**45.2**	**54.1**	**125.2**

Included in current liabilities	33.9
Included in non-current liabilities	91.3
	125.2

Employee benefits

The provision for employee benefits is in respect of any employee benefits which accrue over the working lives of the employees, typically including items such as long service awards and termination indemnity schemes.

Restructuring

Restructuring provisions include amounts for redundancy payments, and the costs of closure of activities in acquired businesses and discontinued operations. Settlement of restructuring provisions is highly probable. The timing is uncertain but is generally likely to be short term.

Claims reserves

The claims reserves are held by the wholly-owned captive insurance subsidiaries in Guernsey, Luxembourg and the US which underwrite part of the group's cash solutions, general liability, workers' compensation and auto liability policies. The provisions are subject to regular actuarial review and are adjusted as appropriate. Settlement of these provisions is highly probable but both the value of the final settlements and their timing is uncertain, dependent upon the outcome of ongoing processes to determine both liability and quantum in respect of a wide range of claims or possible claims.

Onerous contracts

The onerous contract provision comprises mainly the provision against future liabilities for loss-making contracts, all properties sub-let at a shortfall and for long-term idle, leased properties. The provision is based on the value of future net cash outflows. Whilst the likelihood of settlement of these obligations is considered probable, there is uncertainty over their value and duration.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

36 Deferred tax

The following are the major deferred tax liabilities and assets recognised by the group and movements thereon during the current and prior reporting periods:

	Retirement benefit obligations £m	Intangible assets £m	Tax losses £m	Other temporary differences £m	Total £m
At 1 January 2007	73.2	(61.2)	6.8	15.2	34.0
(Charge)/credit to the income statement	(14.6)	14.9	(1.7)	5.2	3.8
Acquisition of subsidiaries	–	(10.6)	–	0.4	(10.2)
(Charge)/credit to equity	(22.2)	–	–	6.9	(15.3)
Translation adjustments	0.7	(3.7)	–	(0.7)	(3.7)
At 31 December 2007	37.1	(60.6)	5.1	27.0	8.6
At 1 January 2008	37.1	(60.6)	5.1	27.0	8.6
(Charge)/credit to the income statement	(7.5)	19.1	1.9	(8.3)	5.2
Acquisition of subsidiaries	(4.7)	(56.2)	–	17.6	(43.3)
Credit/(charge) to equity	56.7	–	–	(6.4)	50.3
Translation adjustments	–	(15.5)	0.6	14.1	(0.8)
At 31 December 2008	**81.6**	**(113.2)**	**7.6**	**44.0**	**20.0**

Certain deferred tax assets and liabilities have been offset where permitted. The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes:

	2008 £m	2007 £m
Deferred tax liabilities	(135.0)	(75.9)
Deferred tax assets	155.0	84.5
Total deferred tax position	20.0	8.6

At the balance sheet date, the group has unutilised tax losses of approximately £526.8m (2007: £126.5m) potentially available for offset against future profits. A deferred tax asset of £7.6m (2007: £5.1m) has been recognised in respect of approximately £22.9m (2007: £19.3m) of gross losses. No deferred tax asset has been recognised in respect of the remaining £503.9m (2007: £107.2m) of gross losses due to the unpredictability of future profit streams in the relevant jurisdictions and the fact that a significant proportion of such losses remains unaudited by the relevant tax authorities. Included in unrecognised tax losses are gross losses of £1.6m, £3.2m, £3.2m, £2.0m, £2.0m and £2.7m which will expire in 2009, 2010, 2011, 2012, 2013 and 2014 respectively. Other losses may be carried forward indefinitely.

At the balance sheet date, the aggregate amount of temporary differences associated with undistributed earnings of non-UK subsidiaries for which deferred tax liabilities have not been recognised is £2,727m (2007: £2,504m). No liability has been recognised in respect of these gross differences on the basis that the group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

Temporary differences arising in connection with interests in associates and joint ventures are insignificant.

At the balance sheet date, the group has total unprovided contingent tax liabilities of approximately £4.0m (2007: £39.0m) relating to unresolved tax issues in various jurisdictions. No provision has been made for these amounts on the basis that the group considers that the likelihood of the liabilities crystallising is improbable. It is not possible to estimate the timing or outcome of these issues.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

37 Share capital

G4S plc	At 31 December 2008 Authorised £	At 31 December 2008 Issued and fully paid £	At 31 December 2007 Authorised £	At 31 December 2007 Issued and fully paid £
Ordinary shares of 25p each (2007: 25p each)	**500,000,000**	**352,074,660**	500,000,000	320,177,685

	Number	Nominal value £m
Ordinary shares in issue		
At 1 January 2007	1,279,816,918	320.0
Shares issued on exercise of options:		
Executive Scheme	667,500	0.2
Sharesave Scheme	226,320	–
At 1 January 2008	1,280,710,738	320.2
New shares issued	127,000,000	31.8
Shares issued on exercise of options:		
Executive Scheme	587,901	0.1
At 31 December 2008	**1,408,298,639**	**352.1**

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the company.

Options over G4S plc shares outstanding at 31 December 2008, rolled over at 19 July 2004 from options previously held over Securicor plc shares, were as follows:

(a) Executive share option scheme

Number of options outstanding	Number of ordinary shares under option	Exercise price per share (pence)	Exercise date
8	400,000	164p	2009
8	270,000	133.75p	2009-2010
8	195,000	153p	2009-2010
4	1,345,000	108p	2009-2011
1	85,000	130p	2009-2012
1	25,000	85p	2009-2013
1	50,000	91p	2009-2013

The proceeds from shares allotted under this scheme during the year amounted to £693,631 (2007: £783,769).

(b) Sharesave scheme

All remaining shares under this scheme were exercised or have lapsed during 2007. As a result no proceeds from shares allotted under this scheme were received during the year (2007: proceeds received £144,485).

All of the above options are inclusive of those held by directors as set out in the Directors' Remuneration Report on page 41.

5,832,653 shares are held by an employee benefit trust as detailed in note 38.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

38 Share premium and reserves

	Share premium £m	Retained earnings £m	Hedging reserve £m	Translation reserve £m	Merger reserve £m	Reserve for own shares £m	Total reserves £m
At 1 January 2007	10.3	186.0	4.8	(2.8)	426.3	(9.4)	615.2
Net recognised income/(expense) attributable to equity shareholders of the parent	–	189.7	(19.2)	38.8	–	–	209.3
Shares issued	0.7	–	–	–	–	–	0.7
Dividends declared	–	(59.3)	–	–	–	–	(59.3)
Own shares purchased	–	–	–	–	–	(3.1)	(3.1)
Own shares awarded	–	(3.5)	–	–	–	3.5	–
Equity-settled transactions	–	4.1	–	–	–	–	4.1
At 31 December 2007	11.0	317.0	(14.4)	36.0	426.3	(9.0)	766.9
At 1 January 2008	11.0	317.0	(14.4)	36.0	426.3	(9.0)	766.9
Net recognised income/(expense) attributable to equity shareholders of the parent	–	11.0	(32.7)	163.6	–	–	141.9
Shares issued	244.9	–	–	–	–	–	244.9
Dividends declared	–	(75.0)	–	–	–	–	(75.0)
Own shares purchased	–	–	–	–	–	(8.8)	(8.8)
Own shares awarded	–	(6.0)	–	–	–	6.0	–
Equity-settled transactions	–	5.0	–	–	–	–	5.0
At 31 December 2008	**255.9**	**252.0**	**(47.1)**	**199.6**	**426.3**	**(11.8)**	**1,074.9**

Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow instruments related to the hedged transactions that have not yet occurred (net of tax).

Translation reserve

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations, as well as from the translation of liabilities that hedge the company's net investment in foreign operations (net of tax).

Merger reserve

The merger reserve comprises reserves arising upon the merger between the former Group 4 Falck A/S and the former Group 4 Securitas BV in 2000 and the acquisition of Securicor plc by the group in 2004.

