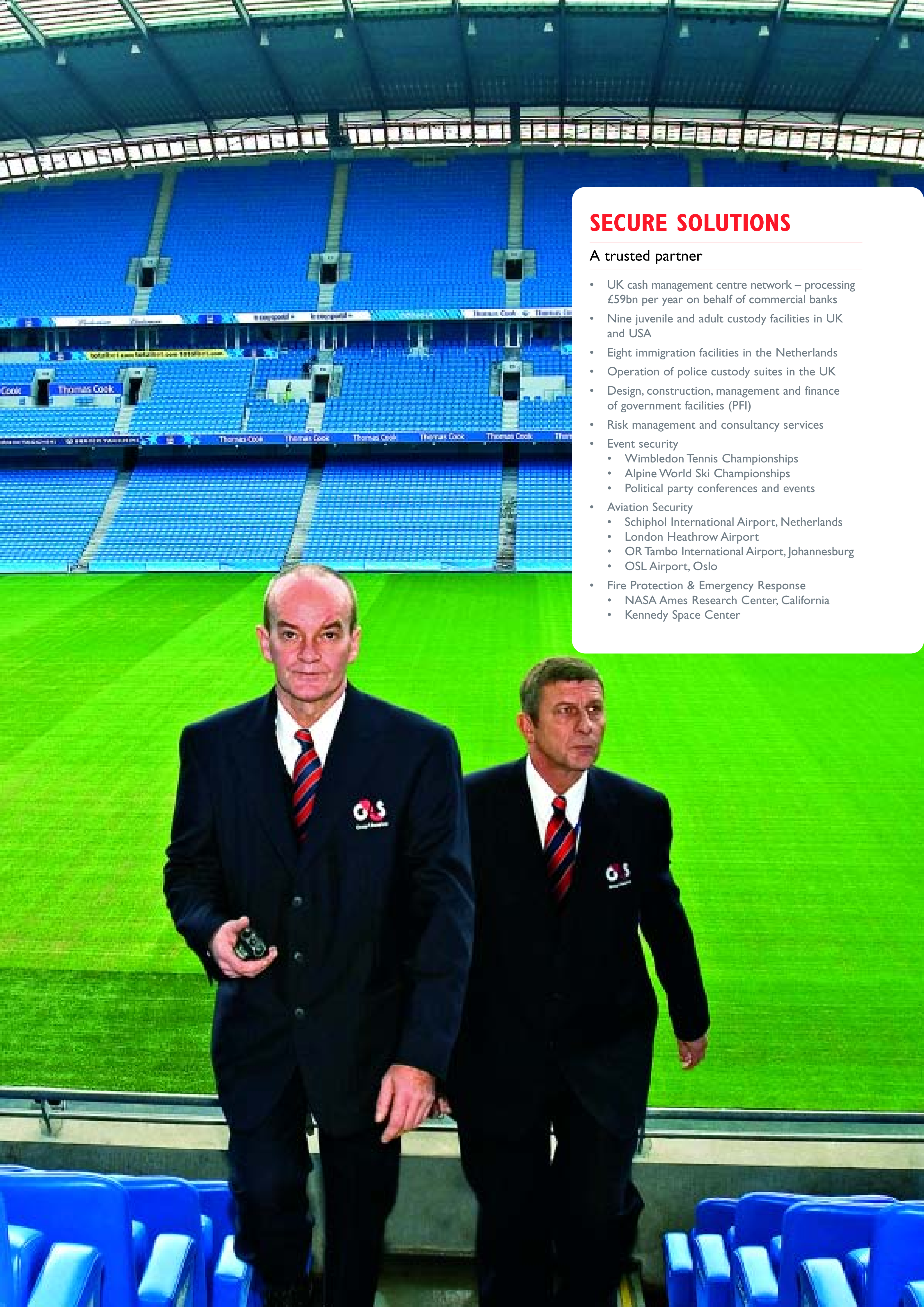
G4S plc ANNUAL REPORT AND ACCOUNTS 2007

Group 4 Securicor

A World of Security Solutions

Argentina
Austria
Azerbaijan
Bahrain
Bangladesh
Barbados
Belgium
Bhutan
Bolivia
Botswana
Brunei
Bulgaria
Cambodia
Cameroon
Canada
Chile
China
Colombia
Costa Rica
Cote d'Ivoire
Cyprus
Czech Republic
Democratic Republic of Congo
Denmark
Dominican Republic
Ecuador
Egypt
El Salvador
Estonia
Finland
Gambia
Ghana
Greece
Guam
Guatemala
Guinea
Honduras
Hong Kong
Hungary
India
Indonesia
Ireland
Israel
Jamaica
Jordan
Kazakhstan
Kenya
Kuwait
Latvia
Lebanon
Lesotho
Lithuania
Luxembourg
Macau
Madagascar
Malawi
Malaysia
Mali
Malta
Mauritania
Mauritius
Mexico
Morocco
Mozambique
Namibia
Nepal
Netherlands
Nicaragua
Nigeria
Northern
Mariana Islands
Norway
Oman
Pakistan
Papua New Guinea
Paraguay
Peru
Philippines
Poland
Puerto Rico
Qatar
Romania
Russia
Saudi Arabia
Serbia
Sierra Leone
Singapore
Slovakia
Slovenia
South Africa
South Korea
Sri Lanka
Sweden
Syria
Taiwan
Tanzania
Thailand
Trinidad & Tobago
Turkey
Turkmenistan
Uganda
Ukraine
United Arab Emirates
United Kingdom
United States
Uruguay
Uzbekistan
Yemen
Zambia

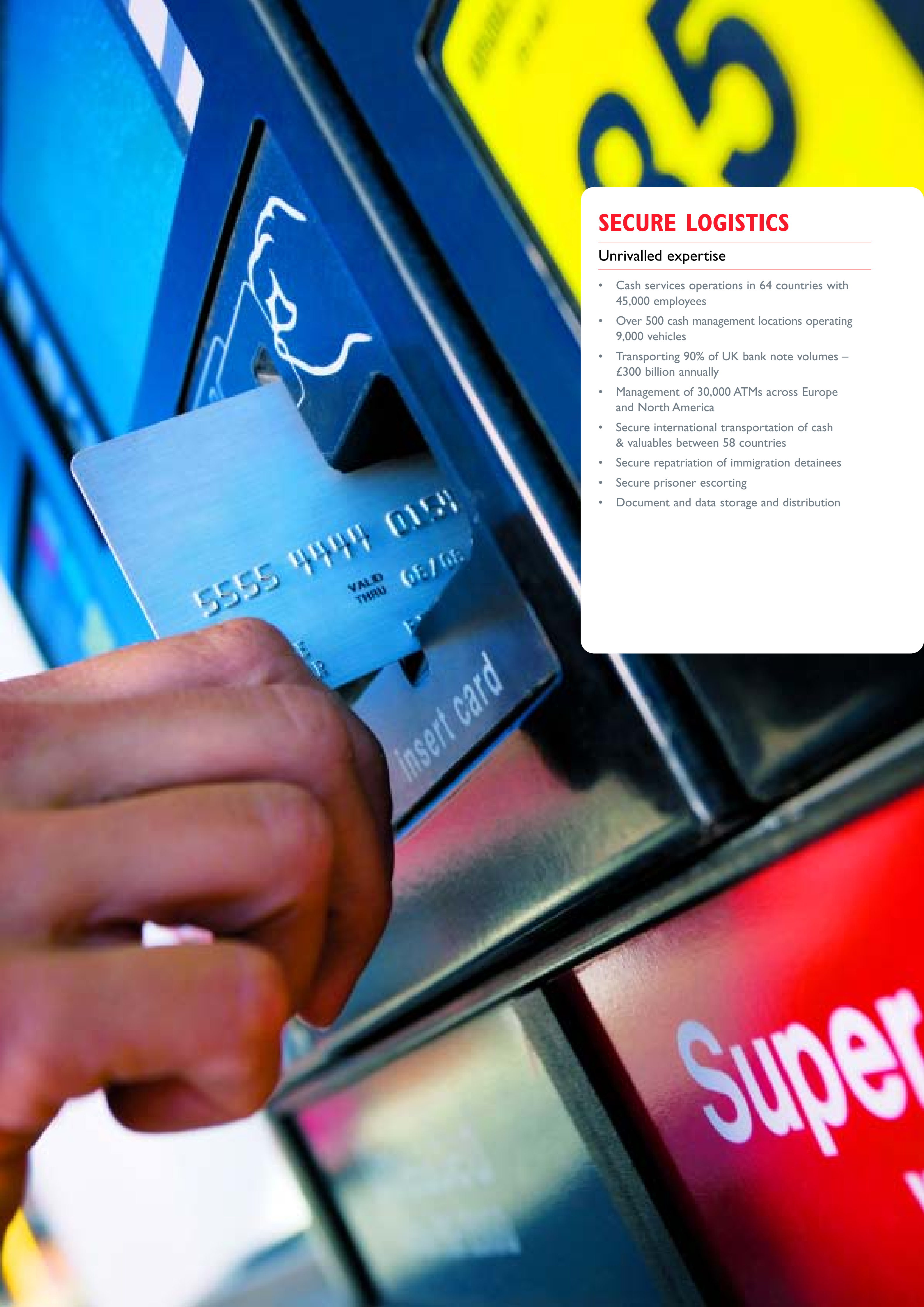


SECURE SOLUTIONS

A trusted partner

- UK cash management centre network – processing £59bn per year on behalf of commercial banks
- Nine juvenile and adult custody facilities in UK and USA
- Eight immigration facilities in the Netherlands
- Operation of police custody suites in the UK
- Design, construction, management and finance of government facilities (PFI)
- Risk management and consultancy services
- Event security
  - Wimbledon Tennis Championships
  - Alpine World Ski Championships
  - Political party conferences and events
- Aviation Security
  - Schiphol International Airport, Netherlands
  - London Heathrow Airport
  - OR Tambo International Airport, Johannesburg
  - OSL Airport, Oslo
- Fire Protection & Emergency Response
  - NASA Ames Research Center, California
  - Kennedy Space Center


USA



SECURE LOGISTICS

Unrivalled expertise

- Cash services operations in 64 countries with 45,000 employees
- Over 500 cash management locations operating 9,000 vehicles
- Transporting 90% of UK bank note volumes – £300 billion annually
- Management of 30,000 ATMs across Europe and North America
- Secure international transportation of cash & valuables between 58 countries
- Secure repatriation of immigration detainees
- Secure prisoner escorting
- Document and data storage and distribution


20
50 EURO
200 EURO
G4S
Group 4 Securicor


G4S

PEOPLE MANAGEMENT

Over 530,000 staff worldwide

- Recruitment and selection
- Staff vetting
- Training and development
- Deployment and scheduling
- Working in partnership with governments to introduce security officer licensing
- Creating security experts
- Award winning Executive Leadership Programme

TECHNOLOGY

Integrated approach to security solutions

- CCTV
- Intruder alarms
- Physical security
- Access control
- X-Ray
- Explosives detection equipment
- Alarm monitoring and response
- Vehicle tracking
- ATM engineering
- Electronic monitoring of offenders
- Retail cash management solutions


G4S

GOVERNMENT EXPERTISE

A major provider of services to governments

USA

- Protection of US defence facilities
- Support to the US military
- US embassy security in 39 countries
- Fire fighting for US armed forces in Iraq

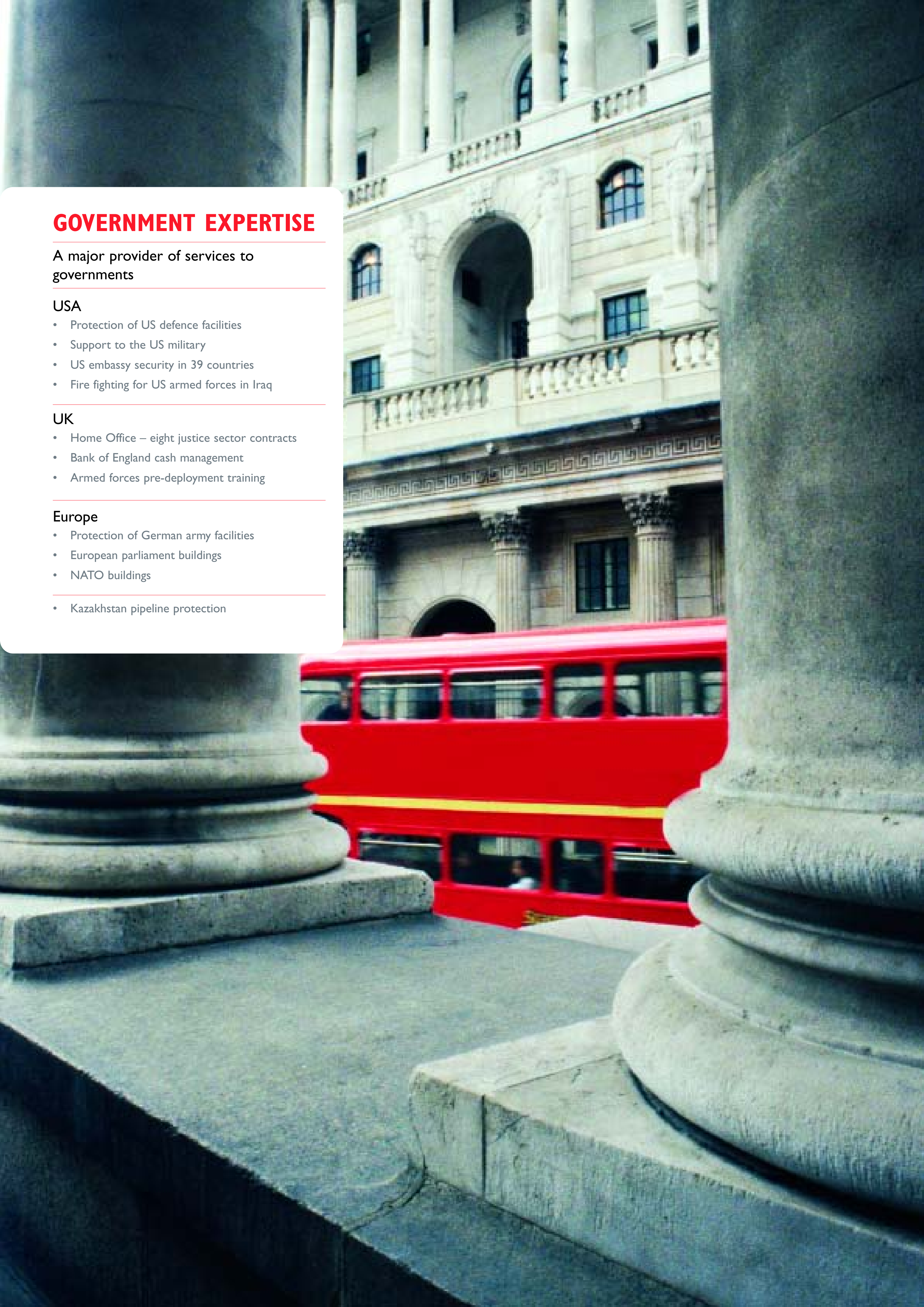
UK

- Home Office – eight justice sector contracts
- Bank of England cash management
- Armed forces pre-deployment training

Europe

- Protection of German army facilities
- European parliament buildings
- NATO buildings

- Kazakhstan pipeline protection



G4S IS THE WORLD'S LEADING INTERNATIONAL SECURITY SOLUTIONS GROUP, WHICH SPECIALISES IN ASSESSING CURRENT AND FUTURE RISKS AND DEVELOPING SECURE SOLUTIONS TO MINIMISE THEIR IMPACT ACROSS A WIDE RANGE OF GEOGRAPHIC MARKETS AND BUSINESS SECTORS.

G4S is a major provider of risk management and protection to governments and major corporate customers around the world and is an expert in all aspects of local and international secure logistics.

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 has over 530,000 employees.

THE GROUP VISION IS TO BE RECOGNISED AS THE GLOBAL LEADER IN PROVIDING SECURITY SOLUTIONS.

IN 2007 WE UNDERTOOK A STRATEGIC REVIEW TO DEVELOP THE NEXT PHASE OF THE GROUP STRATEGY FOCUSED ON DELIVERING ACCELERATED GROWTH AND DEVELOPMENT FOR THE FUTURE.

➔ On the following pages we provide a brief overview of the group strategy, which was launched to the capital markets in November 2007.

PHASE I

MERGER & INTEGRATION DELIVERY

From 2004 to 2007 the group strategy focused on integrating two international organisations, achieving the benefits of the merger that we promised to our stakeholders and continuing to deliver strong business performance.

PHASE II

ACCELERATED GROWTH & DEVELOPMENT

Our strategy review in 2007 supported the view that in order to drive accelerated growth and development, we would need focus on developing from our core capabilities to develop total risk management and outsourcing solutions across our service range and geographies.

DEVELOPING FROM OUR CORE CAPABILITIES

Increasing Customer Partnership

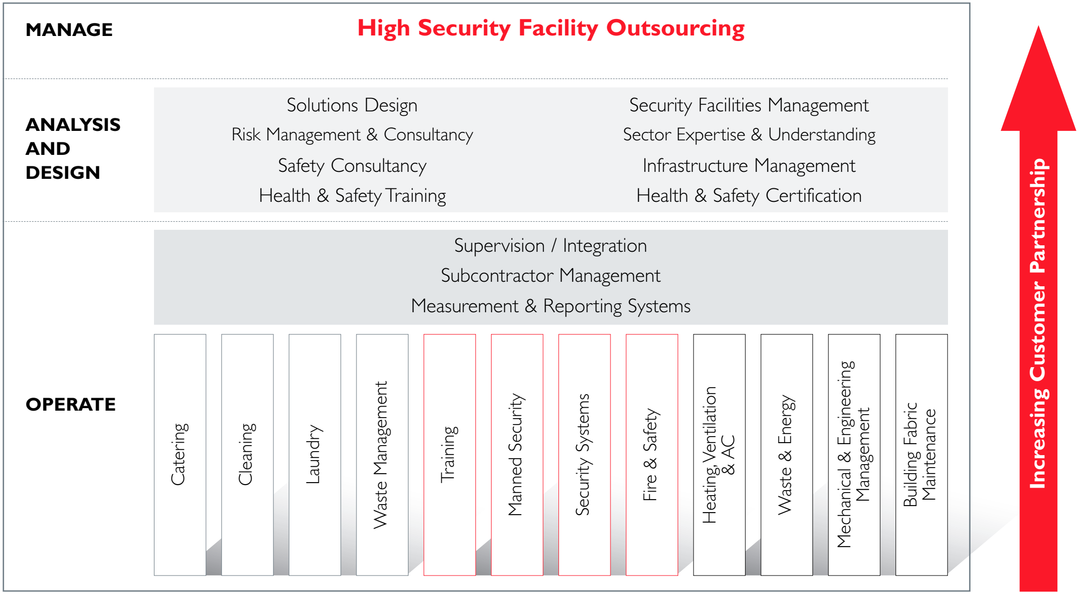
	Strategic Goals
MANAGE	**Deliver fully outsourced solutions:** ➔ Output based contracts ➔ Ability to share in gains
ANALYSIS AND DESIGN	**Provide expertise:** ➔ Market segmentation/specialisation ➔ Risk assessment & consultancy ➔ Solutions & bid design capability
OPERATE	**Enhancement of core services with supervision & IT:** ➔ Delivery of core services

Deliver across all services according to market need, in a phased and evolutionary implementation

At the heart of our strategy is the need to take greater responsibility for the identification and management of risk – and therefore delivering fully outsourced secure solutions to a wide range of customer segments.

EXAMPLE:

HIGH SECURITY FACILITY OUTSOURCING

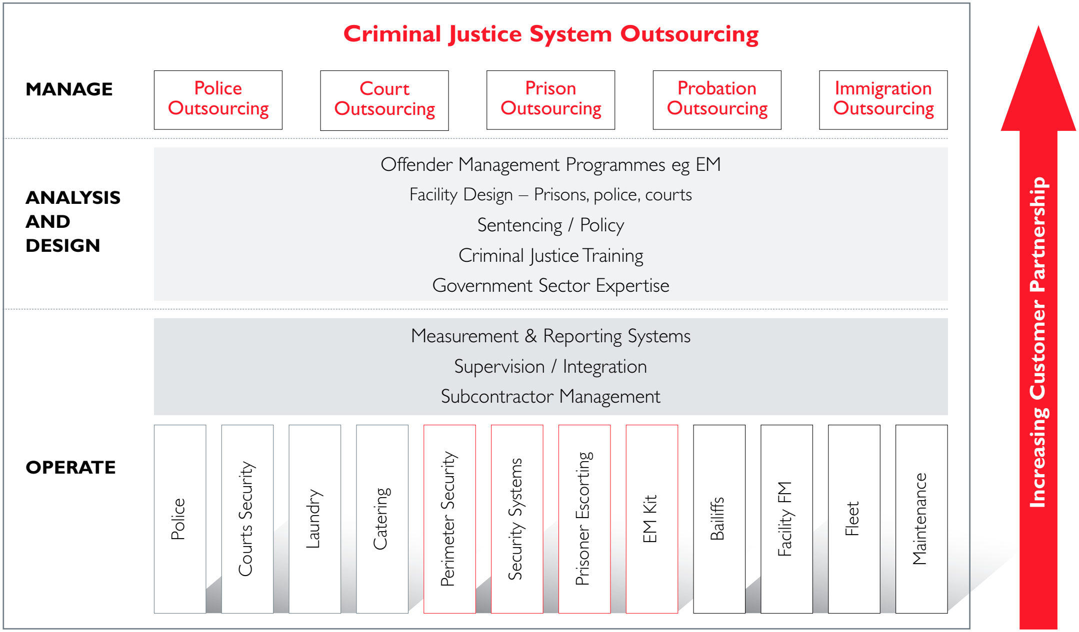


EXAMPLE:

CASH OUTSOURCING

EXAMPLE:

CRIMINAL JUSTICE SYSTEM



FROM THE WORLD'S LARGEST SECURITY COMPANY TO THE GLOBAL LEADER IN SECURITY SOLUTIONS

Repositioning the group	Sustainable growth (above market growth rates)	Improved quality of earnings
Increasing customer relationship	Competitive differentiation	Aligned with world class outsourcing providers
Seen as "critical" service	Appropriate market rating	Increased shareholder return

The new strategy will deliver the accelerated growth and development required by the group and will also benefit the entire range of G4S stakeholders.

THE GROUP VALUES ARE A WAY OF DESCRIBING WHAT THE ORGANISATION STANDS FOR.

They are communicated throughout the organisation to ensure that everyone understands their role in delivering the strategy. They also form a means by which the strategy can be implemented across the group.

Each value has a senior executive "owner" within the organisation, responsible for driving through its implementation.

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

→ 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

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

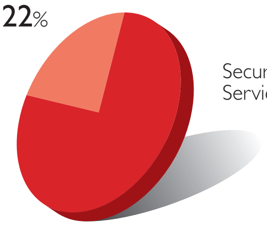
→ PERFORMANCE
We challenge ourselves to improve performance year-on-year to create long-term sustainability

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

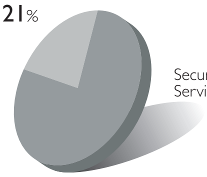
→ EXPERTISE
We develop and demonstrate our expertise through our innovative and leading edge approach to creating and delivering the right solution

CONTINUING TURNOVER BY SERVICE

2007

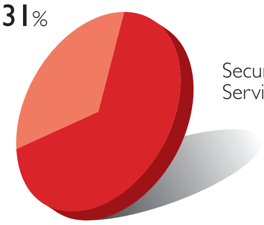


2006**

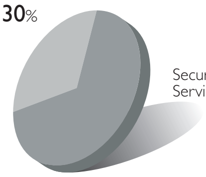


CONTINUING PBITA BY SERVICE*

2007

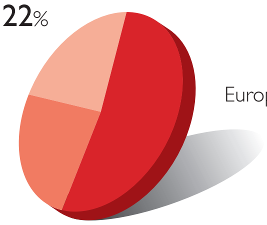


2006**

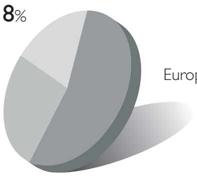


CONTINUING TURNOVER BY GEOGRAPHY

2007

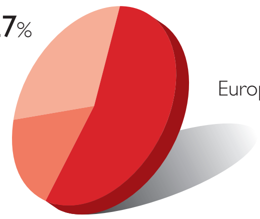


2006**

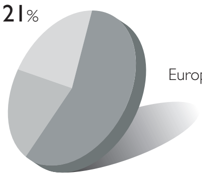


CONTINUING PBITA BY GEOGRAPHY*

2007



2006**



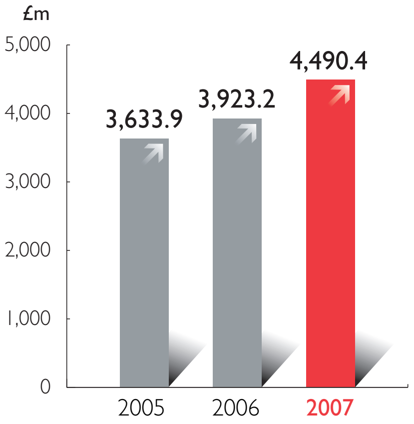
Financial Performance for 2007

* PBITA= Profit before interest, taxation and amortisation of acquisition-related intangible assets.

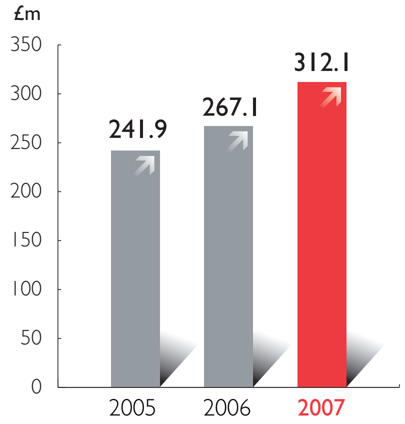
** 2005 & 2006 at 2007 exchange rates.

Group Total**

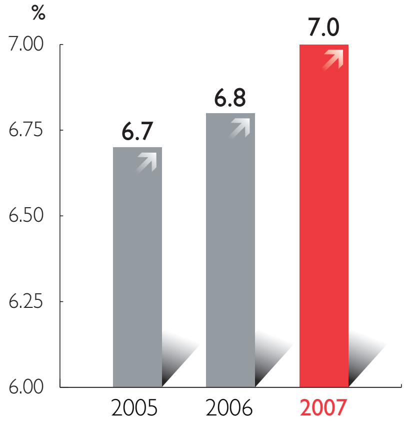
TURNOVER



PBITA

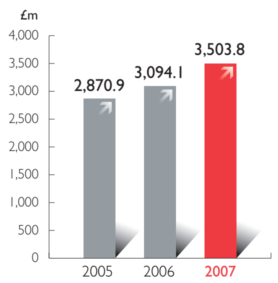


MARGIN

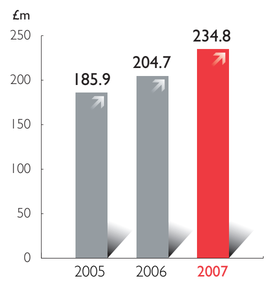


Security Services

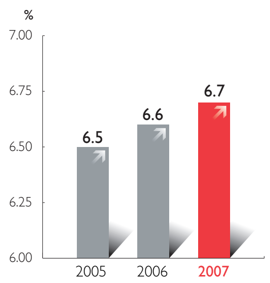
TURNOVER



PBITA

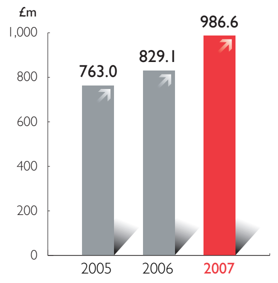


MARGIN

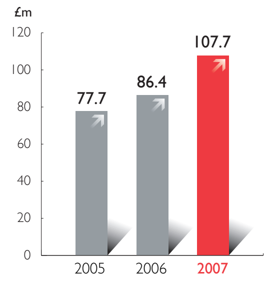


Cash Services

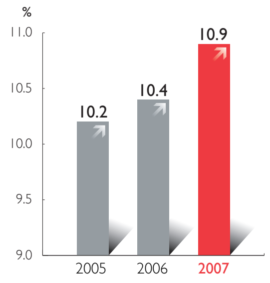
TURNOVER



PBITA



MARGIN



IT GIVES ME PLEASURE TO REPORT THESE STRONG RESULTS WHICH NOT ONLY CONTINUE TO DEMONSTRATE THE WORTH OF THE MERGER WHICH RESULTED IN THE FORMATION OF THE COMPANY IN 2004, BUT ALSO REFLECT THE TREMENDOUS PROGRESS THAT HAS TAKEN PLACE THROUGHOUT THE GROUP SINCE THEN.

Alf Duch-Pedersen
Chairman

Performance 2007 has seen the group deliver a solid performance, maintaining good margins and growth, particularly in new markets. Profit before interest, taxation and amortisation increased by 16.8%* to £312.1m and turnover grew 14.5%* to £4,490.4m. Our margin has increased to 7.0%; organic growth was strong and improved to 9.1% and adjusted earnings per share increased by 10.7% to 13.4p.

* *To show a fair comparison, constant (2007) exchange rates are used.*

Dividend The directors recommend a final dividend of 2.85p or DKK 0.279 per share, payable on 6 June 2008, which, with the interim dividend of 2.11p or DKK 0.232 per share paid on 16 November 2007, makes a total dividend of 4.96p or DKK 0.511 per share for the year ended 31 December 2007. This represents an increase of 17.8% over the total dividend for 2006 and reflects a continuation of the board's stated aim to reduce the company's target dividend cover to two and a half times over the medium term.

Chairman's Statement

AS WE MOVE TOWARDS THE NEXT STAGE OF OUR DEVELOPMENT, INVOLVING GREATER EMPHASIS ON LONGER-TERM RELATIONSHIPS WITH CUSTOMERS REQUIRING EVER GREATER EXPERTISE, I AM VERY OPTIMISTIC ABOUT THE OPPORTUNITIES TO CONTINUE THIS PROCESS AND TO GROW OUR BUSINESS EVEN FURTHER.

The Board This is my second chairman's statement and the first covering a period when I have been chairman of the board throughout the year. I am very pleased to be able to report that the board continues to work well; combining a broad spectrum of experience with great enthusiasm for the task of growing and developing the business.

As mentioned elsewhere in this report, Sir Malcolm Williamson has decided to retire from the board this year and so will not be seeking re-election at the Annual General Meeting in May. Malcolm's contribution to the board since the company was formed in 2004 has been extremely valuable and his experience has contributed much to ensure the board has functioned efficiently. I would like to record my personal thanks to Malcolm for all that he has done for the group. Lord Condon has kindly agreed to take over from Malcolm as senior independent director.

Our Staff The board takes every opportunity it can to meet the group's employees who work so hard in what are often difficult and occasionally dangerous circumstances to perform the services the group provides for its customers in so many parts of the world. We never fail to be impressed by the enthusiasm and dedication which we find amongst management and staff at all levels.

We have seen that this spirit manifests itself not only during working hours and in the performance of the services undertaken for customers, but also in the dedication which managers show to their staff and which both management and staff show towards the communities in which they live. Some of the ways in which individuals within the G4S family seek to improve the lives of those around them are described elsewhere in this report in greater detail. I am very proud of these examples and of all the many other similar projects undertaken by G4S companies and employees around the world.

The Future As I have mentioned already, the group does not intend to stand still. As we have indicated, we intend to implement a strategy which will bring us closer to our customers and which will involve the provision of more complex solutions to a wider spectrum of customers under longer term agreements. I believe our company is in excellent shape to execute this strategy and to reap the benefits it will bring.

Alf Duch-Pedersen
Chairman

→ **JANUARY**
G4S divests its German cash services business.

→ **FEBRUARY**
G4S announces the acquisition of Fidelity Cash Management Services (Pty) Ltd, the market leader in cash services in South Africa.

→ **MARCH**
G4S reports 2006 operating profits up by 10% and turnover growth of 8.4%.

→ **APRIL**
Dungavel House Immigration Removal Central, operated by G4S Justice Services (UK) is declared as being "… the best-run IRC we have inspected" by Her Majesty's Chief Inspector of Prisons.