Reserve for own shares

An employee benefit trust established by the group held 5,832,653 shares at 31 December 2008 (2007: 5,209,320 shares), to satisfy the vesting of awards under the performance share plan and performance-related and synergy bonus schemes. During the year 4,012,050 shares were purchased by the trust, whilst 3,388,717 shares were used to satisfy the vesting of awards under the schemes. At 31 December 2008, the cost of shares held by the trust was £11,715,675 (2007: £8,953,071), whilst the market value of these shares was £11,956,939 (2007: £12,749,808). Shares held by the trust are treated as treasury shares, are deducted from equity, do not receive dividends and are excluded from the calculations of earnings per share.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

39 Analysis of net debt

A reconciliation of net debt to amounts in the consolidated balance sheet is presented below:

	2008 £m	2007 £m
Cash and cash equivalents	**562.1**	382.1
Investments	**92.7**	73.2
Net cash and overdrafts included within disposal groups classified as held for sale	**(6.3)**	(0.7)
Net debt (excluding cash and overdrafts) included within disposal groups classified as held for sale	**(1.0)**	(0.8)
Bank overdrafts	**(195.1)**	(110.7)
Bank loans	**(965.7)**	(809.7)
Loan notes	**(901.9)**	(290.4)
Fair value of loan note derivative financial instruments	**153.2**	14.3
Obligations under finance leases	**(85.7)**	(62.2)
Total net debt	**(1,347.7)**	(804.9)

An analysis of movements in net debt in the year is presented below:

	2008 £m	2007 £m
Increase in cash, cash equivalents and bank overdrafts per consolidated cash flow statement	**56.3**	48.8
(Sale)/purchase of investments	**(5.6)**	0.3
Increase in debt and lease financing	**(160.2)**	(135.8)
Change in net debt resulting from cash flows	**(109.5)**	(86.7)
Borrowings acquired with subsidiaries	**(230.0)**	(22.9)
Net additions to finance leases	**(17.1)**	(10.3)
Movement in net debt in the year	**(356.6)**	(119.9)
Translation adjustments	**(186.2)**	(12.2)
Net debt at the beginning of the year	**(804.9)**	(672.8)
Net debt at the end of the year	**(1,347.7)**	(804.9)

40 Contingent liabilities

Contingent liabilities exist in respect of agreements entered into in the normal course of business, none of which are individually or collectively significant.

Details of unprovided contingent tax liabilities are presented in note 36.

41 Operating lease arrangements

The group as lessee

At the balance sheet date, the group had outstanding commitments under non-cancellable operating leases, which fall due as follows:

	2008 £m	2007 £m
Within one year	**141.8**	95.6
In the second to fifth years inclusive	**306.7**	185.8
After five years	**200.6**	148.2
Total operating lease commitments	**649.1**	429.6

The group leases a number of its office properties, vehicles and other operating equipment under operating leases. Property leases are negotiated over an average term of eight and a half years, at rates reflective of market rentals. Periodic rent reviews take place to bring lease rentals in line with prevailing market conditions. Some but not all lease agreements have an option to renew the lease at the end of the lease term. Leased vehicles and other operating equipment are negotiated over an average lease term of three and a half years.

Certain leased properties have been sub-let by the group. Sub-leases are negotiated on terms consistent with those of the associated property. The total future minimum sub-lease payments expected to be received by the group from sub-let properties amount to £37.2m (2007: £16.4m).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

42 Share-based payments

The group has two types of equity-settled, share-based payment scheme in place: (1) share options previously held by employees over Securicor plc shares and rolled over to G4S plc shares with the acquisition of that business on 19 July 2004, and (2) conditional allocations of G4S plc shares.

Share options

Share options rolled over from Securicor plc fall under either the Executive Share Option Scheme (ESOS) or the Sharesave Scheme. Options under the ESOS were granted at market value, vest three or four years following the date of grant (provided that certain non-market performance conditions are met and that the recipients continue to be employed by the group during the vesting period) and are exercisable up to ten years following the date of grant. Options under the Inland Revenue-approved Sharesave scheme were granted at a discount of 20% to market value, vest after three years following the date of grant and remain exercisable for a period of six months following vesting.

Details of the share options outstanding during the year are as follows:

	Number of shares under option 2008	Weighted average exercise price (pence) 2008	Number of shares under option 2007	Weighted average exercise price (pence) 2007
Outstanding at 1 January	**2,957,901**	**123.02**	3,912,990	117.73
Forfeited during the year	–	–	–	–
Exercised during the year	**(587,901)**	**117.98**	(893,820)	103.89
Expired during the year	–	–	(61,269)	64.00
Outstanding at 31 December	**2,370,000**	**124.28**	2,957,901	123.02
Exercisable at 31 December	**2,370,000**	**124.28**	2,957,901	123.02

The weighted average share price at the date of exercise for share options exercised during the year was 232.94p (2007: 197.85p). All options outstanding at 31 December 2008 were vested.

No share option expense has been recognised in the income statement during the year as all share options had previously vested (2007: all vested).

Shares allocated conditionally

Shares allocated conditionally fall under either the group's performance-related bonus scheme or the group's Performance Share Plan (PSP). Shares allocated conditionally under the performance-related bonus scheme vest three years following the date of grant provided certain non-market performance conditions are met. Those allocated under the PSP vest after three years, to the extent that (a) certain non-market performance conditions are met as to two thirds of the allocation (one half for awards made prior to 2007) and (b) certain market performance conditions are met as to the remaining third of the allocation (half for awards made prior to 2007).

The number of shares allocated conditionally is as follows:

	Performance-related bonus scheme 2008 Number	PSP 2008 Number	Total 2008 Number	Performance-related bonus scheme 2007 Number	PSP 2007 Number	Total 2007 Number
Outstanding at 1 January	**1,981,777**	**11,460,069**	**13,441,846**	1,915,270	11,154,403	13,069,673
Allocated during the year	**554,229**	**4,757,230**	**5,311,459**	377,725	4,359,350	4,737,075
Transferred during the year	**(278,241)**	**(3,091,962)**	**(3,370,203)**	(311,218)	(1,953,755)	(2,264,973)
Forfeited during the year	–	**(228,180)**	**(228,180)**	–	(952,469)	(952,469)
Expired during the year	–	**(1,035,343)**	**(1,035,343)**	–	(1,147,460)	(1,147,460)
Outstanding at 31 December	**2,257,765**	**11,861,814**	**14,119,579**	1,981,777	11,460,069	13,441,846

The weighted average remaining contractual life of conditional share allocations outstanding at 31 December 2008 was 17 months (2007: 16 months). The weighted average share price at the date of allocation of shares allocated conditionally during the year was 216.50p (2007: 216.83p) and the contractual life of all conditional allocations was three years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

42 Share-based payments (continued)

Shares allocated conditionally (continued)

Under the PSP, the vesting of two thirds of the shares allocated conditionally (one half for awards made prior to 2007) depends upon Total Shareholder Return (a market performance condition) over the vesting year measured against a comparator group. 25% of the allocation vests upon the group's Total Shareholder Return equalling median performance amongst the comparator group. The fair value of the shares allocated subject to this market performance condition has therefore been reduced by 75%.

Total expenses of £5.0m were recognised in the income statement in the year (2007: £4.1m) in respect of conditional share allocations, the calculation of which included an estimate of the number of those shares allocated subject to non-market performance conditions that would vest based upon the probable achievement against the performance conditions.

43 Related party transactions

Transactions and balances with joint ventures and associated undertakings

Transactions between the company and its subsidiaries have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the group and other related parties are disclosed below. All transactions with related parties are entered into in the normal course of business.