→ **MAY**
The U.S. Department of Energy and National Nuclear Security Administration select Wackenhut Services, Inc for the Oak Ridge Complex Protective Services contracts.

→ **JUNE**
G4S launches its innovative global sports development programme to support the next generation of sports stars, the G4S 4teen, and Group 4 Securicor plc becomes G4S plc.

→ **JULY**
G4S acquires Omada Fire & Security Group, the Irish manned security and fire suppression business.

→ **AUGUST**
G4S is awarded Norway's largest security contract at OSL, Oslo airport and reports 11.8% turnover growth and 15.9% growth in group operating profits for the six months to 30 June 2007.

→ **SEPTEMBER**
G4S wins a new contract to provide electronic monitoring equipment and services to the Department of Corrections in New Zealand.

→ **OCTOBER**
G4S Cash Services (UK) partners with SmartWater Technology Ltd, specialists in forensic security, to protect its valuable cargoes.

→ **NOVEMBER**
G4S launches next phase of strategy, to drive accelerated growth and development, to the capital markets.

→ **DECEMBER**
G4S announces agreement to acquire Global Solutions Limited (GSL) and enters the FTSE 100.

WE ARE EXTREMELY PLEASED WITH THE PERFORMANCE OF THE BUSINESS IN 2007 AND ARE CONFIDENT ABOUT THE FURTHER DEVELOPMENT OF THE GROUP THIS YEAR.

Nick Buckles
Chief Executive

CHIEF EXECUTIVE'S REVIEW

2007 Performance In 2006, we raised the group targets in a number of areas following a strong business performance in that year and to demonstrate our confidence about the future. We set a target for organic growth of 7%, a PBITA margin target of 7% within two years and a cash generation target of 85% of PBITA.

In 2007, we have demonstrated our ability to deliver on our promises, with organic growth of 9.1% (more than 2% ahead of target), PBITA margins at 7% (18 months ahead of schedule) and cash generation ahead of target at 89%.

2007 Performance Highlights When we presented our full year results for 2007, we were pleased to report that:

> We had very strong organic turnover growth* of 9.1% (2006: 7.1%)
> Group turnover* was up 14.5% to £4,490.4 million (2006: £3,923.2m)
> PBITA* was up 16.8% to £312.1 million (2006: £267.1 m)
> The group PBITA margin* had improved to 7.0% (2006: 6.8%)
> We had achieved cash flow generation of £276.4 million, representing 89% of PBITA (2006: 86%)
> Adjusted earnings per share had increased by 10.7% to 13.4p (2006: 12.1p)
> We would recommend a final dividend of 2.85 pence per share (DKK 0.279), up 13.1% on the prior year (2006: 2.52p/DKK 0.277), giving a recommended total dividend of 4.96 pence per share (DKK 0.511) (2006: 4.21p/DKK 0.463)

* *at constant (2007) exchange rates*

Operating & Financial Review

OVERALL, THE OUTLOOK FOR THE BUSINESS IS GOOD AND WE ARE NOT EXPECTING THE RECENT ECONOMIC UNCERTAINTIES TO IMPACT OUR ABILITY TO DELIVER STRONG RESULTS IN THE FUTURE.

In developed markets we have achieved a solid result with organic growth of around 7% and margins in line with the previous year. The increased organic growth of 17% and improved margins in new markets have driven an overall margin improvement of 0.2% across the group.

We have introduced the investment community to the next phase of our strategy which we believe will drive accelerated growth and development for the group and we have already announced a number of acquisitions which will help us steer the strategy forward.

I would like to take this opportunity to thank everyone across the organisation for contributing to this strong performance. It is their commitment and enthusiasm which drives the success of the business and I am proud to be a part of that winning team.

Strategic Development

2007 Review – In 2007, we set about reviewing the group strategy with a focus on driving accelerated growth and development for the future.

Our review confirmed a growing trend of pricing pressure in core basic services and a demand from customers for G4S to take a broader role in managing their risks.

Increasing Customer Partnership

	Strategic Goals
MANAGE	**Deliver fully outsourced solutions:** → Output based contracts → Ability to share in gains
ANALYSIS AND DESIGN	**Provide expertise:** → Market segmentation/specialisation → Risk assessment & consultancy → Solutions & bid design capability
OPERATE	**Enhancement of core services with supervision & IT:** → Delivery of core services

Deliver across all services according to market need, in a phased and evolutionary implementation

The basic elements of the strategy which resulted from this review include a need to add value to the core services that we already provide by taking a greater role not just in specialist security areas, but in total outsourcing of the management of environments where security and safety is key.

By doing this G4S becomes a partner with its customers and takes greater responsibility for managing entire aspects of their business which are not core to them, and where G4S can add value through its security and segment expertise.

For example:

- High security facility outsourcing in key sectors
- ATM network management and servicing
- Prison design and management
- Cash cycle management
- Risk management and consultancy
- Offender management programmes

Business of this type is usually based on long term contracts with recurring revenues, which require commitment from both sides to deliver on promises set out at the negotiation stage.

→ **WE ACHIEVED ORGANIC GROWTH OF 9.1%** – 2% ahead of target.

→ **PBITA MARGINS REACHED 7%** – 18 months ahead of schedule.

→ **CASH FLOW GENERATION WAS 89% OF PBITA** against a target of 85%.

→ **WE HAVE INTRODUCED A NEW STRATEGY** to drive accelerated growth and development.

CHIEF EXECUTIVE'S REVIEW (continued)

Strategy Implementation Principles – Security remains at the core of our offer – it is an area in which we have an extensive amount of expertise across the group and is fundamental to our service proposition. However, in order to drive growth forward at an accelerated level, we will build on the solid foundation that we have created in this area.

Increasing Customer Partnership

Strategy Implementation Principles

Gain a larger share of customer spend and focus:

- Build relationships via increased and more senior contact points
- Demonstrate awareness of customer needs

Develop customer driven propositions:

- Create tailored solutions for specific industry sectors

Add Intelligence:

- Add risk assessment capability
- Acquire consulting, audit certification and design capabilities
- Enable identification of value added solutions to customer issues

Develop solid foundation:

- Develop appropriate organisational structure
- Further develop market segment understanding

We will add "intelligence" to our businesses in key areas such as risk assessment and consulting and we will add bid capability and project management skills to our core competencies.

We will focus on creating customer propositions tailored for specific industry sectors which demonstrate G4S expertise in these areas.

At the same time, we will build relationships at a senior level within our customer organisations and ultimately gain a larger share of customer commitment and spend on secure outsourcing solutions.

Current Capability – A number of our businesses already provide complete outsourced security solutions to our customers where they take total responsibility for managing risk and increasing efficiency – it is important to spread this experience more widely across the group. We estimate that this type of contract represents around 30% of group revenues and we will seek to extend this over time.

In cases where we do not have the appropriate expertise within the group, we will seek to obtain it either by acquiring businesses or by attracting key experts to the group.

Whilst we will seek to develop all businesses in line with the strategy, we will focus initially on a few key markets – US, UK, Benelux, South Africa and India.

IN DEVELOPED MARKETS WE HAVE ACHIEVED A SOLID RESULT WITH ORGANIC GROWTH OF 7.3% AND MARGINS IN LINE WITH THE PREVIOUS YEAR AT 7.1% – DEMONSTRATING THAT EVEN IN TOUGHER ECONOMIC ENVIRONMENTS, THE UNDERLYING PERFORMANCE ACROSS OUR DEVELOPED MARKETS BUSINESSES IS ROBUST AND RELIABLE.

Summary & Outlook We are extremely pleased with the performance of the business in 2007 and feel confident about the further development of the group this year.

In developed markets we have achieved a solid result with organic growth of 7.3% and margins in line with the previous year at 7.1% – demonstrating that even in tougher economic environments, the underlying performance across our developed markets businesses is robust and reliable.

The increased organic growth of 17% and improved margins in new markets have driven an overall margin improvement of 0.2% across the group. New markets continue to grow at significant rates and with our unique position and experience of operating in these markets we are well-placed to continue to drive forward the performance of our businesses in these countries.

We have introduced the investment community to the next phase of our strategy which we believe will drive accelerated growth and development for the group. The strategy focuses on taking greater responsibility for managing risk on behalf of our customers – extending from our core capabilities to develop total risk management and secure outsourcing solutions across our service range and geographies.

In order to achieve this, we need to invest in building our own capabilities and expertise by continuing to share best practice, by developing our senior management population and by acquiring businesses and individuals who bring expertise to the organisation. We have already announced a number of acquisitions which help us drive the strategy forward, the most significant being Global Solutions Ltd (GSL).

Overall, the outlook for the business is good and we are not expecting the recent economic uncertainties to impact our ability to continue to deliver strong results in the future. Our business model is robust and defendable and our future strategy will build upon our key strengths to deliver enhanced performance.

→ INCREASED ORGANIC GROWTH OF 17%
and improved margins in new markets have driven an overall margin improvement of 0.2% across the group.

→ OUR BUSINESS MODEL IS ROBUST AND DEFENDABLE
and our future strategy will build upon our key strengths to deliver enhanced performance.

G4S IS A TRUSTED PARTNER OF COMMERCIAL ORGANISATIONS AND GOVERNMENTS AROUND THE WORLD AND WE ARE EXPERTS IN UNDERSTANDING RISKS AND DEVELOPING SECURITY SOLUTIONS TO MANAGE THEM.

SECURITY SERVICES

* At constant exchange rates	Turnover £m		PBITA £m		Margins		Organic Growth
	2007	2006	**2007**	2006	**2007**	2006	**2007**
Europe*	**1,671.3**	1,534.1	**109.9**	101.2	**6.6%**	6.6%	**6.3%**
North America*	**1,043.8**	970.8	**61.5**	58.2	**5.9%**	6.0%	**7.3%**
New Markets*	**788.7**	589.2	**63.4**	45.3	**8.0%**	7.7%	**17.0%**
Total Security Services*	**3,503.8**	3,094.1	**234.8**	204.7	**6.7%**	6.6%	**8.7%**
Exchange differences	**–**	106.7	**–**	6.8			
At actual exchange rates	**3,503.8**	3,200.8	**234.8**	211.5			

The security services businesses continued to perform well in 2007 with good organic growth of 8.7% and margins improving to 6.7%.

Europe

* At constant exchange rates	Turnover £m		PBITA £m		Margins		Organic Growth
	2007	2006	**2007**	2006	**2007**	2006	**2007**
UK & Ireland*	**593.0**	539.7	**48.4**	44.1	**8.2%**	8.2%	**6.0%**
Continental Europe*	**1,078.3**	994.4	**61.5**	57.1	**5.7%**	5.7%	**6.5%**
Total Europe*	**1,671.3**	1,534.1	**109.9**	101.2	**6.6%**	6.6%	**6.3%**

Organic growth in **Europe** was 6.3% compared to 5.0% in the same period last year. Margins were maintained at 6.6%.

There was good organic growth of 6.0% in the **UK & Ireland** and margins remained strong at 8.2%. Customer retention rates in the security business were high at around 95% and there were a number of significant contract wins in the year. A new contract to assist passengers with restricted mobility at London Gatwick Airport will commence in April 2008. Good growth continues in the electronic monitoring contract and Parc prison at Bridgend continues to expand.

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 of GSL was announced in December 2007 and this should complete within the first half of 2008.

The **Netherlands** had a strong year, increasing revenue and achieving very strong margins. The company successfully retained the Schiphol airport contract for a further 5 years. Capability-building acquisitions were made in the fire and safety training sector consolidating its market leading position as a safety and security solutions provider in the country.

In the **Baltics**, growth was over 20% and margins improved significantly on the prior year due to strong price increase programmes across all services and the completion of large systems installation projects at Tallinn airport, Riga port and for the Lithuanian customs service.

There was good growth and strong margins in **Denmark** despite the business incurring significant re-branding costs. Growth in **Belgium** was slow, but there was a significant improvement in margins from the systems business and through performance management improvements across the business.

In **Sweden**, margins were impacted negatively by restructuring and the loss of the Arlanda airport contract in February although there were some good contract wins in the second half of the year. 2007 was a consolidation year focusing upon strengthening the management team, right-sizing the company and developing a solid platform to execute the new strategy.

In **Romania**, the business achieved excellent growth, largely as a result of the outsourcing of a wide range of security-related services by the Romanian post office.

In **Greece**, business performance improved compared to the prior year as a result of improved control of labour costs. The difficult labour environment in the country has now stabilised. New contract wins in the security systems business in **Israel** early in 2008 will add to the good organic growth achieved in 2007.

In March 2008 we announced a process had commenced for the divestment of our security services businesses in **France** and **Germany**. These businesses are considered to be sub-scale and with our focus on delivering the new group strategy in 2008, the funds released will be used to bring additional capabilities into the group.

→ THERE WAS GOOD ORGANIC GROWTH OF 6.0%
in the UK & Ireland and margins remained strong at 8.2%.

→ IN THE BALTICS, GROWTH WAS OVER 20%
and margins improved significantly on the prior year.

→ IN ROMANIA THE BUSINESS ACHIEVED EXCELLENT GROWTH,
largely as a result of outsourcing by the Romanian post office.

→ IN MARCH 2008
we announced a process had commenced for the divestment of our security services businesses in France and Germany.

SECURITY SERVICES (continued)

North America

* At constant exchange rates

	Turnover £m		PBITA £m		Margins		Organic Growth
	2007	2006	**2007**	2006	**2007**	2006	**2007**
North America*	**1,043.8**	970.8	**61.5**	58.2	**5.9%**	6.0%	**7.3%**

Organic growth in **North America** was strong at 7.3% overall and margins were 5.9%.

In the **United States** overall organic growth was solid at around 6%, with around 9% growth in the commercial sector, largely due to the start up and expansion of the Mexican border control contract which is performing well.

There were significant contract bidding and start up costs in the government sector in the last quarter of 2007, which meant that margins were held at prior year levels. The government business won significant contracts towards the end of the year which will flow through in 2008.

In **Canada** organic growth was strong and margins were maintained at prior year levels despite a difficult pricing environment and tight labour markets.

New Markets

* At constant exchange rates

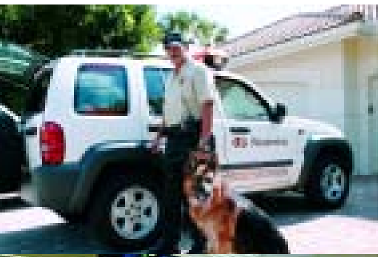
	Turnover £m		PBITA £m		Margins		Organic Growth
	2007	2006	**2007**	2006	**2007**	2006	**2007**
Asia*	**268.9**	221.9	**22.9**	17.6	**8.5%**	7.9%	**17.0%**
Middle East*	**177.9**	115.9	**14.2**	10.1	**8.0%**	8.7%	**19.7%**
Africa*	**183.9**	139.7	**16.0**	11.3	**8.7%**	8.1%	**15.2%**
Latin America & Caribbean*	**158.0**	111.7	**10.3**	6.3	**6.5%**	5.6%	**16.6%**
Total New Markets*	**788.7**	589.2	**63.4**	45.3	**8.0%**	7.7%	**17.0%**

In **New Markets**, organic growth was strong at 17.0% and margins increased by 0.3% to 8.0%.

Organic growth in **Asia** was 17.0% and margins improved to 8.5%. In **Hong Kong** the business performed strongly as a result of focusing on key market segments and improved opportunities from combined security systems and manned security contracts.

Macau continued to grow very strongly along with the region's increasing reputation as a venue for conferences, events and exhibitions, resulting in increased security spend for both permanent contracts and event security services.

India continued to perform well with excellent growth of around 28% and strong margins. G4S is the second largest private employer in India and we have recently won contracts for security at four airports in Delhi, Mumbai, Hyderabad and Cochin.



In the **Middle East**, organic growth was very strong at 19.7% and margins were at 8.0%, driven by the continuing economic boom in the region coupled with a surge in tourism.

In **Saudi Arabia** the acquisition and integration of al Majal earlier in the year means that G4S is now the market leading security company in the Kingdom.

In **Africa**, organic growth was 15.2% and margins improved strongly to 8.7%. In **South Africa** the business is improving, largely as a result of increasing efficiency in the operations.

The business in **Kenya** performed very well this year with good growth and a strong profit performance. Despite the recent political turmoil in Kenya, the security services business has won significant new contracts in the first months of 2008.