	Joint ventures 2008 £m	Joint ventures 2007 £m	Associates 2008 £m	Associates 2007 £m
Transactions				
Revenue	29.7	13.8	–	–
Balances				
Amounts due to related parties				
Creditors	0.4	–	–	1.5
Amounts due from related parties				
Debtors	–	0.7	–	–
Loans	3.9	2.3	–	–

Revenue includes fees of £15.3m (2007: £10.4m) charged to Bridgend Custodial Services Ltd and fees of £5.7m (2007: £3.4m) charged to STC (Milton Keynes) Ltd. Amounts owed by the group are to its associated undertaking Space Gateway Support LLC. The amounts outstanding are unsecured and will be settled in cash. No expense has been recognised in the year for bad and doubtful debts in respect of amounts owed by related parties. Details of principal joint ventures and associated undertakings are shown in notes 21 and 22 respectively.

The group has a legal interest in a number of joint ventures and joint arrangements, where the economic interest was divested by the Global Solutions group prior to its acquisition in 2008 by the group. The significant transactions with these entities are:

	2008 Fees £m
White Horse Education Partnership Limited	1.1
Integrated Accommodation Services plc	40.2
Fazakerley Prison Services Limited	19.2
Onley Prison Services Limited	7.8
ECD Cookham Wood Limited	7.3
ECD Onley Limited	7.2
Stratus Integrated Services Limited	4.8
UK Court Services (Manchester) Limited	1.2
East London Lift Company Limited	0.6
Health Improvement Partnership (Wolverhampton City & Walsall) Ltd	0.4
Brent, Harrow & Hillingdon LIFT Company Ltd	0.3
Bexley, Bromley & Greenwich LIFT Company Ltd	0.4
	90.5

Transactions with post-employment benefit schemes

Details of transactions with the group's post-employment benefit schemes are provided in note 34. Unpaid contributions owed to schemes amounted to £1.2m at 31 December 2008 (2007: £1.4m).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

Remuneration of key management personnel

The group's key management personnel are deemed to be the non-executive directors and those individuals, including the executive directors, whose remuneration is determined by the Remuneration Committee. Their remuneration is set out below. Further information about the remuneration of individual directors included within key management personnel is provided in the audited part of the Directors' Remuneration Report on pages 40 to 43.

	2008 £	2007 £
Short-term employee benefits	**5,236,982**	4,869,365
Post-employment benefits	**490,996**	343,443
Other long-term benefits	**31,055**	28,896
Share-based payment	**2,735,153**	2,344,412
Total	**8,494,186**	7,586,116

44 Events after the balance sheet date

A number of acquisitions were effected after the balance sheet date, but before the financial statements were authorised for issue, details of which are provided within note 17.

45 Significant investments

The companies listed below are those which were part of the group at 31 December 2008 and which, in the opinion of the directors, significantly affected the group's results and net assets during the year. The directors consider that those companies not listed are not significant in relation to the group as a whole.

The principal activities of the companies listed below are indicated according to the following key:

Secure solutions	S
Cash solutions	C

These businesses operate principally in the country in which they are incorporated.

	Product segment	Country of incorporation	Ultimate ownership
Subsidiary undertakings			
GSL Australia (Pty) Limited	S	Australia	100%
GSL Custodial Services (Pty) Limited	S	Australia	100%
G4S Security Services AG	S	Austria	100%
G4S Security Services SA/NV	S	Belgium	100%
G4S Cash Services (Belgium) SA/NV	C	Belgium	100%
G4S Cash Services (Canada) Limited	C	Canada	100%
G4S Security Services (Canada) Limited	S	Canada	100%
Wackenhut de Colombia SA	S+C	Colombia	100%
G4S Security Services A/S	S	Denmark	100%
G4S Utility Services (UK) Limited (formerly AccuRead Limited)	S	England	100%
G4S Aviation Services (UK) Limited	S	England	100%
G4S Cash Centres (UK) Limited	C	England	100%
G4S Cash Services (UK) Limited	C	England	100%
G4S International UK Limited	C	England	100%
G4S Care and Justice Services (UK) Limited	S	England	100%
G4S Secure Solutions (UK) Limited	S	England	100%
Group 4 Technology Limited	S	England	100%
Group 4 Total Security Limited	S	England	100%
G4S Integrated Services (UK) Limited (formerly GSL UK Limited)	S	England	100%
G4S Eesti AS	S+C	Estonia	100%
G4S Security Services Oy	S	Finland	100%
Group 4 Securicor SAS	S	France	100%
G4S Keszpenzlogisztikai Kft	S+C	Hungary	100%
G4S Security Services (India) Pvt. Limited 1, 4	S	India	40%
G4S Cash Services (Ireland) Limited	C	Ireland	100%
G4S Security Services (Ireland) Limited	S	Ireland	100%
Hashmira Company Limited	S	Israel	91%
G4S Security Services (Kenya) Limited	S+C	Kenya	100%
G4S Security Services SA	S+C	Luxembourg	100%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

45 Significant investments (continued)

	Product segment	Country of incorporation	Ultimate ownership
Subsidiary undertakings (continued)			
Safeguards Securicor Sdn Bhd 2,4	S+C	Malaysia	49%
Group 4 Securicor Cash Services BV	C	Netherlands	100%
Group 4 Securicor Beheer BV	S	Netherlands	100%
G4S Security Services AS	S+C	Norway	100%
G4S Security Systems AS	S	Norway	100%
al Majal Service Master Co. Limited 4	S	Saudi Arabia	49%
G4S Cash Services (SA) (Pty) Limited	C	South Africa	50%
G4S Security Services (SA) (Pty) Limited	S	South Africa	74%
G4S Cash Services (Sverige) AB	C	Sweden	100%
G4S Security Services (Sverige) AB	S	Sweden	100%
ArmorGroup North America, Inc.	S	USA	100%
G4S Youth Services LLC	S	USA	100%
RONCO Consulting Corporation	S	USA	100%
The Wackenhut Corporation	S	USA	100%
Wackenhut Services, Inc.	S	USA	100%
Joint ventures (see note 21)			
Bridgend Custodial Services Limited 3	S	England	59%
STC (Milton Keynes) Limited	S	England	50%
GSL Correctional Services (Bloemfontein) (Pty) Limited	S	South Africa	20%
Associated undertakings (see note 22)			
Space Gateway Support LLC	S	USA	46%

1 G4S Security Services (India) Pvt. Limited has a year end of 31 March.

2 Safeguards Securicor Sdn Bhd has a year end of 30 June.

3 Bridgend Custodial Services Limited has a year end of 30 September.

4 By virtue of shareholder agreements, the group has the power to govern the financial and operating policies of G4S Security Services (India) Pvt. Limited, Safeguards Securicor Sdn Bhd and al Majal Service Master Co. Limited, so as to obtain the benefits from their activities. These are therefore consolidated as full subsidiaries.

PARENT COMPANY BALANCE SHEET

At 31 December 2008

	Notes	2008 £m	2007 £m
Fixed assets			
Tangible assets	(b)	8.2	4.3
Investments	(c)	2,613.1	2,214.9
		2,621.3	2,219.2
Current assets			
Debtors	(d)	3,240.8	1,418.1
Cash at bank and in hand		9.3	9.7
		3,250.1	1,427.8
Creditors – amounts falling due within one year			
Bank overdraft (unsecured)		(122.2)	(63.6)
Borrowings (unsecured)	(e)	–	(15.0)
Other	(f)	(3,463.6)	(2,141.2)
		(3,585.8)	(2,219.8)
Net current liabilities		(335.7)	(792.0)
Total assets less current liabilities		2,285.6	1,427.2
Creditors – amounts falling due after more than one year			
Borrowings (unsecured)	(e)	(1,547.9)	(962.4)
Other	(f)	(15.9)	(4.8)
		(1,563.8)	(967.2)
Provisions for liabilities and charges	(i)	(2.0)	(2.7)
Net assets		719.8	457.3
Capital and reserves			
Called up share capital	37	352.1	320.2
Share premium and reserves	(j)	367.7	137.1
Equity shareholders' funds	(k)	719.8	457.3

The parent company financial statements were approved by the board of directors and authorised for issue on 31 March 2009.

They were signed on its behalf by:

Nick Buckles
Director

Trevor Dighton
Director

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS

(a) Significant accounting policies

Basis of preparation

The separate financial statements of the company are presented as required by the Companies Act 1985. They have been prepared under the historical cost convention except for the revaluation of certain financial instruments and in accordance with applicable United Kingdom Accounting Standards (UK GAAP).

Exemptions

As permitted by section 230(3) of the Companies Act 1985, the company has not presented its own profit and loss account.

The company has taken advantage of the exemption from preparing a cash flow statement under the terms of FRS 1 *Cash Flow Statements*. The cash flows of the company are included within its consolidated financial statements.

The company is also exempt under the terms of FRS 8 *Related Party Disclosures* from disclosing related party transactions with other members of the group.

The consolidated financial statements of the group contain financial instrument disclosures and comply with FRS 29 *Financial Instruments: Disclosures*. Consequently the company has taken advantage of certain exemptions in FRS 29 from the requirement to present separate financial instrument disclosures for the company.

Tangible fixed assets

Tangible fixed assets are stated at cost net of accumulated depreciation and any provision for impairment. Tangible fixed assets are depreciated on a straight-line basis over their expected economic life. Short leasehold property (under 50 years) is depreciated over the life of the lease. Equipment and vehicles are depreciated over periods up to a maximum of ten years.

Fixed asset investments

Fixed asset investments, which comprise investments in subsidiary undertakings, are stated at cost and reviewed for impairment if there are indicators that the carrying value may not be recoverable.

Financial instruments

Financial assets and financial liabilities are recognised when the group becomes a party to the contractual provisions of the instruments.

- **External debtors**
  Debtors do not carry interest and are stated initially at their fair value. The company provides for bad debts based upon an analysis of those that are past due in accordance with local conditions and past default experience.

- **Cash at bank and in hand and bank overdrafts**
  Cash at bank and in hand and bank overdrafts comprise cash balances and call deposits.

- **Interest-bearing borrowings**
  Interest-bearing bank overdrafts, loans and loan notes are recognised at the value of proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are recognised in the profit and loss account on an accrual basis using the effective interest method.

- **External creditors**
  Creditors are not interest-bearing and are stated initially at their fair value.

- **Amounts owed to/from subsidiary undertakings**
  Amounts owed to/from subsidiary undertakings bear interest at prevailing market rates.

- **Equity instruments**
  Equity instruments issued by the company are recorded at the value of proceeds received, net of direct issue costs.

Provisions

Provisions are recognised when the company has a present legal or constructive obligation as a result of past events and a reliable estimate of the amount can be made.

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS CONTINUED

(a) Significant accounting policies (continued)

Derivative financial instruments and hedge accounting

In accordance with its treasury policy, the company only holds or issues derivative financial instruments to manage the group's exposure to financial risk, not for trading purposes. Such financial risk includes the interest risk on the group's variable-rate borrowings, the fair value risk on the group's fixed-rate borrowings, and foreign exchange risk on transactions, on the translation of the group's results and on the translation of the group's net assets measured in foreign currencies, to the extent that these are not matched by foreign currency borrowings. The company manages these risks through a range of derivative financial instruments, including interest rate swaps, fixed rate agreements, forward foreign exchange contracts and currency swaps.

Derivative financial instruments are recognised in the balance sheet as financial assets or liabilities at fair value. The gain or loss on remeasurement to fair value is recognised immediately in the profit and loss account, unless they qualify for hedge accounting. Where derivatives do qualify for hedge accounting, the treatment of any resultant gain or loss depends on the nature of the item being hedged as described below:

- **Fair value hedge**
  The change in the fair value of both the hedging instrument and the related portion of the hedged item is recognised immediately in the profit and loss account.

- **Cash flow hedge**
  The change in the fair value of the portion of the hedging instrument that is determined to be an effective hedge is recognised in equity and subsequently recycled to the profit and loss account when the hedged cash flow impacts the profit and loss account. The ineffective portion of the fair value of the hedging instrument is recognised immediately in the profit and loss account.

Leases

Annual rentals payable or receivable under operating leases are charged or credited to the profit and loss account as incurred.

Foreign currencies

The financial statements of the company are presented in sterling, its functional currency. Transactions in currencies other than sterling are translated at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities which are denominated in other currencies are retranslated at the rates prevailing on that date. Non-monetary assets and liabilities carried at fair value which are denominated in other currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items measured at historical cost denominated in other currencies are not retranslated. Gains and losses arising on retranslation are included in the profit and loss account.

Taxation

Current tax is provided at amounts expected to be paid (or recovered) using tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised in respect of all material timing differences that have originated, but not reversed, by the balance sheet date. Deferred tax is measured on a non-discounted basis at tax rates that are expected to apply in the periods in which the timing differences reverse based on tax rates and laws enacted or substantively enacted at the balance sheet date. Deferred tax assets are recognised where their recovery is considered more likely than not in that there will be suitable taxable profits from which the future reversal of underlying timing differences can be deducted.

Pensions

The company participates in multi-employer pension schemes in the UK, which provide benefits based on final pensionable pay. The company is unable to identify its share of the schemes' assets and liabilities on a consistent and reasonable basis. In accordance with FRS 17 *Retirement Benefits*, the company treats the schemes as if they were defined contribution schemes and recognises charges as and when contributions are due to the scheme. Details of the schemes are included in note 34 to the consolidated financial statements.

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS CONTINUED

(a) Significant accounting policies (continued)

Share-based payments

The company grants equity-settled share-based payments to certain employees. The fair value of share-based payments is determined at the date of grant and expensed, with a corresponding increase in equity, on a straight-line basis over the vesting period, based on the company's estimate of the shares that will eventually vest. The amount expensed is adjusted over the vesting period for changes in the estimate of the number of shares that will eventually vest, save for changes resulting from any market-related performance conditions.

The fair value of share-based payments granted in the form of options is measured by the use of the Black-Scholes valuation technique, adjusted for future dividend receipts and for any market-related performance conditions. When share options are exercised the resulting entries are to increase share capital and share premium for the new shares issued.

Dividends

Dividends are recognised as distributions to equity holders in the period in which they are declared. Dividends proposed but not declared are not recognised but are disclosed in the notes to the consolidated financial statements.

Financial guarantees

The company enters into financial guarantee contracts to guarantee the indebtedness of other companies within the group. The company treats such contracts as a contingent liability unless and until such time as it becomes probable that the company will be required to make a payment under the guarantee contracts.

Own shares held by employee benefit trust

Transactions of the company-sponsored employee benefit trust are included in the parent company financial statements. In particular, the trust's purchases of shares in the company are debited directly to equity.

(b) Tangible fixed assets

	Land and buildings £m	Equipment and vehicles £m	Total £m
Cost			
At 1 January 2008	3.0	3.3	6.3
Additions at cost	–	5.1	5.1
Disposals	(0.5)	(0.1)	(0.6)
At 31 December 2008	2.5	8.3	10.8
Depreciation			
At 1 January 2008	(1.0)	(1.0)	(2.0)
Charge for the year	(0.2)	(0.5)	(0.7)
Disposals	0.1	–	0.1
At 31 December 2008	(1.1)	(1.5)	(2.6)
Net book value			
At 31 December 2008	**1.4**	**6.8**	**8.2**
At 31 December 2007	2.0	2.3	4.3

The net book value of land and buildings comprises short leasehold buildings (under 50 years).