Elsewhere in Africa, **Botswana**, **DRC**, **Malawi**, **Mozambique** and **Namibia** all performed well as a result of strong organic growth.

In the **Latin America & Caribbean** region, growth was strong at 16.6% and margins improved to 6.5%.

Argentina improved significantly from 2006 through a targeted effort to increase cost recovery from customers and from an expansion into the security of gas and oil facilities in the southernmost part of the country.

In **Chile** we reported our first full year of results from the acquisition made in late 2006 where the acquired company performed well. **Guatemala** continues to post strong margins despite increased competition and the continued shortage of labour.

The various businesses within **Colombia** performed extremely well in comparison to 2006. The improved security situation and increased market share within our various markets contributed to a strong result.

We entered seven new countries in new markets in 2007 – **Mauritius**, **Mauritania**, **Guinea**, **Cambodia**, **Madagascar**, **Mali** and **Sri Lanka**.

→ ORGANIC GROWTH IN ASIA WAS 17.0% and margins improved to 8.5%.

→ IN THE MIDDLE EAST, ORGANIC GROWTH WAS VERY STRONG at 19.7% and margins were at 8.0%.

→ IN AFRICA ORGANIC GROWTH WAS 15.2% and margins improved strongly to 8.7%.

→ IN THE LATIN AMERICA & CARIBBEAN REGION, GROWTH WAS STRONG at 16.6% and margins improved to 6.5%.

G4S HAS UNRIVALLED EXPERTISE IN THE CASH MANAGEMENT SECTOR AND CONTINUES TO LEAD THE MARKET IN DEVELOPING CASH SOLUTIONS FOR A RANGE OF CUSTOMERS AROUND THE WORLD.

CASH SERVICES

The cash services businesses performed very strongly in 2007, with excellent organic growth of 10.6% and margins of almost 11%.

* At constant exchange rates	Turnover £m		PBITA £m		Margins		Organic Growth
	2007	2006	**2007**	2006	**2007**	2006	**2007**
Europe*	**706.3**	629.7	**77.4**	68.4	**11.0%**	10.9%	**11.6%**
North America*	**78.0**	83.0	**0.6**	1.9	**0.8%**	2.3%	**(6.0)%**
New Markets*	**202.3**	116.4	**29.7**	16.1	**14.7%**	13.8%	**17.0%**
Total Cash Services*	**986.6**	829.1	**107.7**	86.4	**10.9%**	10.4%	**10.6%**
Exchange differences	**–**	6.9	**–**	0.6			
At actual exchange rates	**986.6**	836.0	**107.7**	87.0			

Europe

Organic growth in Europe was excellent at 11.6% with strong margins of 11.0%.

In the **UK & Ireland** region there was solid revenue growth and positive margin enhancement as a result of strong performances in the ATM and cash management businesses. In the last quarter of 2007, the UK business won a substantial contract with HBOS for out of hours bank branch servicing and it continues to win business from competitors as they cope with operational issues. In Ireland there was good growth and margins should improve in 2008 due to the implementation of a post office outsourcing contract.

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

In **Belgium** there was good growth in ATMs and cash management, largely from expanding existing customer contracts. In the **Czech Republic** and **Hungary** there was solid revenue growth and improving margins.

The implementation of the post office outsourcing contract in **Romania** has driven extremely strong growth and margin improvements. Further phases of this project will be implemented in 2008. The successful introduction of the euro in **Cyprus** and **Malta** contributed to strong growth and margin development.





North America

There was negative organic growth in **Canada** and margin performance was affected by the loss of two significant contracts. A new CEO joined the business in 2007 and is already beginning to have a positive impact.

New Markets

Organic growth in New Markets was very strong at 17.0% with margins improving to 14.7%. There were excellent results across the regions in **Asia**, **Middle East**, **Africa** and **Latin America**.

Cash outsourcing opportunities are beginning to develop in **Malaysia** and **Indonesia** as financial institutions and central banks are focusing on their core services and driving efficiencies in the cash cycle.

In **Hong Kong** pricing pressure remains in the market, but there are opportunities for growth from the deployment of self service terminals in the banking sector.

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

G4S entered the cash services market in **South Africa** in the first quarter of 2007 through the acquisition of Fidelity Cash Management. The business is performing well with good growth, particularly in the ATM sector, and strong margins.

There was very strong 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.

The continued improvement of the internal security situation within **Colombia** has resulted in increased economic activity and movement of funds within the country. Accordingly, the cash services business has benefited greatly from the increased activity during the whole of 2007.

→ THE CASH SERVICES BUSINESS PERFORMED VERY STRONGLY in 2007, with organic growth of 10.6% and margins of almost 11%.

→ ORGANIC GROWTH IN EUROPE WAS EXCELLENT at 11.6% with strong margins of 11.0%.

→ THERE WAS NEGATIVE ORGANIC GROWTH IN CANADA and margin performance was affected by the loss of two significant contracts.

→ ORGANIC GROWTH IN NEW MARKETS WAS VERY STRONG at 17.0% with margins improving to 14.7%.

PROFIT FOR THE YEAR WAS £160.6M, COMPARED TO £109.9M IN 2006. THE PRINCIPAL REASONS FOR THE INCREASE IN PROFIT WERE THE £37.7M INCREASE IN PBITA LESS THE £14.8M INCREASE IN NET INTEREST COST, PLUS THE £33.0M DECREASE IN LOSS FROM DISCONTINUED OPERATIONS.

Trevor Dighton
Chief Financial Officer

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 52 to 59 and those that are most critical and/or require the greatest level of judgement are discussed in note 4 on pages 59 and 60.

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 6 to 15. Profit from operations before amortisation of acquisition-related intangible assets (PBITA) amounted to £312.1m, an increase of 13.7% on the £274.4m in 2006 and an increase of 16.8% at constant exchange rates.

Associates Included within PBITA is £3.0m (2006: £2.8m) 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 £1.0m, compared to £2.7m in 2006.

INVESTMENT IN ACQUISITIONS IN THE YEAR AMOUNTED TO £217.6M, OF WHICH £151.6M WAS A CASH OUTFLOW.

Acquisitions and acquisition-related intangible assets Investment in acquisitions in the year amounted to £217.6m, of which £151.6m was a cash outflow, £1.0m is deferred consideration and £65.0m the recognition of put options over their interests held by minorities. This investment generated goodwill of £179.2m and other acquisition-related intangible assets (customer-related) of £37.2m. Larger acquisitions 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 100% 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 page 70.

The charge for the year for the amortisation of acquisition-related intangible assets other than goodwill amounted to £41.6m. Goodwill is not amortised. Acquisition-related intangible assets included in the balance sheet at 31 December 2007 amounted to £1,332.4m goodwill and £219.9m other.

On 18 December 2007 the group announced the acquisition of Global Solutions, a provider of a range of support services to governments, public authorities and the private sector, for a total consideration of £355m. This acquisition is subject to approval from the European Commission and is expected to complete following receipt of such approval during 2008.

On 20 March 2008 the group announced a cash offer of approximately £43.6m for the shares of ArmorGroup International plc, a leading provider of defensive, protective security services.

Financing items Finance income was £92.6m and finance costs £146.3m, giving a net finance cost of £53.7m. Net interest payable on net debt was £57.4m. This is an increase of 36% over the 2006 cost of £42.1m due principally to the rising costs of borrowing and the increase in the group's average gross debt. The group's average cost of gross borrowings in 2007 was 5.7% compared to 4.6% in 2006. The cost based on prevailing interest rates at 31 December 2007 was 5.7% compared to 5.2% at 31 December 2006.

Also included within financing are other net interest costs of £1.3m (2006: net income of £2.2m), including the unwinding of the discount on put options over minority interests, and a net income of £5.0m (2006: £1.0m) in respect of movements in the group's net retirement benefit obligations.

Taxation The taxation charge of £71.1m provided upon profit from operations before amortisation of acquisition-related intangible assets less net interest represents a tax rate of 27.5%, compared to 28.6% in 2006. The group believes that an effective tax rate of around this level is sustainable going forward. 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 £14.9m, including the adjustment of the deferred tax liability for the forthcoming reduction in the UK corporation tax rate from 30% to 28%. In addition, a tax credit of £0.3m has been included within the results from discontinued operations. Potential tax assets in respect of losses amounting to £107.2m have not been recognised as their utilisation is uncertain.

Disposals and discontinued operations On 2 July 2007 the group disposed of its French cash services business and during the year disposed of a number of small businesses, mainly in Latin America. At 31 December 2007 the group was in substantive negotiations for the disposal of its security services businesses in France and Germany, principally comprising Group 4 Securicor SAS, G4S Sicherheitsdienste GmbH and G4S Sicherheitssysteme GmbH. It is anticipated that these disposals will be concluded during 2008. The assets and liabilities of these businesses have therefore been classified as held for sale and their results have been included within discontinued operations. The result from discontinued operations comprises a loss of £12.0m in respect of post-tax trading losses of discontinued businesses, a profit of £9.1m in respect of disposals made in the current year and a profit of £2.9m in respect of adjustments to prior year disposals.

Businesses disposed of in 2006 included G4S Geld- und Wertdienste GmbH, the cash services business in Germany, and the US transportation business, being the remaining business of Cognisa Security, Inc.

→ **NET INTEREST PAYABLE** on net debt was £57.4m. This is an increase of 36% over 2006.

→ **THE TAXATION CHARGE** of £71.1m provided upon PBITA less interest represents a tax rate of 27.5% compared to 28.6% in 2006.

FINANCIAL REVIEW (continued)

→ BASIC EARNINGS PER SHARE was 11.5p compared to 7.6p for 2006.

→ OVERALL OPERATING CASH GENERATION for the year was good. Operating cash flow as a percentage of group PBITA was 89%.

The loss from discontinued operations in 2006 comprises £19.0m in respect of trading losses of both the 2006 and the 2007 disposals and £19.2m in respect of disposal losses, offset by a £5.2m adjustment in respect of prior periods.

The net cash proceeds from business disposals received in 2007 were £7.9m, comprising payment of £12.4m in respect of the cash services business in Germany, and receipt of £20.3m in respect of the cash services business in France.

The contribution to the turnover and operating profit of the group from discontinued operations is shown in note 6 on pages 61 to 64 and their contribution to net profit and cash flows is detailed in note 7 on pages 64 and 65.

Profit for the year Profit for the year was £160.6m, compared to £109.9m in 2006. The principal reasons for the increase in profit were the £37.7m increase in PBITA less the £14.8m increase in net interest cost, plus the £33.0m decrease in loss from discontinued operations.

Minority interests Profit attributable to minority interests was £13.4m in 2007, the same as in 2006, reflecting minority partner shares in the group's organic and acquisitive growth, less a reduction in minority share consequent upon the recognition as liabilities of the group of certain put options held by minorities.

Earnings per share Basic earnings per share from continuing and discontinued operations was 11.5p compared to 7.6p for 2006. 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 pages 68 and 69, excludes amortisation of acquisition-related intangible assets and retirement benefit obligations financing items, both 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 13.4p, an increase of 10.7% over 12.1p for 2006.

Dividends The directors recommend a final dividend of 2.85p (DKK 0.2786) per share. This represents an increase of 13.1% upon the final dividend for the year to 31 December 2006 of 2.52p (DKK 0.2766) per share. The interim dividend was 2.11p (DKK 0.2319) per share and the total dividend, if approved, will be 4.96p (DKK 0.5105) per share, representing an increase of 17.8% over the 4.21p (DKK 0.4629) per share total dividend for 2006.

The proposed dividend cover is 2.7 times (2006: 2.9 times) on adjusted earnings. This is in accordance with the group's reaffirmed intention to increase dividends so as to reduce dividend cover to around 2.5 times by 2008.

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

	2007 £m	2006 £m
PBITA	312.1	274.4
Less share of profit from associates	(3.0)	(2.8)
PBITA before share of profit from associates (Group PBITA)	309.1	271.6
Depreciation and amortisation of intangible assets other than acquisition-related	99.6	92.7
Profit on disposal of property, plant and equipment	(14.4)	(1.6)
Increase in working capital and provisions before exceptional items	(8.9)	(45.8)
Net cash flow from capital expenditure	(109.0)	(82.5)
Operating cash flow	276.4	234.4
Operating cash flow as a percentage of group PBITA	89%	86%

Working capital increased in both 2007 and 2006 due principally to the growth in turnover, but this increase was restricted in 2007 as a result of the commencement of a programme of billing process improvements that is being rolled out across the group. Capital expenditure relative to the depreciation charge can vary from year to year due to the timing of asset replacements. It was 109% of depreciation in 2007, compared to 91% in 2006. 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:

	2007 £m	2006 £m
Cash flow from operating activities (IAS7 definition)	291.3	197.1
Net cash flow from capital expenditure	(109.0)	(82.5)
Add-back cash flow from exceptional items and discontinued operations	1.8	25.3
Add-back additional retirement benefit contributions	26.1	24.2
Add-back tax paid	66.2	70.3
Operating cash flow (G4S definition)	276.4	234.4

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

	2007 £m	2006 £m
Operating cash flow	276.4	234.4
Net interest paid	(55.0)	(47.8)
Tax paid	(66.2)	(70.3)
New finance leases	(10.3)	(19.6)
Free cash flow	144.9	96.7

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

	2007 £m	2006 £m
Free cash flow	144.9	96.7
Cash flow from exceptional items and discontinued operations	(1.8)	(25.3)
Additional retirement benefit contributions	(26.1)	(24.2)
Net cash outflow on acquisitions	(162.9)	(95.7)
Net cash inflow from disposals	7.9	9.9
Net cash flow from associates	1.0	2.7
Dividends paid to minority interests	(3.8)	(3.0)
Loan to minority interests	(13.3)	–
Share issues less share purchase	(2.2)	6.0
Dividends paid to equity holders of the parent	(59.3)	(49.8)
Net cash flow from hedging financial instruments	(4.3)	11.8
Movement in net debt in the year	(119.9)	(70.9)
Foreign exchange translation adjustments to net debt	(12.2)	55.4
Net debt at 1 January	(672.8)	(657.3)
Net debt at 31 December	(804.9)	(672.8)

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 93.

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 82 to 84.

Financing The group's primary source of finance is a £1,000m multicurrency revolving credit facility provided by a consortium of lending banks at a margin of 0.225% over Libor. During 2007, the lending banks exercised their options to extend the term of this facility to 28 June 2012. An additional £87m facility with another bank on the same terms was added on 1 February 2007.

On 1 March 2007, to further diversify its sources of funding and lengthen the maturity of its debt, the group completed a $550m private placement of unsecured senior loan notes, with maturity and interest as follows:

	Value $m	Interest rate %	Maturity date
Series "A"	100	5.77	March 2014
Series "B"	200	5.86	March 2017
Series "C"	145	5.96	March 2019
Series "D"	105	6.06	March 2022

The proceeds of the issue were used to reduce drawings against the revolving credit facility. At the time of receipt the group had, in accordance with treasury policy, converted 55% of its US dollar interest exposure from floating rates into fixed rates through interest rate swaps. Therefore, the fixed interest rates payable on the notes were swapped into floating rates for the term of the notes, at an average margin of 0.60% over Libor, so that the proportion of group debt held under fixed interest rates remained at 55%.

On 7 March 2008 the group signed committed bank facilities amounting to £350m. These facilities expire on 31 December 2008, although the group can exercise an option to extend the facilities to 30 June 2009. The margin is 0.35% over Libor. The purpose of these facilities is to provide the group with headroom whilst assessing options in the capital markets. The group does not expect to draw down on these facilities.

The group has other short-term committed facilities of £30m and uncommitted facilities of £411m.

The group's net debt at 31 December 2007 of £804.9m represented a gearing of 72%. The group has sufficient capacity to finance current investment plans.

→ **THE GROUP'S NET DEBT** at 31 December 2007 of £804.9m represented a gearing of 72%.

Interest rates The group's investments and borrowings at 31 December 2007 were, after taking into account the swap in respect of the loan notes issued in March, 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 net debt on a sliding scale, with a maximum of 80% short term debt held at fixed rates, reducing to a maximum of 20% of medium term debt held at fixed rates, utilising interest rate swaps. The maturity of these interest rate swaps at 31 December 2007 was limited to five years. The market value of the loan note related pay-variable receive-fixed swaps outstanding at 31 December 2007, accounted for as fair value hedges, was a gain of £14.3m. The market value of the pay-fixed receive-variable swaps outstanding at 31 December 2007, accounted for as cash flow hedges, was a loss of £5.1m.

Foreign currency The group has many overseas subsidiaries and associates whose results and net assets are 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 by using borrowings denominated in foreign currency supplemented by forward foreign exchange contracts.

FINANCIAL REVIEW (continued)

The most significant currency movements during both 2007 and 2006 were the in the US dollar. The average rate for the dollar during 2007 was \$2.00=£1 compared to \$1.85=£1 for 2006. However, the rate at 31 December 2007 of \$1.99=£1 was closer to the rate of \$1.96=£1 at 31 December 2006. This variance has impacted the group's dollar-denominated assets and assets denominated in New Market currencies that follow the dollar. In contrast, the average rate for the euro during 2007 of €1.46=£1 was very close to the average for 2006 of €1.47=£1. But the rate for December 2007 of €1.36=£1 was significantly below the rate of €1.48=£1 at 31 December 2006. 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 gain of £18.4m (2006: loss of £31.0m). These differences include a £12.2m loss (2006: £55.4m gain) on the retranslation of net debt, a £4.3m cash outflow (2006: £11.8m inflow) from forward exchange contracts and a £19.0m loss (2006: £11.6m gain) on the market valuation of outstanding forward contracts.

The market value of forward contracts outstanding at 31 December 2007 was a loss of £13.6m.

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 2007, 83 group companies participated in the pool, with the number continuing to grow. Debit balances of £82.9m and credit balances of £84.5m 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.

➔ THE GROUP OPERATES a global cash management system.

➔ THE GROUP'S RETIREMENT BENEFIT OBLIGATIONS FUNDING SHORTFALL was £136m before tax or £98m after tax.

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 in total) and at 5 April 2006 in respect of the Securicor scheme (approximately 20,000 members in total). These assessments and those of the group's other schemes have been updated to 31 December 2007, including the review of longevity assumptions. The group's funding shortfall on the valuation basis specified in IAS19 *Employee Benefits* was £136m before tax or £98m after tax (2006: £226m and £158m respectively).

The valuation of gross liabilities was broadly unchanged from 2006, with the charge of the year's finance cost being offset by an increase in the appropriate AA corporate bond rate from 5.2% to 5.8%. The value of the assets held in the funds increased by £77m during 2007, assisted by additional company contributions of £26m.

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 a similar level to that in 2007. This level of contributions will be reviewed annually and formally reassessed at the next actuarial valuation dates, which are 5 April 2009 in respect of the Securicor scheme and 31 March 2010 in respect of the Group 4 scheme.

Corporate governance The group's policies regarding risk management and corporate governance are set out in the Corporate Governance Statement on pages 34 to 36.

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.

3. In-sourcing by customers
Outsourcing activities carried out by the group include cash processing and cash management functions on behalf of financial institutions, manned security on behalf of a range of different customers and justice services on behalf of government institutions. If the trend towards such outsourcing were for any reason to be reversed, the group's revenue and profitability may be adversely affected.

4. Inappropriate investment decisions
Were the group to make acquisitions or capital expenditures that were inappropriate to its strategy or over-priced, or to take on onerous contractual obligations, the group's profitability and returns on capital may be adversely affected.

5. 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.

6. IT systems
The group makes widespread use of IT systems both for operational management, including tasks such as scheduling and route-planning, and for financial management, including calculating employee wages and billing customers. Failure in these systems, including the failure of business continuity procedures in the event of physical damage to or inaccessibility of day-to-day operating systems, could result in reputational damage and the loss of revenue and profitability.

7. Deterioration in labour relations
The group's most significant asset is its large and committed work force. Were the good relationships between the group and its employees to become strained, the group's operational performance and reputation may be adversely affected.

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 take advantage of growth opportunities.

9. Terrorist attacks
The group operates in an industry which is sometimes involved in seeking to protect its customers against acts of terrorism. Were terrorist incidents in the future to involve premises or events for which the group is contracted to provide security, they could result in brand and reputational damage and so affect earnings and profitability.

10. 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 is likely to impact only 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, all acquisition proposals have to be submitted for approval to the group capex committee, assessed against the group's return requirements, evaluated for risk and subject to appropriate due diligence.

4. Group standards
Each of the group's businesses applies 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, financial reporting, business continuity planning and project management techniques. Further standards, particularly in respect of IT systems, are applied on a divisional or regional basis.

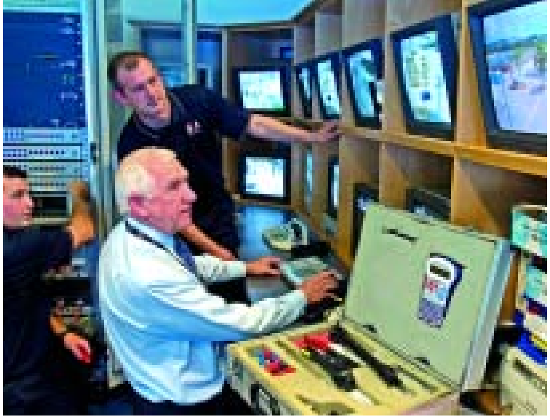
5. Internal audit
The Internal Audit department operates under a wide remit, which includes ensuring adherence to group authorisation procedures and control standards.

6. 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.

➔ THE GROUP HAS A ROBUST RISK ASSESSMENT AND CONTROL PROCESS IN PLACE to identify and mitigate the controllable risks faced by the organisation.

➔ THE GROUP IS COMMITTED to a policy of proactive engagement with customers, industry associations, government regulators and employee representatives.

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.



OUR PEOPLE

→ **WE ARE INVESTING** in regional and country level employee development programmes around the world.

→ **WE CONTINUE TO INVEST** in practical training programmes to help refine the skills and capability of our service delivery staff.

→ **AS ONE OF THE WORLD'S** largest private sector employers, we place great value on creating sustainable employment in diverse markets.

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, such as:

> **Asia Pacific** – tailor-made programmes supporting competency development and reinforcing the G4S values have been introduced in China, Hong Kong, Taiwan and across the region.

> **Sub Saharan Africa** – the region is launching an advancement programme for talented African managers in association with a premier South African business school.

> **UK** – the cash services business is using an on-line learning portal to support continual personal development and assist managers at various levels to achieve recognised management qualifications.

> **Global Learning Portal** – this portal facilitates the sharing of learning and expertise between businesses on a global basis. The group has many centres of excellence for operational, supervisory and management learning within G4S and these centres have provided materials for the portal. For example, Wackenhut in the US is acknowledged for the quality of training it provides for employees and our business in India is able to share many of its specialist programmes.

Programmes such as these ensure that we grow our talent from within local communities alongside an internationally mobile team of top managers, helping us to develop markets, create new businesses and operate consistently in often challenging circumstances. Succession planning at the most senior levels also ensures that our group can continue to lead the industry on a global scale, and helps build our reputation as the employer of choice in our industry.

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.

Raising standards – as one of the world's largest private sector employers, we place great value on creating sustainable employment in diverse markets, thereby contributing to the communities in which our employees live.

Our success has brought with it the responsibility to lead employment practices wherever we operate, setting the standards to which other employers in our industry aspire.

We are committed to continually raising these already high standards and ensuring that the way we operate delivers both commercial returns and a positive result for our employees and their families.

This commitment to being a good employer means we also insist that new recruits have the necessary qualities to be trustworthy and reliable, helping safeguard the safety of their colleagues as well as our customers.

Rigorous pre- and post-employment screening practices are therefore embedded throughout our businesses, and we continue to work with governments and industry bodies to drive up standards in many countries around the world.

Employee representation – our drive to improve performance across the industry is aided by our positive relationships with trade unions and other employee representatives.

We are proud that we are able to work hand in hand with these bodies to positively influence the whole sector, as well as working together on employee relations programmes within G4S.

For example, in 2007 a number of key initiatives were launched at our European Works Council to ensure that we work collaboratively on the matters that can affect our staff most of all, such as training, health & safety and employee engagement.

Our commitment to building constructive relationships with union and other employee representatives is further demonstrated by our public commitment to the ILO Declaration on Fundamental Principles and Rights at Work. Thus, in accordance with local legislation and practice, we respect freedom of association and the right to collective bargaining, employment is freely chosen, with no use of forced or child labour, and we do not discriminate on the basis of gender, colour, ethnicity, culture, religion, sexual orientation or disability.

Across the group we engage in genuine and active social dialogue with a wide range of social partners, and have over 70 formal relationships currently in place with trade unions around the world. We are proud of our position as the most unionised private sector business in the UK and regularly negotiate new trade union agreements which are in the interest of our employees, our customers and our organisation.

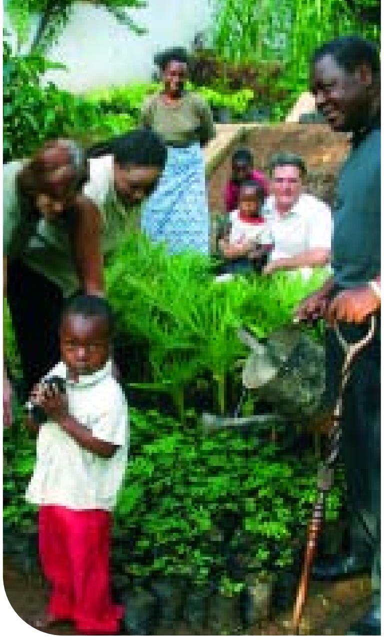
In a people intensive business such as ours, having a motivated, capable workforce who are proud to work for G4S will continue to be one of our group's aims. We have made great strides forward in these areas over recent years and will continue to build on the excellent people management practices which are in place across the group.

➔ RIGOROUS PRE- AND POST-EMPLOYMENT SCREENING practices are embedded.

➔ A NUMBER OF KEY INITIATIVES were launched at our European Works Council to ensure that we work cooperatively on the matters that can affect our staff most of all.

➔ ACROSS THE GROUP WE ENGAGE in genuine and active social dialogue with a wide range of social partners.

G4S RECOGNISES ITS ETHICAL RESPONSIBILITIES TOWARDS EMPLOYEES, CUSTOMERS, INVESTORS, LOCAL COMMUNITIES AND OTHER STAKEHOLDERS.



CORPORATE CITIZENSHIP

Background As a major global organisation, G4S plays a significant role in the lives of hundreds of thousands of people – both directly through employment and indirectly through its approach to the communities in which it operates.

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
> The environment
> Community involvement
> Bribery and corruption
> Compliance with the law
> Accounting standards
> National regulations and guidelines
> ILO Declaration on Fundamental Principles and Rights at Work
> Equal opportunities
> 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.

We take our responsibilities in this area very seriously and take swift and robust action against any non-compliance.

Environment Whilst the service industry is not a sector which has a major impact on the environment, we do realise that G4S has a responsibility to ensure that we play our part in protecting and preserving the environment for future generations.

We already comply with the relevant standards on vehicle emissions and, to date, fuel conservation has been achieved through enhanced vehicle design and regular maintenance. We also make use of environmentally-friendly products and services wherever possible. We are committed to recycling of materials where possible and where the means to recycle materials exist. This includes the recycling of cash bags, uniforms, toner cartridges, paper and paper-based products.

We have recently established a working group which is responsible for delivering a number of projects related to the group's "integrity" value. One such project is to create a G4S international environmental strategy during 2008.

We have started this process by researching what we believe to be the area where the group generates the majority of its carbon emissions, largely due to its relatively large heavier vehicle fleets compared to the rest of the group – our cash services businesses. This part of the organisation represents 43,000 employees, 9,000 vehicles and 22% of group revenues.

We have estimated that, in 2007, the carbon emissions of the group's cash services businesses amounted to some 153t CO_2 emissions per £1m of revenue.

In 2008 we will select a partner organisation, with strong environmental credentials to assist us in accurately establishing the carbon footprint of the group and developing plans and processes for reducing carbon emissions across the organisation.

We will aim to set targets and milestones for the group as a whole and will report regularly on our progress against those targets. We expect our strategy to cover key areas such as:

> Fuel consumption
> Energy consumption
> Water usage
> Recycling
> Use of environmentally-friendly products
> Use of modern communications to reduce the need for air travel

Employee Welfare & Support The group has established an employee trust fund which offers monetary support, at the discretion of the fund's trustees, to those employees and former employees in need of urgent financial assistance.

During 2007, the fund was utilised in a number of ways to provide emergency assistance to employees across the group in areas such as:

> Victims of political turbulence and violence in Kenya
> Employees affected by severe flooding in the UK
> Staff who have suffered injury or attack whilst on duty
> Colleagues diagnosed with life-threatening or debilitating diseases
> Families of employees who have died whilst carrying our their duties
> Relief from the effects of natural disasters in Peru and Jamaica

Investing in the Community – Local Initiatives G4S encourages its colleagues around the world to invest time and energy in local projects in the communities in which they live and work. We are very proud of the work they do in areas such as:

In **Guam & Saipan**, G4S employees have been involved in a number of education initiatives; adopting a public school and carrying out renovations and cleaning; and providing much needed equipment such as desks and cabinets for a high school that sustained significant fire and smoke damage.

G4S **Uganda** took part in the Habitat for Humanity Uganda initiative and helped to build homes for orphans and widows who had been caught up in the rebel activities in Northern Uganda. So relentless were the efforts of the G4S team, they made one family's dream come true by building them a home in just four months.

During 2007 the employees of G4S **Canada** have contributed over CAN$110,000 to a number of child centred charities across the country, giving up their free time to take part in fundraising events and improving the lives of thousands of sick or disadvantaged children.

In **India**, G4S supports a wide range of community projects. One of these, Future Hope, is a centre which provides a home, education, medical aid and opportunities for street children in Kolkata.

CORPORATE CITIZENSHIP (continued)

During August 2007, the employees of G4S **Greece** provided vital assistance to the community of Peloponnesus when ferocious forest fires took hold of great areas of the country. G4S organised a support mission, providing clothing, first aid, food supplies and toys for children. During one 14-day period over €14,000 was raised and 80 boxes of supplies gathered through the generosity of G4S employees.

In the **USA**, amongst a whole range of charitable activities, G4S Wackenhut employees take an active role in mentoring disadvantaged high school students through a community programme "Take Stock in Children". The employees meet with the students weekly to review their academic progress and encourage them to study and continue to college.

Investing in the Community – Major Initiatives
In 2006 G4S plc commenced five major community projects in key markets. Managers and staff in our developing markets selected projects which they believed would benefit greatly from G4S central funding and local G4S business support.

The main aim of these projects was to engage our workforce in their local community, give something back to the communities in which we operate and provide a long-term stable commitment to key issues.

We are very proud of our community projects and the time and commitment invested in the projects by our colleagues in the different countries.

Malawi – G4S Community Trees in Malawi – Malawi has low levels of energy available to the rural and urban population, and as a result timber is the main source of energy for heating and cooking. In Malawi over 1.5 million trees are cut down each year and over a million trees are used to convert into approximately 150,000 tonnes of charcoal.

G4S Community Trees in Malawi was developed to provide a sustainable forestry farming project which provides for own-grown fuels to Malawians living in a rural areas in the Karonga region of Northern Malawi.

50,000 acacia saplings were placed in the plantation area in 2007. With the saplings safely in place, the project's employees were given training in planting trees, transplanting trees, how to irrigate the soil, how to tend to the trees that were not faring so well and finally how to use crop rotation in order to grow staple foods, such as maize, at the same time as the trees.

The villagers involved in the project are earning a recurring living wage from the G4S Community Trees project and their training in the maintenance and care of the tress is ongoing, making a real difference to the lives of the villagers involved in the project.

Plans are already underway to plant a new crop of trees in 2008 to ensure the plantation grows further. Training will continue with further family members recruited from the villagers – the overall aim is that those trained will pass on their learning to others year on year allowing this project to last a lifetime.

Jamaica – G4S Gifts for Schools Project – G4S Gifts for Schools aims to make life a little easier for young people living in some of the most deprived communities in Jamaica by providing them with equipment and toys, and ensuring that repairs to their accommodation take place.

G4S Jamaica has provided support to a range of institutions for young people during 2007, such as a boys' home in a remote area of the country, a hostel for young mothers suffering from HIV, and community housing for both able-bodied and disabled children.