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS CONTINUED

(c) Fixed asset investments

The following are included in the net book value of fixed asset investments:

Subsidiary undertakings	Total £m
Shares at cost:	
At 1 January 2008	2,214.9
Additions	398.2
At 31 December 2008	**2,613.1**

(d) Debtors

	2008 £m	2007 £m
Amounts owed by group undertakings	**3,001.3**	1,369.2
Other debtors	**55.2**	29.0
Prepayments and accrued income	**1.4**	2.8
Derivative financial instruments at fair value	**182.9**	17.1
Total debtors	**3,240.8**	1,418.1

Included within derivative financial instruments at fair value is £143.6m due after more than one year (2007: £14.8m). See note (g) for further details.

Included in other debtors is £nil (2007: £8.3m) with regard to deferred tax comprised as follows:

	2008 £m	2007 £m
Accelerated capital allowances	–	(0.4)
Employee benefits, including equity-settled transactions and special pension contributions	–	4.0
Changes in fair value of hedging derivatives	–	4.7
Total deferred tax	–	8.3

See note (f) for the reconciliation of deferred tax balances.

At the balance sheet date, the company has unutilised tax losses of £339m, potentially available against future profits. No deferred tax asset has been recognised as past performance indicates that suitable taxable profits may not arise in the forseeable future.

(e) Borrowings (unsecured)

The unsecured borrowings are in the following currencies:

	2008 £m	2007 £m
Sterling	**94.0**	150.0
Euro	**349.0**	325.4
US dollar	**1,104.9**	502.0
Total unsecured borrowings	**1,547.9**	977.4

The payment profile of the unsecured borrowings is as follows:

	2008 £m	2007 £m
Repayable within one year	–	15.0
Repayable within two to five years	**696.4**	672.0
Repayable after five years	**851.5**	290.4
Total unsecured borrowings	**1,547.9**	977.4

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS CONTINUED

(e) Borrowings (unsecured) (continued)

Undrawn committed facilities mature as follows:

	2008 £m	2007 £m
Within one year	–	15.0
Within two to five years	350.4	412.9
Total undrawn committed facilities	350.4	427.9

Borrowings consist of £646.0m of floating rate bank loans (2007: £687.0m) and £901.9m of fixed rate loan notes (2007: £290.4). Bank overdrafts, bank loans and loan notes issued in July 2008 are stated at amortised cost. The loan notes issued in March 2007 are stated at amortised cost recalculated at an effective interest rate current at the balance sheet date as they are part of a fair value hedge relationship. The directors believe the fair value of the company's bank overdrafts, bank loans and the loan notes issued in March 2007, calculated from market prices, approximates to their book value. US$265m (£184.3m) of the loan notes issued in July 2008 have a fair value market gain of £60.9m, the fair value of the remaining notes approximates to their book value.

Borrowing at floating rates exposes the company to cash flow interest rate risk. The management of this risk is detailed in note (h).

There were no financial liabilities upon which no interest is paid.

(f) Creditors

	2008 £m	2007 £m
Amounts falling due within one year:		
Trade creditors	1.1	1.8
Amounts owed to group undertakings	3,383.8	2,101.8
Other taxation and social security costs	1.8	1.1
Other creditors	12.7	9.6
Accruals and deferred income	25.6	12.1
Derivative financial instruments at fair value	38.6	14.8
Total creditors – amounts falling due within one year	3,463.6	2,141.2
Amounts falling due after more than one year:		
Derivative financial instruments at fair value	15.9	4.8

Included in other creditors is £7.8m (2007: £nil) with regard to deferred tax comprised as follows:

	2008 £m	2007 £m
Accelerated capital allowances	0.9	–
Employee benefits	(2.9)	–
Changes in fair value of hedging derivatives	9.8	–
Total deferred tax	7.8	–

The reconciliation of deferred tax balances is as follows:

	Total £m
At 1 January 2008	(8.3)
Charged to profit and loss	1.3
Charged to equity in relation to changes in fair value of hedging derivatives	14.8
At 31 December 2008	7.8

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS CONTINUED

(g) Derivative financial instruments

The carrying values of derivative financial instruments at the balance sheet date are presented below:

	Assets 2008 £m	Assets 2007 £m	Liabilities 2008 £m	Liabilities 2007 £m
Forward foreign exchange contracts	**28.6**	–	**28.6**	13.6
Cross currency swaps designated as cash flow hedges	**60.9**	–	**–**	–
Interest rate swaps designated as cash flow hedges	**–**	2.8	**24.8**	6.0
Interest rate swaps designated as fair value hedges	**92.3**	14.3	**–**	–
Commodity swaps	**1.1**	–	**1.1**	–
	182.9	17.1	**54.5**	19.6
Amounts falling due after more than one year	**(143.6)**	(14.8)	**(15.9)**	(4.8)
Amounts falling due within one year	**39.3**	2.3	**38.6**	14.8

Derivative financial instruments are stated at fair value, based upon market prices where available or otherwise on discounted cash flow valuations. The mark to market valuation of the derivatives has increased by £130.9m during the year.

The interest rate, cross currency swaps and commodity swaps which qualify as cash flow hedges have the following maturities:

	Assets 2008 £m	Assets 2007 £m	Liabilities 2008 £m	Liabilities 2007 £m
Within one year	**1.1**	0.1	**3.2**	0.1
In the second year	**–**	1.0	**4.0**	0.9
In the third year	**–**	0.6	**7.8**	1.1
In the fourth year	**–**	0.7	**10.0**	2.2
In the fifth year	**60.9**	0.4	**0.9**	1.7
Total carrying value of cash flow hedges	**62.0**	2.8	**25.9**	6.0

Projected settlement of cash flows (including accrued interest) associated with derivatives that are cash flow hedges:

	Assets 2008 £m	Assets 2007 £m	Liabilities 2008 £m	Liabilities 2007 £m
Within one year	**3.4**	1.7	**10.6**	1.3
In the second year	**1.6**	0.6	**10.1**	2.8
In the third year	**1.6**	0.3	**4.3**	1.4
In the fourth year	**1.6**	0.2	**1.4**	0.5
In the fifth year	**54.6**	–	**–**	–
Total cash flows	**62.8**	2.8	**26.4**	6.0

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS CONTINUED

(h) Financial risk

Currency risk and forward foreign exchange contracts

The group conducts business in many currencies. The group presents its consolidated financial statements in sterling and it is in consequence subject to foreign exchange risk due to the translation of the results and net assets of its foreign subsidiaries. The company therefore hedges a substantial portion of the group's exposure to fluctuations in the translation into sterling of its overseas net assets by holding loans in foreign currencies. Translation adjustments arising on the translation of foreign currency loans are recognised in the profit and loss account.

The company enters into forward foreign exchange contracts so as to hedge group translation risk not hedged by way of loans. Gains and losses on such forward foreign exchange contracts are recognised in the profit and loss account. The notional value of outstanding forward foreign exchange contracts at 31 December 2008 was £304.8m (2007: £373.2m). All these contracts had matured by 28 February 2009.

Following maturity of the forward foreign exchange contracts in February, the contracts were not renewed. The company is currently assessing its options with regards to hedging this portion of translation risk.

Cross currency swaps with a nominal value of £134.2m were arranged to hedge the foreign currency risk on US$265m of the US Private Placement notes issued in July 2008, effectively fixing the sterling value on this portion of debt at an exchange rate of 1.9750.

Interest rate risk and interest rate swaps

Borrowing at floating rates as described in note (e) exposes the company to cash flow interest rate risk, which the company manages within policy limits approved by the directors. Interest rate swaps and, to a limited extent, forward rate agreements are utilised to fix the interest rate on a proportion of borrowings on a reducing scale over forward periods up to a maximum period of five years. At 31 December 2008 the nominal value of such contracts was £246.9m (in respect of US dollar) (2007: £213.5m) and £271.7m (in respect of euro) (2007: £183.6m), their weighted average interest rate was 5.0% (US dollar) (2007: 4.9%) and 3.8% (euro) (2007: 3.8%), and their weighted average period to maturity was two and a half years. All the interest rate hedging instruments are designated and fully effective as cash flow hedges and movements in their fair value have been deferred in equity.