One such facility, the Little Angels Basic School, has seen some substantial improvements through its involvement with G4S. G4S Gifts for Schools is renovating two school buildings used to teach physically and mentally handicapped children. New classrooms have been built, repairs undertaken to the roof, electrical repairs have been made and existing classrooms and walls are receiving a much needed coat of paint. This project has involved G4S employees along with local contractors and the staff who run the facility. The whole community is joining together to make a difference to the lives of young people.

India – G4S School for Under Privileged Children – The aim of the G4S School for Under Privileged Children is to provide free education, food and uniforms to children of working parents allowing them to continue to work whilst their children are in a place of safety.

In 2007, G4S India engaged with a national NGO, The Hope Foundation, a charitable organisation involved in providing sustainable education for children. The school will be located in the Papankala area of New Delhi. This area has about 1,500 homes populated by about 15,000 people, with a child population above 3,000. Many of these children are not currently at school and the G4S School for Under Privileged Children will provide their best hope of an education.

A building has been located and is being redesigned and refurbished to transform it into a school. G4S India will provide books and other school equipment, along with teachers to provide a structured curriculum of education for the children. The school will provide education facilities for up to 300 students. The school's seven classrooms will each accommodate 30-35 pupils. Additional facilities will incorporate a staff room, an administration block, a principal's office, a media room and a computer lab for students. The aim is to open the school in the second half of 2008.

China – G4S China Jifu Action Project – G4S Jifu Action is an educational project in Shanghai, which aims to provide a purposeful learning environment for the children of the Nanhui Taoyuan Orphans' Foster Home Center and improved educational facilities for local orphans in Nanhui.

The G4S Jifu Action Project was launched at the end of 2007. In its first term of education the project enrolled 12 disabled children. Two teachers employed by the project provide the children with eight courses including Chinese, mathematics, physical education and handicrafts. The number of children who are offered this structured education will increase over the life of the project with over 80 children benefiting from the G4S Jifu Action Project education programme.

Russia – G4S for Children Project – The G4S for Children Project has found a positive way of helping support the work of two children's homes, which are known as "Internats", in the Moscow region, both of which care for children with disabilities; the two beneficiaries are the Municipal Institution, Special Secondary School – Internat for Children with Sight Disabilities, and the Specialised School – Internat for Orphans with Health or Physical Development Disabilities.

The aim of the G4S for Children Project is to improve the lives of the children living in the Internats through the provision of specialist education, general equipment and sporting equipment for the children at the specialised school.

G4S for Children has provided for three classrooms in the special secondary school and equipment such as interactive white boards, projectors and computers – all of which were installed in time for the school's 70th anniversary celebrations in March 2008.

G4S Russia hopes its community project will throw a lifeline to many children, giving them the opportunity to pursue lives as adults that are promising and rewarding.

Developing Young People – G4S 4teen – Engaging a large international workforce in a major global brand is a challenging target. In 2007, we launched an international sporting programme for young people, aimed at inspiring G4S employees throughout the world and making them proud to be a part of G4S – in a way which is not limited to a particular language, race or religion.

The G4S 4teen programme was developed to provide support to aspiring young athletes from developing markets, with a view to them achieving their sporting dream of competing in a future Olympic Games.

We worked closely with the National Olympic Committees from 13 countries (Bangladesh, Botswana, Chinese Taipei, Colombia, Estonia, Guatemala, India, Kazakhstan, Kenya, Macau, Nigeria, South Africa, Thailand) to select 14 young people who would benefit from the programme.

As well as providing financial and other support to the 14 selected athletes, G4S is proud to have attracted a global sporting icon to act as a project ambassador and a mentor to the G4S 4teen members.

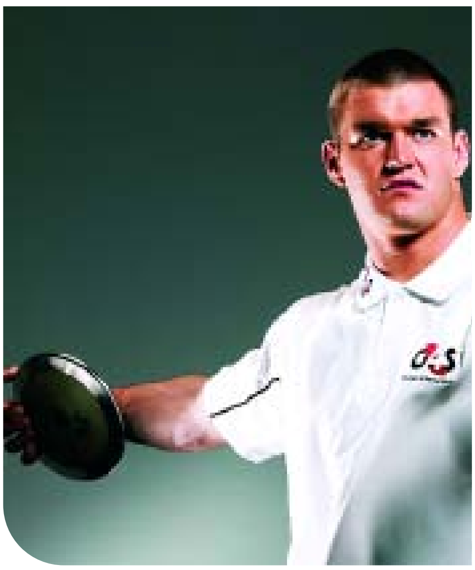
Haile Gebrselassie is a double gold medal winning Olympian and the current world record holder for the Marathon following his win at the Berlin Marathon in October 2007.

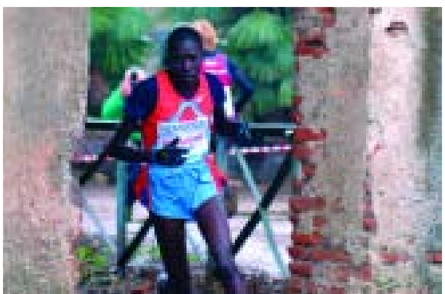
Haile has provided inspiration and practical support to the athletes, offering his advice to some of the 4teen to help them overcome the barriers they have faced during their training. He is a national hero for Ethiopia and in the world of sport and has become an inspirational member of the G4S global family.

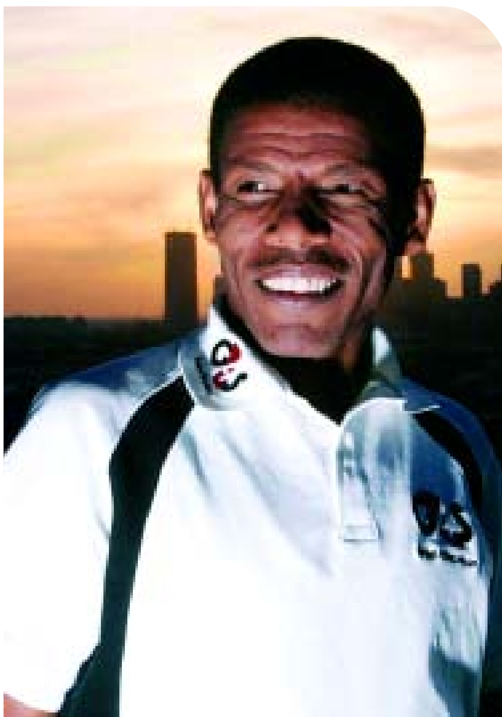
Future Development – launched to the world in June 2007, the G4S 4teen programme continues to grow from strength to strength. Many of the 4teen have achieved great success at major sporting competitions around the world, some have won national sporting awards, and we expect at least four of the 4teen to represent their countries in the Olympic Games in Beijing in 2008.

In addition to financial support, some of the athletes have received very practical support from their local G4S businesses, such as computer skills training, English language lessons, mentoring and media training – all of which have helped them prepare themselves to compete on the international stage.

G4S has played a significant role in helping these young people to become the best they can be in their chosen sport during 2007 and is fully committed to continuing to provide practical and financial help to our very special 14 talented sportsmen and women for the next five years.







Board of Directors

Alf Duch-Pedersen (61)

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 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, a member of the board of the Technical University of Denmark, chairman of the British Chamber of Commerce in Denmark and chairman of the Danish government's committee to modernise Danish corporate legislation.

Nick Buckles (47)

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 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 (58)

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 (55)

CHIEF OPERATING OFFICER

Grahame was appointed to the board in April 2005. He joined Group 4 in 1983, starting as finance director (UK) and then deputy managing director (UK), followed by a number of senior group roles, including vice president (corporate strategy), vice president (finance and administration), vice president operations (UK, Central & South Eastern Europe) and, in 2000, 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.

Thorleif Krarup (55)

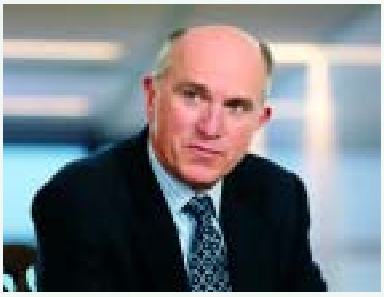
NON-EXECUTIVE DIRECTOR

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.

Sir Malcolm Williamson (69)

SENIOR INDEPENDENT DIRECTOR

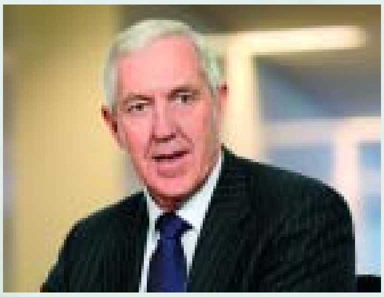
Malcolm was appointed to the board in May 2004 and is the senior independent director and a member of the Audit and Nomination Committees. After a 28-year career with Barclays Bank plc, he became managing director of Girobank plc and a member of the UK Post Office board in 1985. In 1989 he joined Standard Chartered plc, being group chief executive from 1993 to 1998. Between 1998 and 2004 he was president and CEO of Visa International, Inc. He is chairman of Signet Group plc, CDC Group plc, National Australia Group Europe Limited and Clydesdale Bank plc, deputy chairman of Resolution plc and a non-executive director of National Australia Bank Ltd and JP Morgan Cazenove Holdings.



Mark Elliott (58)

NON-EXECUTIVE DIRECTOR

Mark was appointed to the board in September 2006 and is a member of the Remuneration Committee. Until he retired in April 2008, Mark was General Manager, Global Solution Sales, for IBM. Based in the USA, he joined IBM in 1970 and occupied a number of senior management positions in that company 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 NV and serves on the Dean's Advisory Council and the Technology Advisory Council at Indiana University.



Lord Condon (61)

DEPUTY CHAIRMAN

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 and a member of the Nomination Committee. 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, a director of Tenix (Holdings) UK Limited and a member of the advisory board of Vident Systems Inc.

Bo Lerenius (61)

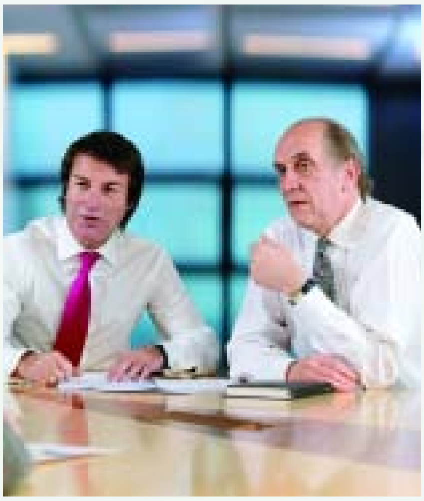
NON-EXECUTIVE DIRECTOR

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 Land Securities Group plc and Thomas Cook Group plc, chairman of the Swedish Chamber of Commerce for the United Kingdom and an advisor to the infrastructure fund of Swedish venture capital group, EQT.

Mark Seligman (52)

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 is a director of the Industrial Development Advisory Board.



Nick Buckles

CHIEF EXECUTIVE

Nick has worked in the security industry for 23 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 and in bringing together Group 4 Falck and Securicor to create the new 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.

Grahame Gibson

COO & DIVISIONAL PRESIDENT – SECURITY SERVICES

Grahame has been involved in the security industry for 25 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, 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.

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 and author of the book "Executive Management Contracts", published in Denmark.

Trevor Dighton

CHIEF FINANCIAL OFFICER

Trevor has worked in the security industry for 22 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 member of the Chartered Institute of Management Accountants.

Ken Niven

DIVISIONAL PRESIDENT – CASH SERVICES

Ken has 12 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 establishing Securicor's independent ATM network.

Ken was appointed to his current role in July 2004 and is responsible for the group's cash services division, which includes all of the major cash services business units, and for sharing cash services 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, Excel Logistics and Coca Cola.

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

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 30 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).

Executive Management

Report of the Directors

For the year ended 31 December 2007

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 2007.

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 security services (including manned security services, justice services and security systems) and 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 48.

Details of major business activities during the year, future developments, principal risks and uncertainties and prospects of the group and information which fulfills the requirements of the Business Review are contained in the Operating and Financial Review on pages 6 to 27 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 82 to 84.

3 Dividends

The directors propose the following net dividend for the year:

> Interim dividend of 2.11p (DKK 0.2319) per share paid on 16 November 2007.
> Final dividend of 2.85p (DKK 0.2786) per share payable on 6 June 2008.

Shareholders on the Danish VP register will receive their dividends in Danish Kroner. Shareholders who hold their shares through CREST or in certificated form will receive their dividends in sterling unless they prefer to receive Danish Kroner, in which case they should apply in writing to the Registrars by no later than 30 April 2008.

4 Significant business acquisitions, disposals and developments

In January 2007, the disposal of G4S Geld-und Wertdienste GmbH was completed.

In February 2007, 50% of Security and Management Services (PVT) Limited in Pakistan was acquired.

In March 2007, 49% of al Majal Servicemaster was acquired in Saudi Arabia.

In March 2007, 50.1% of Fidelity Cash Management Services (Pty) Limited in South Africa was acquired.

In March 2007, 50% of Alfa-Segurança in Mozambique was acquired, bringing G4S's holding in this company to 100%.

In April 2007, the manned guarding business and related assets of Protección Patrimonial in Mexico were acquired.

In April 2007, Meldetechnik Vagyonvédelmi és Villamossági Kft was acquired in Hungary.

In May 2007, SSI, a group providing security services in Malawi, Mozambique, Madagascar, Zambia, Mali, Guinea and Ghana, was acquired.

In May 2007, Creco N.V. was acquired in Belgium.

In May 2007, 19.05% of Hashmira Company Limited, the Israeli security services company, was acquired, bringing G4S's holding in this company to 90.05%.

In July 2007, G4S Cash Services (France) SAS was disposed of.

In July 2007, General Private Services was acquired in Morocco.

In July 2007, 84.3% of Bell Communications Limited was acquired in Ireland, bringing G4S's holding in this company to 100%.

In July 2007, A.1 Omada Limited, together with the manned security and fire suppression business and related assets of the Omada Fire and Security Group, were acquired in Ireland.

In August 2007, Ridderikhoff Group B.V. was acquired in the Netherlands.

In October 2007, RIG-PR Limited was acquired in the UK.

In October 2007, Colsecurity S.A. was acquired in Colombia.

In December 2007, Prosec Security and Communications Limited was acquired in Papua New Guinea.

In December 2007, an agreement to acquire De Facto 1119 Limited, the holding company of the Global Solutions group, was entered into. Completion remains subject to regulatory approvals.

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

Report of the Directors (continued)

For the year ended 31 December 2007

4 Significant business acquisitions, disposals and developments (continued)

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

In March 2008, G4S announced an offer for the shares of ArmorGroup International plc.

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.

5 Capital

The authorised and issued share capital of G4S plc at 31 December 2007 is set out on page 91 (note 37 to the consolidated financial statements). There were 1,281,190,738 shares in issue as at 7 April 2008.

Information concerning the company's shares held under option is set out on pages 91 and 92 (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 page 107 and further explanation is provided on page 110.

The company does not hold any treasury shares as such. However the 5,209,320 shares held within the Group 4 Securicor Employee Benefit Trust ("The Trust") and referred to on page 92 (note 37 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.

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 £2.1m (2006: £1.4m).

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 2007 the trade creditors of the company represented 23 days (2006: 13 days) of annual purchases.

At 31 December 2007 the consolidated trade creditors of the group represented 50 days (2006: 40 days) of annual purchases.

8 Employees

Involving the group's employees in the success and future plans of the business is a key strand of its approach to retaining the best people. G4S supports ongoing consultation and communication with employees by helping spread best practice among local management teams, managing direct communications with key internal stakeholders and ensuring its overall policies and strategies support this commitment. Business units use the most effective processes and tools to establish practical and effective employee involvement within the local context and adopt a range of direct employee communication approaches alongside consultation with trade union and other employee representatives as appropriate.

Attracting and retaining talented individuals continues to be essential to the success of G4S, and the diversity of the group's workforce helps it meet its customers' expectations. The overall approach of the group to diversity and inclusion therefore ensures that G4S appoints, promotes and develops employees in accordance with their talents and aptitudes, regardless of any disability, and to encourage loyalty and retain employees' skills the group also aims to retain existing employees who become disabled wherever possible.

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 £311,000 (2006: £94,000).