The US Private Placement market is predominantly a fixed rate market, with investors looking for a fixed rate return over the life of the loan notes. At the time of the first issue of notes in March 2007, the company was comfortable with the proportion of floating rate exposure not hedged by interest rate swaps and therefore rather than take on a higher proportion of fixed rate debt arranged fixed to floating swaps effectively converting the fixed coupon on the Private Placement to a floating rate. Following the swaps the resulting average coupon on the US Private Placement is Libor + 60bps. These swaps have been documented as fair value hedges of the US Private Placement fixed interest loan notes, with the movements in their fair value posted to profit and loss at the same time as the movement in the fair value of the hedged item. The interest on the US Private Placement notes issued in July 2008 was kept at fixed rate.

Counterparty credit risk

The company's strategy for credit risk management is to set minimum credit ratings for counterparties and monitor these on a regular basis.

For treasury-related transactions, the policy limits the aggregate credit risk assigned to a counterparty. The utilisation of a credit limit is calculated by applying a weighting to the notional value of each transaction outstanding with each counterparty based on the type and duration of the transaction. The total mark to market outstanding with each counterparty is closely monitored. For short-term transactions (under one year), at inception of the transaction the financial counterparty must be investment grade rated by either the Standard & Poor's or Moody's rating agencies. For long-term transactions, at inception of the transaction the financial counterparty must have a minimum rating of A+/A1 from Standard & Poor's or Moody's.

Treasury transactions are dealt with the company's relationship banks all of which have a strong investment grade rating. At 31 December 2008 the largest two counterparty exposures related to treasury transactions were £61.8m and £36.3m and both held with institutions with long term Standard & Poor's credit ratings of A+. These exposures represent 40% and 24% of the carrying values of derivative financial instruments at the balance sheet date. Both of these banks had significant loans outstanding to the company at 31 December 2008.

The company participates in the group's multi-currency notional pooling cash management system with a wholly owned subsidiary of an AA rated bank. There is legal right of set off under the pooling agreement.

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS CONTINUED

(i) Provisions for liabilities and charges

	Onerous contracts £m
At 1 January 2008	2.7
Utilisation of provisions	(0.7)
At 31 December 2008	**2.0**

The onerous contracts provision comprises a provision against future liabilities for all properties sub-let at a shortfall and for long-term idle properties. The provision is based on the value of future net cash outflows relating to rent, rates, service charges and costs of marketing the properties.

(j) Share premium and reserves

	Share premium £m	Profit and loss account £m	Own shares £m	Total £m
At 1 January 2008	11.0	135.1	(9.0)	137.1
Retained profit	–	26.4	–	26.4
Changes in fair value of hedging derivatives	–	52.9	–	52.9
Shares issued	244.9	–	–	244.9
Dividends declared	–	(75.0)	–	(75.0)
Own shares purchased	–	–	(8.8)	(8.8)
Own shares awarded	–	(6.0)	6.0	–
Equity-settled transactions	–	5.0	–	5.0
Tax on equity movements	–	(14.8)	–	(14.8)
At 31 December 2008	**255.9**	**123.6**	**(11.8)**	**367.7**

(k) Reconciliation of movements in equity shareholders' funds for the year ended 31 December 2008

	2008 £m	2007 £m
Retained profit for the year	**26.4**	137.4
Changes in fair value of hedging derivatives	**52.9**	(24.1)
Shares issued	**276.8**	0.9
Dividends declared	**(75.0)**	(59.3)
Own shares purchased	**(8.8)**	(3.1)
Equity-settled transactions	**5.0**	4.1
Tax on equity movements	**(14.8)**	6.9
Net increase in shareholders' funds	**262.5**	62.8
Opening equity shareholders' funds	**457.3**	394.5
Closing equity shareholders' funds	**719.8**	457.3

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS CONTINUED

(l) Operating lease commitments

At the balance sheet date, the company had annual commitments under non-cancellable operating leases, which expire as follows:

	2008 £m	2007 £m
Within one year	0.1	0.2
In the second to fifth years inclusive	0.4	0.5
After more than five years	0.8	0.8
Total operating lease commitments	1.3	1.5

(m) Auditor's remuneration

Fees paid to KPMG Audit Plc and its associates for non-audit services to the company itself are not disclosed in its individual accounts because the company's consolidated financial statements are required to disclose such fees on a consolidated basis.

(n) Staff costs and employees

	2008 Number	2007 Number
The average monthly number of employees of the company during the year was:	190	178

Total staff costs, including directors' emoluments, were as follows:

	2008 £m	2007 £m
Wages and salaries	25.6	23.1
Social security costs	2.4	2.0
Pension costs	1.7	1.1
Total staff costs	29.7	26.2

(o) Share-based payments

The group has two types of equity-settled, share-based payment scheme in place: (1) share options previously held by employees over Securicor plc shares and rolled over to G4S plc shares with the acquisition of that business on 19 July 2004, and (2) conditional allocations of G4S plc shares. Disclosures relevant to the company are presented within note 42 to the consolidated financial statements.

(p) Contingent liabilities

To help secure cost effective finance facilities for its subsidiaries, the company issues guarantees to some of its finance providers. At 31 December 2008 guarantees totalling £649.5m (2007: £377.4m) were in place in support of such facilities.

The company is included in a group registration for UK VAT purposes and is therefore jointly and severally liable for all other UK group companies' unpaid debts in this connection. The liability of the UK group registration at 31 December 2008 totalled £25.8m (2007: £18.2m).

GROUP FINANCIAL RECORD

£m	2008	2007	2006	2005	2004
Revenue	**5,942.9**	4,483.5	4,036.8	4,045.7	3,093.6
Profit before interest, taxation, amortisation of acquisition-related intangible assets and exceptional items	**416.4**	311.4	274.4	255.0	165.5
Profit/(loss) after taxation	**164.9**	160.6	109.9	90.7	(65.4)
Profit/(loss) attributable to shareholders	**151.2**	147.2	96.5	80.8	(72.3)
Non-current assets	**3,402.6**	2,154.1	1,946.2	1,966.7	1,876.0
Net assets	**1,470.7**	1,120.0	971.5	969.9	909.9
Net debt	**1,347.7**	804.9	672.8	657.3	586.4
Net debt/equity (%)	**92**	72	69	68	64
Return on net assets (%) (profit/(loss) after taxation/net assets)	**11**	14	11	9	(7)
Adjusted earnings per ordinary share (pence)	**16.7p**	13.3p	12.1p	11.2p	9.5p
Dividends for the year per ordinary share (pence)	**6.43p**	4.96p	4.21p	3.54p	1.85p
Average headcount (number)	**561,876**	507,480	440,128	395,771	306,313

The five year record comprises only the results of the security businesses of the former Group 4 Falck A/S up to the acquisition of Securicor plc on 19 July 2004. After that date, the record reflects the results of the combined businesses.

NOTICE OF ANNUAL GENERAL MEETING

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION.

If you are in any doubt about the contents of this document or the action you should take, you should immediately consult your stockbroker, bank manager, solicitor, accountant or other independent professional adviser authorised pursuant to the Financial Services and Markets Act 2000.

Notice is hereby given that the Annual General Meeting of G4S plc will be held at Ironmongers' Hall, Barbican, London EC2Y 8AA on Tuesday, 26 May 2009 at 2.00 pm.

Resolutions 1 to 9 will be proposed as ordinary resolutions. Resolutions 10 to 12 will be proposed as special resolutions.

1. To receive the financial statements of the Company for the year ended 31 December 2008 and the reports of the directors and auditor thereon.

2. To receive and approve the Directors' Remuneration Report contained in the annual report for the year ended 31 December 2008.

3. To confirm and declare dividends.

4. To re-elect Trevor Dighton, a director who is retiring by rotation.

5. To re-elect Thorleif Krarup, a director (and member of the Audit Committee) who is retiring by rotation.

6. To re-elect Mark Seligman, a director (and member of the Audit and Remuneration Committees) who is retiring by rotation.

7. To re-appoint KPMG Audit Plc as auditor of the Company from the conclusion of this meeting until the conclusion of the next general meeting at which accounts are laid before the shareholders, and to authorise the directors to fix their remuneration.

8. That the directors be and are hereby generally and unconditionally authorised in accordance with section 80 of the Companies Act 1985 ("the 1985 Act") to exercise all the powers of the Company to allot:

   (i) relevant securities (within the meaning of section 80(2) of the 1985 Act) up to an aggregate nominal amount of £117,350,000; and

   (ii) relevant securities comprising equity securities (within the meaning of section 94 of the 1985 Act) up to a further aggregate nominal amount of £117,350,000 provided that they are offered by way of a rights issue to holders of ordinary shares on the register of members at such record date(s) as the directors may determine where the equity securities respectively attributable to the interests of the ordinary shareholders are proportionate (as nearly as may be practicable) to the respective numbers of ordinary shares held or deemed to be held by them on any such record date(s), subject to such exclusions or other arrangements as the directors may deem necessary or expedient to deal with treasury shares, fractional entitlements or legal or practical problems arising under the laws of any overseas territory or the requirements of any regulatory body or stock exchange or by virtue of shares being represented by depository receipts or any other matter;

   provided that this authority shall expire on the date of the next Annual General Meeting of the Company, save that the Company shall be entitled to make offers or agreements before the expiry of such authority which would or might require relevant securities to be allotted after such expiry and the directors shall be entitled to allot relevant securities pursuant to any such offer or agreement as if this authority had not expired; and all unexpired authorities granted previously to the directors to allot relevant securities be and are hereby revoked.

9. That the authorised share capital of the Company be and is hereby increased from £500,000,000 to £587,500,000 by the creation of an additional 350,000,000 ordinary shares of 25p each.

NOTICE OF ANNUAL GENERAL MEETING
CONTINUED

10. That the directors be and are hereby empowered, pursuant to section 95 of the 1985 Act, to allot equity securities (within the meaning of section 94 of the 1985 Act) for cash pursuant to the authority conferred by Resolution 8 above or by way of a sale of treasury shares as if section 89(1) of the 1985 Act did not apply to any such allotment, provided that this power shall be limited to:

    (i) the allotment of equity securities in connection with an offer of securities (but in the case of the authority granted under paragraph (ii) of Resolution 8 above by way of rights issue only) in favour of the holders of ordinary shares on the register of members at such record date(s) as the directors may determine where the equity securities respectively attributable to the interests of the ordinary shareholders are proportionate (as nearly as may be practicable) to the respective numbers of ordinary shares held or deemed to be held by them on any such record date(s), subject to such exclusions or other arrangements as the directors may deem necessary or expedient to deal with treasury shares, fractional entitlements or legal or practical problems arising under the laws of any overseas territory or the requirements of any regulatory body or stock exchange or by virtue of shares being represented by depository receipts or any other matter; and

    (ii) the allotment (otherwise than pursuant to sub-paragraph (i) above) to any person or persons of equity securities up to an aggregate nominal amount of £17,600,000;

    and shall expire on the expiry of the general authority conferred by Resolution 8 above, save that the Company shall be entitled to make offers or agreements before the expiry of such power which would or might require equity securities to be allotted after such expiry and the directors shall be entitled to allot equity securities pursuant to any such offer or agreement as if the power conferred hereby had not expired; and all unexpired authorities granted previously to the directors under section 95 of the 1985 Act be and are hereby revoked.

11. That the Company be and is hereby generally and unconditionally authorised to make market purchases (within the meaning of Section 163(3) of the 1985 Act) of ordinary shares of 25p each in the capital of the Company provided that:

    (i) the maximum number of shares which may be purchased is 140,000,000;

    (ii) the minimum price which may be paid for each share is 25p;

    (iii) the maximum price which may be paid for each share is an amount equal to 105% of the average of the middle market quotations for an ordinary share in the Company as derived from The London Stock Exchange Daily Official List for the five business days immediately preceding the day on which such share is contracted to be purchased; and

    (iv) this authority shall expire at the conclusion of the Annual General Meeting of the Company to be held in 2010 (except in relation to the purchase of shares the contract for which was entered into before the expiry of this authority and which might be executed wholly or partly after such expiry).

12. That a general meeting, other than an Annual General Meeting, may be called on not less than 14 clear days' notice.

By order of the board
Peter David
Secretary
31 March 2009

The Manor
Manor Royal
Crawley
West Sussex RH10 9UN
Company No. 4992207

NOTICE OF ANNUAL GENERAL MEETING
CONTINUED

Notes

(a) The Company's issued share capital as at the date of this Notice is 1,408,298,639 ordinary shares carrying one vote each.

(b) **A member entitled to attend, speak and vote at this meeting may appoint one or more persons (who need not be members of the Company) to exercise all or any of his rights to attend, speak and vote at the meeting. A member can appoint more than one proxy in relation to the meeting, provided that each proxy is appointed to exercise the rights attaching to different shares held by him. Completion and submission of the proxy form will not preclude the member from attending and voting at the meeting or any adjournment thereof. If a member attends the meeting in person, the authority of the proxies will be terminated automatically. In order to be valid, forms appointing proxies must be deposited (together with any authorities under which they are executed or copies of the authorities certified notarially or in some other way approved by the directors) at the office of the Company's registrar by 2.00 pm on 24 May 2009.**

(c) To have the right to attend and vote at the meeting (and also for the purposes of calculating how many votes a person may cast), a person must have his name entered on the register of ordinary shares by no later than 5.30 pm on 24 May 2009. Changes to entries on the register after this time shall be disregarded in determining the rights of any person to attend or vote at the meeting.

(d) A copy of this notice has been sent for information only to persons who have been nominated by a member to enjoy information rights under section 146 of the Companies Act 2006 ("Nominated Persons"). The right to appoint a proxy cannot be exercised by a Nominated Person; it can only be exercised by the member. However, a Nominated Person may have a right under an agreement between him and the member by whom he was nominated to be appointed as a proxy for the meeting or to have someone else so appointed. If a Nominated Person does not have such a right or does not wish to exercise it, he may have a right under such an agreement to give instructions to the member as to the exercise of voting rights. Nominated Persons should contact the registered member by whom they were nominated in respect of these arrangements.

(e) In order to facilitate voting by corporate representatives at the meeting, arrangements will be put in place at the meeting so that (i) if a corporate shareholder has appointed the chairman of the meeting as its corporate representative with instructions to vote on a poll in accordance with the directions of all of the other corporate representatives for that shareholder at the meeting, then on a poll those corporate representatives will give voting directions to the chairman and the chairman will vote (or withhold a vote) as corporate representative in accordance with those directions; and (ii) if more than one corporate representative for the same corporate shareholder attends the meeting but the corporate shareholder has not appointed the chairman of the meeting as its corporate representative, a designated corporate representative will be nominated, from those corporate representatives who attend, who will vote on a poll and the other corporate representatives will give voting directions to that designated corporate representative. Corporate shareholders are referred to the guidance issued by the Institute of Chartered Secretaries and Administrators on proxies and corporate representatives – www.icsa.org.uk – for further details of this procedure. The guidance includes a sample form of representation letter if the chairman is being appointed as described in (i) above.

(f) By attending the meeting, a member expressly agrees that he is requesting and willing to receive any communications made at the meeting.

(g) If the addressee of this notice has sold or transferred all of his shares in the Company, this notice should be passed to the person through whom the sale or transfer was effected so that it can be passed on to the purchaser or transferee.