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 7 April 2008 in the ordinary capital of G4S plc:

Skagen Stichting Administratiekantoor	171,939,961 (13.42%)
INVESCO Limited	63,004,626 (4.92%)
Legal and General Group Plc	51,880,641 (4.05%)

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 Annual General Meeting.

12 Directors

The directors, biographical details of whom are contained on pages 28 and 29, held office throughout the year.

The directors retiring by rotation are Grahame Gibson, Bo Lerenius and Sir Malcolm Williamson. Messrs Gibson and Lerenius, 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 Annual General Meeting. Sir Malcolm Williamson has decided not to seek re-election and will therefore retire on 29 May 2008 at the end of the Annual General Meeting.

Of those directors proposed for re-election, Mr Lerenius does not have a contract of service and Mr Gibson'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 at 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.309 B of the Companies Act 1985 and have been in effect since 3 November 2006. A copy of the form of indemnity is available on the company's website. The company has maintained a directors' and officers' liability insurance policy throughout the year under review.

Details of directors' interests (including their families' interests) in the share capital of G4S plc and of the directors' remuneration are set out on pages 37 to 44.

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.

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
7 April 2008

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 Sir Malcolm Williamson.

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
Sir Malcolm Williamson

Remuneration Committee

Lord Condon (chairman)
Mark Elliott (joined March 2007)
Bo Lerenius
Mark Seligman

Nomination Committee

Alf Duch-Pedersen (chairman)
Lord Condon
Sir Malcolm Williamson

Mr Elliott joined the Remuneration Committee in March 2007. Mr Seligman is the member of the Audit Committee with recent and relevant financial experience. 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 ten board meetings during the year ended 31 December 2007. One of the meetings was an extended, two-day, board and strategy session, at which presentations on some of the group's key businesses were made to the board by senior executives and at which the group's business plan and its commercial and HR strategies were discussed. Two of the board meetings were held at subsidiary companies' offices, one in the UK, the other in South Africa, to facilitate greater inter-action between the board and the group's businesses. Thorleif Krarup was absent from one board meeting and Sir Malcolm Williamson and Mark Seligman were each absent from two meetings.

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 a one-day strategy session.

(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.

In the year under review, the Audit Committee met three times, the Remuneration Committee five times and the Nomination Committee once. All members attended each of the meetings except for Sir Malcolm Williamson who was absent from one meeting of the Audit Committee and Mark Seligman who was absent from one meeting of the Remuneration Committee.

The performance of the board and its committees has been evaluated in a number of ways. A questionnaire-based self-assessment of the performance of the board as a whole was conducted and the findings have been considered during the year under review. Based on this feedback, steps are to be taken to review the manner in which the board communicates with its stakeholders and the number of board meetings to be held and the way in which reports are given to the board has been reviewed. In addition, the chairman has conducted individual evaluations of the performance of each of the directors and his findings have been discussed by the board.

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.

Both the Audit and Remuneration Committees have evaluated their performance by questionnaire-based self-assessment, completed, in the case of the Audit Committee, by both the committee's members and by the regular attendees of its meetings. The results of the assessments were reviewed by the committees concerned and some areas for improvement were identified. As a result, some committee members will undertake more systematic external training, an additional audit committee meeting will be held at a time not related to a board meeting and more presentations will be made to the Audit Committee by regional finance managers and others.

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 interim financial statements and any questions raised by the auditor on the financial statements and financial systems. It also reviews, amongst other matters, 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 37 to 44.

(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 2007 by considering reports from the Audit Committee and has taken account of events since 31 December 2007.

Peter David
Secretary
7 April 2008

* Because Wackenhut Services, Inc. ("WSI") is governed through a proxy agreement under which the group is excluded from access to operational 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 2007

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 five 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. Mark Elliott joined the committee on 1 March 2007. 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. Neither Towers Perrin nor Alithos has 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.

A significant proportion of total remuneration is related to performance, through participation in both short-term and long-term incentive schemes. The performance-related element amounts to around 43% of the total package for target performance and around 63% 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. The overall objective is to achieve salary 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. 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.

* 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 2007

(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 PBTA budgeted targets used for the above scheme are the same as the company's budgeted PBTA for the corresponding period (assuming constant exchange rates).

The company performed well in 2007, with PBTA exceeding target but 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 75.2% of base salary level. In addition the committee agreed that the element of bonus dependent on achievement of pre-defined key business objectives should be paid at between 16% and 20% of base salary.

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

The Performance Share Plan 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.

Following approval of revisions to the plan at the company's 2007 Annual General Meeting, the maximum annual award of shares payable under the plan has increased to two and a half times base salary. The annual award approved by the committee for the year under review is one and a half times base salary for the 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 previous years, 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.

The following targets apply to two-thirds of awards granted in the year under review, with the three-year EPS (earnings per share) period ending on 31 December 2009:

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 previous years.

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

The following targets apply to the remaining one third of each award granted in the year under review:

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 previous years, 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.

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.

Chief executive's remuneration review

A review of the company's executive remuneration conducted for the committee by Towers Perrin identified that the chief executive's total pay over the past few years has been somewhat behind competitive market norms. Following a consultation with major shareholders and shareholder representative bodies, the Remuneration Committee has therefore approved a change to the Performance Share Plan element of the chief executive's remuneration with effect from 1 January 2008 whereby he will receive annual awards up to a face value of 200% of base salary (maintaining the same 2/3 and 1/3 split on EPS and TSR respectively). This change results in the chief executive's total direct compensation being at a level which is closer to, but still some way behind, market norms. The Remuneration Committee will keep this position under review.

Directors' Remuneration Report (continued)

At 31 December 2007

Fees, service contracts and letters of appointment

The chairman's annual fee is £250,000. The annual fee for the non-executive directors, which is set by the chairman and the executive directors, is £51,030, with a further £42,000 for the role of deputy chairman, £15,750 for the chairmanship of each of the Audit and Remuneration Committees and £15,750 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

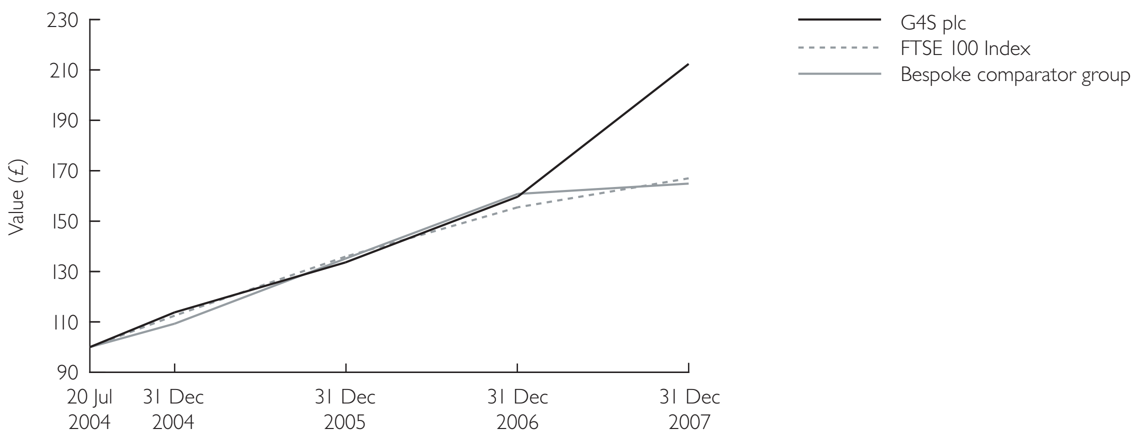
The contracts of Messrs Buckles, Dighton and Gibson are terminable by the company on 12 months' notice. The contracts are terminable by the executive directors on 12 months' notice. There are no liquidated damages provisions for compensation payable upon early termination, but the company reserves the 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 which provide for three-year terms. In the case of Mr Seligman, this term began on 1 January 2006, and in the case of Mr Elliott, it began on 1 September 2006. The other non-executive directors have been granted three year extensions to their initial letters of appointment beginning 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 £35,500 in the year ended 31 December 2007. Neither of the other executive directors currently holds an external non-executive appointment.

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 2007, 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, since December 2007, the company has itself become a FTSE 100 company. 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.



This graph shows the value at 31 December 2007 of £100 invested in G4S plc on 20 July 2004 compared with the value of £100 invested at the same time in both the FTSE 100 Index and the bespoke comparator group used in the company's PSP scheme. The other points plotted show the value at the intervening financial year ends.

THE FOLLOWING INFORMATION HAS BEEN AUDITED

Base salaries and bonuses

	Salary and fees £	Benefits (excluding pension contribution) £	Performance related bonus £	2007 Total £	2006 Total £
Chairman					
(non-executive)					
Alf Duch-Pedersen	237,500	–	–	237,500	161,250
Jørgen Philip-Sørensen (retired 30 June 2006)	–	–	–	–	90,000
Executive directors					
Nick Buckles (see note 1 below)	705,000	30,111	671,160	1,406,271	1,182,990
Trevor Dighton (see note 1 below)	436,000	18,083	397,632	851,715	724,763
Grahame Gibson (see notes 1 & 2 below)	482,016	29,521	448,721	960,258	828,994
Other non-executive directors					
Lord Condon	106,190	–	–	106,190	67,633
Mark Elliott	49,815	–	–	49,815	16,200
Thorlief Krarup	65,190	–	–	65,190	60,550
Bo Lerenius	49,815	–	–	49,815	46,800
Waldemar Schmidt (retired 30 June 2006)	–	–	–	–	22,500
Mark Seligman	49,815	–	–	49,815	46,800
Sir Malcolm Williamson	65,190	–	–	65,190	61,800
Total	2,246,531	77,715	1,517,513	3,841,759	3,310,280

Notes:

1 The performance-related bonuses derived from the company's bonus scheme were paid as 50% of basic salary in cash and the remainder through the award of deferred G4S shares, based on a share price of 222.67p, 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, 11 March 2008. The deferred share awards were:

Nick Buckles	143,110 shares
Trevor Dighton	80,673 shares
Grahame Gibson	90,826 shares

2 Grahame Gibson was reimbursed £64,761 for expenses associated with his relocation from the West Midlands to Surrey. This sum is subject to UK income tax. The company also paid air fares amounting to £29,013 for flights between the UK and the USA for Mr Gibson's wife and children. This sum is taxable in the USA.

The annual base salaries of the executive directors and the annual fees of the non-executive directors at 31 December 2007 were:

Executive directors	£
Nick Buckles	705,000
Trevor Dighton	436,000
Grahame Gibson	490,875

Non-executive directors	£
Alf Duch-Pedersen (chairman)	250,000
Lord Condon	108,780
Mark Elliott	51,030
Thorleif Krarup	66,780
Bo Lerenius	51,030
Mark Seligman	51,030
Sir Malcolm Williamson	66,780

Directors' Remuneration Report (continued)

At 31 December 2007

Directors' share options

	Option	At 31.12.06	Granted during 2007	Outstanding at 31.12.07	Option price (p)
Nick Buckles	A	72,901	–	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.

Neither of the above directors exercised options under any of the above schemes during the year.

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 an ordinary share at 31 December 2006 was 188p. At 31 December 2007 it was 244.75p.

The highest and lowest market prices of an ordinary share during the year to 31 December 2007 were 244.75p and 181.75p respectively.

Directors' interests in Performance Share Plan

	At 31.12.06	Shares awarded conditionally during year	Date of award	Market price at date of award	Vesting date	2004 awards	At 31.12.07
Nick Buckles	1,062,075	483,250	06.06.07	212.50p	06.06.10	368,830	1,176,495
Trevor Dighton	746,500	298,860	06.06.07	212.50p	06.06.10	276,130	769,230
Grahame Gibson	735,110	336,480	06.06.07	212.50p	06.06.10	252,460	819,130

The conditions subject to which allocations of shares vest under this plan are described under (c) Performance Share Plan on pages 38 and 39.

During the year under review the following performance share plan awards from 2004 vested:

Nick Buckles	232,362 shares gross (368,830 maximum award; 63% vested; 136,902 shares released after tax, NIC etc)
Trevor Dighton	173,961 shares gross (276,130 maximum award; 63% vested; 102,493 shares released after tax, NIC etc)
Grahame Gibson	159,049 shares gross (252,460 maximum award; 63% vested; 114,575 shares released after tax, NIC etc)

The market price at date of award (21 July 2004) was £1.23 per share. The market price at the vesting date (30 August 2007) was £1.985 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 31.12.07	At 31.12.06
Nick Buckles	1,079,849	975,043
Lord Condon	2,000	2,000
Trevor Dighton	729,427	650,964
Alf Duch-Pedersen	128,560	128,560
Mark Elliott	–	–
Grahame Gibson	512,409	397,834
Thorleif Krarup	3,206	3,206
Bo Lerenius	16,000	16,000
Mark Seligman	50,496	50,000
Sir Malcolm Williamson	2,000	2,000

All interests shown above are beneficial.

Changes in the executive directors' holdings have taken place since 31 December 2007 relating to the vesting of the 2005 Performance Share Plan and the award of deferred shares relating to the 2007 annual bonus scheme as a result of which their interests as at 7 April 2008 are:

Nick Buckles	1,202,544
Trevor Dighton	821,284
Grahame Gibson	641,878

As at 31 December 2007, each of Nick Buckles, Trevor Dighton and Grahame Gibson also had a deemed interest in 5,209,320 ordinary shares held in the Group 4 Securicor Employee Benefit Trust.

Directors' Remuneration Report (continued)

At 31 December 2007

Directors' pension entitlements

For the period under review, both Nick Buckles and Trevor Dighton participated in non-contributory categories of a group defined benefit pension scheme 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 and an increase is applied where retirement is deferred 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 pensions increase in line with the increase in the Retail Prices Index subject to a maximum of 5% per annum.

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 2007 (all figures are in £'000s):

	Gross increase in accrued pension (1)	Increase in accrued pension net of inflation (2)	Total accrued pension at 31/12/07 (3)	Value of net increase in accrual over period (4)	Total change in transfer value during period (5)	Transfer value of accrued pension at 31/12/07 (6)	Transfer value of accrued pension at 31/12/06 (7)
Nick Buckles	31	21	294	248	606	3,735	3,129
Trevor Dighton	17	15	62	273	362	1,128	766
Grahame Gibson	11	3	217	48	607	2,975	2,368

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 basic salary.

Lord Condon
Chairman of the Remuneration Committee
7 April 2008

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.

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 2007 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 Consolidated 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 45.

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 if, in our opinion, the Directors' Report is not consistent with the financial statements. This information given in the Report of the Directors includes that specific information presented in the Operating and Financial Review that is cross referred from the group results section of the Report of the Directors. 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 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 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 judgements 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.

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 at 31 December 2007 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 at 31 December 2007;
> 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 Report of the Directors is consistent with the financial statements.