(h) CREST members who wish to appoint a proxy or proxies by utilising the CREST electronic proxy appointment service may do so by utilising the procedures described in the CREST Manual. CREST Personal Members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf. In order for a proxy appointment made by means of CREST to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with Euroclear UK & Ireland Limited's (EUI) specifications and must contain the information required for such instructions, as described in the CREST Manual. The message regardless of whether it constitutes the appointment of a proxy or an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the Company's agent (ID number – RA10) by the latest time for receipt of proxy appointments specified in the notice of meeting. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the Company's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

RECOMMENDATION AND EXPLANATORY NOTES RELATING TO BUSINESS TO BE CONDUCTED AT THE ANNUAL GENERAL MEETING ON 26 MAY 2009

The board of G4S plc considers the resolutions set out in the Notice of Annual General Meeting are likely to promote the success of the company and are in the best interests of its shareholders as a whole. The directors unanimously recommend that you vote in favour of the resolutions as they intend to do in respect of their own beneficial holdings.

Explanatory notes in relation to certain of the business to be conducted at the AGM are set out below:

1. Authority to Allot Shares (Resolution 8)

Resolution 8 seeks shareholder approval for the directors to be authorised to allot shares. Under section 80 of the Companies Act 1985 (the "1985 Act") the directors are not permitted to allot shares unless authorised to do so by the shareholders. The 1985 Act provides for such authority to be granted either by the company in general meeting or by the Articles of Association, and in both cases such authority must be renewed at least every five years. Notwithstanding the statutory provisions, institutional best practice indicates that this authority should be renewed annually.

At the last AGM of the company held on 29 May 2008, the directors were given authority to allot ordinary shares in the capital of the company up to an aggregate nominal amount of £106,500,000 representing approximately 33% of the company's then issued ordinary share capital. This authority expires at the end of this year's AGM.

In December 2008, the Association of British Insurers ("ABI") revised its guidelines on directors' authority to allot shares (in line with recommendations of the report issued in November 2008 by the Rights Issue Review Group). The ABI's guidelines previously stated that the directors' general authority to allot shares should be limited to an amount equal to one third of the company's issued share capital. The new guidelines state that ABI members will permit, and treat as routine, resolutions seeking authority to allot shares representing up to two-thirds of the company's issued share capital. The guidelines provide that the extra routine authority (that is the authority to allot shares representing the additional one-third of the company's issued share capital) can only be used to allot shares pursuant to a fully pre-emptive rights issue.

In the light of these revised guidelines, the board considers it appropriate that the directors be granted authority to allot shares in the capital of the company up to a maximum nominal amount of £234,700,000 representing the new guideline limit of approximately two-thirds of the company's issued share capital as at 31 March 2009 (the latest practicable date prior to the publication of the Notice of Annual General Meeting). Of this amount, 469,400,000 shares (representing approximately one-third of the company's issued ordinary share capital) can only be allotted pursuant to a rights issue. This power will last until the conclusion of the company's next AGM in 2010.

The intention of the directors is to allot shares upon the exercise of options granted over Securicor plc shares and rolled over into options over the company's shares. The directors do not have any other present intention of exercising this authority.

The company does not hold any treasury shares as such. However, the 5,832,653 shares held within the G4S employee benefit trust and referred to on page 94 (note 37 to the consolidated financial statements) are accounted for as treasury shares.

2. Increase in Authorised Share Capital (Resolution 9)

Resolution 9 seeks shareholder approval for an increase in the authorised share capital of the company from £500,000,000 to £587,500,000 representing an increase of 17.5%. As discussed in connection with Resolution 8 above, it is proposed that the directors be given authority to allot shares up to a nominal amount of £234,700,000, in line with the ABI's revised guidelines on directors' authority to allot shares. It is therefore proposed that the company's authorised share capital be increased so that the company's unused share capital is in line with the new authority to allot.

RECOMMENDATION AND EXPLANATORY NOTES RELATING TO BUSINESS TO BE CONDUCTED AT THE ANNUAL GENERAL MEETING ON 26 MAY 2009 CONTINUED

3. Disapplication of Statutory Pre-emption Rights (Resolution 10)

Resolution 10 seeks shareholder approval to give the directors authority to allot shares in the capital of the company pursuant to the authority granted under Resolution 8 above for cash without complying with the pre-emption rights in the 1985 Act in certain circumstances. In light of the new ABI guidelines described in relation to Resolution 8 above, this authority will permit the directors to allot:

(i) shares up to a nominal amount of £234,700,000 (representing approximately two-thirds of the company's issued share capital) on an offer to existing shareholders on a pre-emptive basis. However, unless the shares are allotted pursuant to a rights issue (rather than an open offer), the directors may only allot shares up to a nominal amount of £117,350,000 (representing approximately one-third of the company's issued share capital) (in each case subject to adjustments for fractional entitlements and overseas shareholders); and

(ii) shares up to a maximum nominal value of £17,600,000, representing approximately 5% of the issued ordinary share capital of the company as at 31 March 2009 (the latest practicable date prior to publication of the Notice of Meeting) otherwise than in connection with an offer to existing shareholders.

4. Purchase of Own Shares (Resolution 11)

Resolution 11 seeks to renew the company's authority to buy back its own ordinary shares in the market as permitted by the 1985 Act and the company's articles of association. The authority limits the number of shares that could be purchased to a maximum of 140,000,000 (representing a little less than 10% of the company's issued ordinary share capital as at 31 March 2009 and sets minimum and maximum prices. This authority will expire at the conclusion of the AGM in 2010.

The directors have no present intention of exercising the authority to purchase the company's ordinary shares but will keep the matter under review, taking into account the financial resources of the company, the company's share price and future funding opportunities. The authority will be exercised only if the directors believe that to do so would result in an increase in earnings per share and would be in the interests of shareholders generally. No shares were purchased pursuant to the equivalent authority granted to the directors at the company's last AGM.

As at 31 March 2009 (the latest practicable date prior to the publication of the Notice of Annual General Meeting), there were options over 2,370,000 ordinary shares in the capital of the company representing 0.168% of the company's issued ordinary share capital. If the authority to purchase the company's ordinary shares was exercised in full, these options would represent 0.187% of the company's issued ordinary share capital.

5. Period of Notice for Calling General Meetings (Resolution 12)

Resolution 12 seeks shareholder approval to preserve the company's ability to hold general meetings (other than AGMs) on 14 days' notice.

The company's articles of association allow it to hold general meetings other than AGMs on 14 days' notice and this is in accord with the current provisions of the Companies Act 2006 (the "2006 Act"). The 2006 Act provisions relating to meetings are however due to be amended with effect from August 2009 as a result of the UK implementation of the EU Shareholder Rights Directive (the "Directive"). One of the amendments to be made will, in accordance with the Directive, increase the minimum notice period for listed company general meetings to 21 days, but with an ability for companies to reduce this period back to 14 days (other than for AGMs) provided that two conditions are met. The first condition is that the company offers facilities for shareholders to vote by electronic means. It is not yet clear what this will require and the details will be set out in the final regulations when published. The second condition is that there is an annual resolution of shareholders approving the reduction in the minimum notice period from 21 days to 14 days. The board is therefore proposing Resolution 12 to approve 14 days as the minimum notice period for all general meetings of the company other than AGMs. The approval will be effective until the company's next AGM in 2010, when it is intended that the approval be renewed.

FINANCIAL CALENDAR AND CORPORATE ADDRESSES

For the year ended 31 December 2008

Results announcements
Half-year results – August
Final results – March

Dividend payment
Interim paid – 31 October 2008
Final payable – 5 June 2009 (8 June in Denmark)

Annual General Meeting
26 May 2009

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Fax: +44 (0) 1484 600 911
Email: ssd@capitaregistrars.com

Please note that beneficial owners of shares who have been nominated by the registered holder of those shares to receive information rights under S.146 of the Companies Act 2006 are required to direct all communications to the registered holder of their shares rather than to the company or the company's registrar.

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