KPMG Audit Plc

Chartered Accountants
Registered Auditor
7 April 2008

8 Salisbury Square
London
EC4Y 8BB

Consolidated income statement

For the year ended 31 December 2007

	Notes	2007 £m	2006 £m
Continuing operations			
Revenue	5, 6	4,490.4	4,036.8
Profit from operations before amortisation of acquisition-related intangible assets and share of profit from associates		309.1	271.6
Share of profit from associates		3.0	2.8
Profit from operations before amortisation of acquisition-related intangible assets (PBITA)	6	312.1	274.4
Amortisation of acquisition-related intangible assets		(41.6)	(36.0)
Profit from operations before interest and taxation (PBIT)	6, 8	270.5	238.4
Finance income	12	92.6	79.5
Finance costs	13	(146.3)	(118.4)
Profit before taxation (PBT)		216.8	199.5
Taxation:			
– Before amortisation of acquisition-related intangible assets		(71.1)	(67.4)
– On amortisation of acquisition-related intangible assets		14.9	10.8
	14	(56.2)	(56.6)
Profit after taxation		160.6	142.9
Loss from discontinued operations	7	–	(33.0)
Profit for the year		160.6	109.9
Attributable to:			
Equity holders of the parent		147.2	96.5
Minority interests		13.4	13.4
Profit for the year		160.6	109.9
Earnings per share attributable to equity shareholders of the parent	16		
For profit from continuing operations:			
Basic		11.5p	10.2p
Diluted		11.5p	10.2p
For profit from continuing and discontinued operations:			
Basic		11.5p	7.6p
Diluted		11.5p	7.6p

Consolidated balance sheet

At 31 December 2007

	Notes	2007 £m	2006 £m
ASSETS			
Non-current assets			
Goodwill	19	1,332.4	1,175.6
Other acquisition-related intangible assets	19	219.9	220.6
Other intangible assets	19	31.3	22.2
Property, plant and equipment	20	400.9	354.9
Investment in associates	22	10.2	7.3
Trade and other receivables	25	69.4	49.9
Deferred tax assets	36	84.2	115.7
		2,148.3	1,946.2
Current assets			
Inventories	23	57.1	49.5
Investments	24	73.2	73.7
Trade and other receivables	25	885.0	798.3
Cash and cash equivalents	28	381.3	307.5
Assets classified as held for sale	27	130.9	–
		1,527.5	1,229.0
Total assets	6	3,675.8	3,175.2
LIABILITIES			
Current liabilities			
Bank overdrafts	28, 29	(109.9)	(97.5)
Bank loans	29	(80.6)	(70.1)
Obligations under finance leases	30	(16.2)	(13.6)
Trade and other payables	31	(845.7)	(710.2)
Current tax liabilities		(18.0)	(26.3)
Retirement benefit obligations	34	(47.3)	(42.2)
Provisions	35	(23.6)	(41.3)
Liabilities associated with assets classified as held for sale	27	(78.3)	–
		(1,219.6)	(1,001.2)
Non-current liabilities			
Bank loans	29	(729.1)	(830.3)
Loan notes	29	(290.4)	–
Obligations under finance leases	30	(46.0)	(42.5)
Trade and other payables	31	(38.7)	(1.0)
Retirement benefit obligations	34	(120.1)	(208.3)
Provisions	35	(33.9)	(38.7)
Deferred tax liabilities	36	(75.0)	(81.7)
		(1,333.2)	(1,202.5)
Total liabilities	6	(2,552.8)	(2,203.7)
Net assets		1,123.0	971.5
EQUITY			
Share capital	37	320.2	320.0
Share premium and reserves	38	766.9	615.2
Equity attributable to equity holders of the parent		1,087.1	935.2
Minority interests		35.9	36.3
Total equity		1,123.0	971.5

The consolidated financial statements were approved by the board of directors and authorised for issue on 7 April 2008.

They were signed on its behalf by:

Nick Buckles
Director

Trevor Dighton
Director

Consolidated cash flow statement

For the year ended 31 December 2007

	Notes	2007 £m	2006 £m
Profit before taxation		216.8	199.5
Loss before taxation from discontinued operations		(0.3)	(31.6)
Adjustments for:			
Finance income		(92.6)	(79.5)
Finance costs		146.3	118.4
Finance costs attributable to discontinued operations		3.3	3.0
Depreciation of property, plant and equipment		91.1	82.8
Amortisation of acquisition-related intangible assets		41.6	36.0
Amortisation of other intangible assets		8.5	7.4
Impairment of other intangible assets		–	2.5
Profit on disposal of property, plant and equipment and intangible assets other than acquisition-related		(14.4)	(1.6)
(Profit)/loss on disposal of discontinued operations		(12.0)	14.0
Share of profit from associates		(3.0)	(2.8)
Equity-settled transactions		4.1	5.0
Operating cash flow before movements in working capital		389.4	353.1
Increase in inventories		(9.6)	(6.9)
Increase in receivables		(69.7)	(17.7)
Increase/(decrease) in payables		84.1	(13.5)
Decrease in provisions		(36.7)	(47.6)
Cash generated by operations		357.5	267.4
Tax paid		(66.2)	(70.3)
Net cash flow from operating activities		291.3	197.1
Investing activities			
Interest received		24.9	11.5
Cash flow from associates		1.0	2.7
Purchases of property, plant and equipment and intangible assets other than acquisition-related		(134.5)	(93.2)
Proceeds on disposal of property, plant and equipment and intangible assets other than acquisition-related		25.5	10.7
Acquisition of subsidiaries		(151.6)	(96.7)
Net cash balances acquired		11.6	3.5
Disposal of subsidiaries		7.9	9.9
Purchase of investments		(0.3)	(21.8)
Own shares purchased		(3.1)	(3.1)
Net cash used in investing activities		(218.6)	(176.5)
Financing activities			
Share issues		0.9	9.1
Dividends paid to minority interests		(3.8)	(3.0)
Loan to minority interests		(13.3)	–
Dividends paid to equity shareholders of the parent		(59.3)	(49.8)
Proceeds on issue of loan notes		280.6	–
Repayment of revolving credit facilities with proceeds from issue of loan notes		(280.6)	–
Other net movement in borrowings		140.4	95.1
Interest paid		(79.9)	(59.3)
Net cash flow from hedging financial instruments		(4.3)	11.8
Repayment of obligations under finance leases		(4.6)	(8.4)
Net cash flow from financing activities		(23.9)	(4.5)
Net increase in cash, cash equivalents and bank overdrafts	39	48.8	16.1
Cash, cash equivalents and bank overdrafts at the beginning of the year		210.0	205.1
Effect of foreign exchange rate fluctuations on cash held		11.9	(11.2)
Cash, cash equivalents and bank overdrafts at the end of the year	28	270.7	210.0

Consolidated statement of recognised income and expense

For the year ended 31 December 2007

	2007 £m	2006 £m
Exchange differences on translation of foreign operations	37.4	(42.6)
Change in fair value of net investment hedging financial instruments	(19.0)	11.6
Change in fair value of cash flow hedging financial instruments	(7.0)	1.1
Actuarial gains/(losses) on defined retirement benefit schemes	64.7	(33.4)
Tax on items taken directly to equity	(14.0)	(1.4)
Net income/(expense) recognised directly in equity	62.1	(64.7)
Profit for the year	160.6	109.9
Net recognised income	222.7	45.2
Attributable to:		
Equity holders of the parent	209.3	31.8
Minority interests	13.4	13.4
Net recognised income	222.7	45.2

Notes to the consolidated financial statements

1 General information

A resolution was passed at the 2007 Annual General Meeting, held on 31 May 2007, to change the company's name from Group 4 Securicor plc to G4S plc. 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 6 to 27. 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 113.

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 97 to 105.

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 2006 has been re-presented for operations qualifying as discontinued during the current year. Revenue from continuing operations has been reduced by £316.8m and PBT has been reduced by £0.5m 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 2006 has been restated to reflect the completion during 2007 of the initial accounting in respect of acquisitions made during 2006. Adjustments made to the provisional calculation of the fair values of assets and liabilities acquired amount to £4.7m, with an equivalent increase 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.

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. All such 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 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 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 depreciation 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.

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.

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 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 for 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.

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 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 services products and for recurring services in security systems products is recognised over 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 likely 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 deferred tax assets 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 that meets the criteria to be classified as held for sale.

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

In the year ended 31 December 2007, the group has adopted IFRS 7 *Financial Instruments: Disclosures* and the related amendment to IAS 1 *Presentation of Financial Statements*, both of which were effective from 1 January 2007. The effect of the adoption of IFRS 7 and the amendment to IAS 1 has been to expand the disclosures provided in these financial statements regarding the group's financial instruments and management of capital.

Four interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) were effective for the current year. These were:

> IFRIC 7 *Applying the Restatement Approach under IAS 29, Financial Reporting in Hyperinflationary Economies*;

> IFRIC 8 *Scope of IFRS 2*;

> IFRIC 9 *Reassessment of Embedded Derivatives*; and

> IFRIC 10 *Interim Financial Reporting and Impairment*.

The adoption of these interpretations has not resulted in changes to the group's accounting policies and has not had a material impact on amounts reported for the current or prior years.

At the year end, the following were in issue, endorsed but not yet effective:

> IFRS 8 *Operating Segments* which was issued in November 2006 and 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; and

> IFRIC 11 *IFRS 2 – Group and Treasury Share Transactions* which was issued in November 2006 and is effective for annual periods beginning on or after 1 March 2007. This interpretation requires a share-based payment arrangement in which the group receives goods or services as consideration for its own equity-instruments to be accounted for as an equity-settled share-based payment transaction.

At the year end, the following were in issue, but were not yet endorsed or effective:

> IAS 1 (Revised) *Presentation of Financial Statements*;

> IAS 23 (Revised) *Borrowing Costs*;

> IFRIC 12 *Service Concession Arrangements*;

> IFRIC 13 *Customer Loyalty Programmes*; and

> IFRIC 14 *IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*.

IFRIC 14, if endorsed, may impact on the group's valuation of defined retirement benefit obligations. The directors anticipate that the adoption of the other standards and interpretations in future periods will have no material financial impact on the financial statements of the group.

4 Accounting estimates

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.

Notes to the consolidated financial statements (continued)

4 Accounting estimates (continued)

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

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. 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 principally based 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	2007 £m	2006 £m
Continuing operations			
Sale of goods		**105.3**	93.7
Rendering of services		**4,288.7**	3,886.9
Revenue from construction contracts		**96.4**	56.2
Revenue from continuing operations as presented in the consolidated income statement	*6*	**4,490.4**	4,036.8
Discontinued operations			
Sale of goods		**9.3**	7.1
Rendering of services		**259.2**	373.6
Revenue from construction contracts		**16.4**	12.5
Revenue from discontinued operations	*6, 7*	**284.9**	393.2
Other operating income			
Interest income		**15.1**	12.3
Net gain in fair value of loan note derivative financial instruments and hedged items		**0.2**	–
Expected return on defined retirement benefit scheme assets		**77.3**	67.2
Total other operating income		**92.6**	79.5

6 Business and geographical segments

The group operates in two core product areas: security services and cash services. 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 2007 £m	Discontinued operations 2007 £m	Total 2007 £m	Continuing operations 2006 £m	Discontinued operations 2006 £m	Total 2006 £m
Security Services						
UK and Ireland	593.0	–	593.0	539.7	–	539.7
Continental Europe	1,078.3	258.6	1,336.9	985.4	270.5	1,255.9
Europe	1,671.3	258.6	1,929.9	1,525.1	270.5	1,795.6
North America	1,043.8	–	1,043.8	1,049.9	13.2	1,063.1
Middle East and Gulf States	177.9	–	177.9	125.5	–	125.5
Latin America and the Caribbean	158.0	1.7	159.7	117.7	6.8	124.5
Africa	183.9	–	183.9	152.6	–	152.6
Asia Pacific	268.9	3.3	272.2	230.0	6.0	236.0
New Markets	788.7	5.0	793.7	625.8	12.8	638.6
Total Security Services	3,503.8	263.6	3,767.4	3,200.8	296.5	3,497.3
Cash Services						
Europe	706.3	17.2	723.5	628.8	92.6	721.4
North America	78.0	–	78.0	85.3	–	85.3
New Markets	202.3	4.1	206.4	121.9	4.1	126.0
Total Cash Services	986.6	21.3	1,007.9	836.0	96.7	932.7
Total revenue	4,490.4	284.9	4,775.3	4,036.8	393.2	4,430.0

Revenue by geographical market	Total 2007 £m	Total 2006 £m
UK and Ireland	1,007.5	928.9
Continental Europe	1,645.9	1,588.1
Europe	2,653.4	2,517.0
North America	1,121.8	1,148.4
Middle East and Gulf States	202.5	147.1
Latin America and the Caribbean	203.3	162.9
Africa	257.2	168.1
Asia Pacific	337.1	286.5
New Markets	1,000.1	764.6
Total revenue	4,775.3	4,430.0

Revenue from internal and external customers by business segment	Total gross segment revenue 2007 £m	Inter-segment revenue 2007 £m	External revenue 2007 £m	Total gross segment revenue 2006 £m	Inter-segment revenue 2006 £m	External revenue 2006 £m
Security Services	3,773.7	(6.3)	3,767.4	3,501.1	(3.8)	3,497.3
Cash Services	1,008.5	(0.6)	1,007.9	933.5	(0.8)	932.7
Total revenue	4,782.2	(6.9)	4,775.3	4,434.6	(4.6)	4,430.0

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 2007 £m	Discontinued operations 2007 £m	Total 2007 £m	Continuing operations 2006 £m	Discontinued operations 2006 £m	Total 2006 £m
Security Services						
UK and Ireland	48.4	–	48.4	44.1	–	44.1
Continental Europe	61.5	(4.3)	57.2	56.5	(0.8)	55.7
Europe	109.9	(4.3)	105.6	100.6	(0.8)	99.8
North America	61.5	–	61.5	62.7	0.7	63.4
Middle East and Gulf States	14.2	–	14.2	10.9	–	10.9
Latin America and the Caribbean	10.3	(0.5)	9.8	6.3	0.2	6.5
Africa	16.0	–	16.0	12.5	–	12.5
Asia Pacific	22.9	(1.4)	21.5	18.5	–	18.5
New Markets	63.4	(1.9)	61.5	48.2	0.2	48.4
Total Security Services	234.8	(6.2)	228.6	211.5	0.1	211.6
Cash Services						
Europe	77.4	(2.2)	75.2	67.8	(14.7)	53.1
North America	0.6	–	0.6	1.8	–	1.8
New Markets	29.7	(0.6)	29.1	17.4	–	17.4
Total Cash Services	107.7	(2.8)	104.9	87.0	(14.7)	72.3
Total PBITA before head office costs	342.5	(9.0)	333.5	298.5	(14.6)	283.9
Head office costs	(30.4)	–	(30.4)	(24.1)	–	(24.1)
Total PBITA	312.1	(9.0)	303.1	274.4	(14.6)	259.8
PBITA by geographical market						
Europe	187.3	(6.5)	180.8	168.4	(15.5)	152.9
North America	62.1	–	62.1	64.5	0.7	65.2
New Markets	93.1	(2.5)	90.6	65.6	0.2	65.8
Total PBITA before head office costs	342.5	(9.0)	333.5	298.5	(14.6)	283.9
Head office costs	(30.4)	–	(30.4)	(24.1)	–	(24.1)
Total PBITA	312.1	(9.0)	303.1	274.4	(14.6)	259.8

Result by business segment	Continuing operations 2007 £m	Discontinued operations 2007 £m	Total 2007 £m	Continuing operations 2006 £m	Discontinued operations 2006 £m	Total 2006 £m
Total PBITA	312.1	(9.0)	303.1	274.4	(14.6)	259.8
Amortisation of acquisition-related intangible assets	(41.6)	–	(41.6)	(36.0)	–	(36.0)
Total PBIT	270.5	(9.0)	261.5	238.4	(14.6)	223.8
Security Services	215.4	(6.2)	209.2	195.4	0.1	195.5
Cash Services	85.5	(2.8)	82.7	67.1	(14.7)	52.4
Head office costs	(30.4)	–	(30.4)	(24.1)	–	(24.1)
Total PBIT	270.5	(9.0)	261.5	238.4	(14.6)	223.8

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.

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	2007 £m	2006 £m
By business segment		
Security Services	2,135.3	1,805.7
Cash Services	954.8	843.0
Head office	103.5	81.4
Inter-segment trading balances	(64.1)	(51.8)
Total segment operating assets	3,129.5	2,678.3
By geographical segment		
UK and Ireland	938.1	869.5
Continental Europe	923.9	773.6
Europe	1,862.0	1,643.1
North America	615.5	586.7
Middle East and Gulf States	102.5	62.5
Latin America and the Caribbean	104.7	82.4
Africa	190.3	76.6
Asia Pacific	206.8	178.3
New Markets	604.3	399.8
Head office	103.4	81.4
Inter-segment trading balances	(55.7)	(32.7)
Total segment operating assets	3,129.5	2,678.3
Non-operating assets	546.3	496.9
Total assets	3,675.8	3,175.2

Total liabilities	2007 £m	2006 £m
By business segment		
Security Services	(719.5)	(602.5)
Cash Services	(233.6)	(195.1)
Head office	(119.2)	(45.4)
Inter-segment trading balances	64.1	51.8
Total segment operating liabilities	(1,008.2)	(791.2)
Non-operating liabilities	(1,544.6)	(1,412.5)
Total liabilities	(2,552.8)	(2,203.7)

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 £123.3m (2006: £nil) and £7.6m (2006: £nil) respectively relating to assets classified as held for sale. Included within operating and non-operating liabilities are £66.3m (2006: £nil) and £12.0m (2006: £nil) 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 2007 £m	Depreciation and amortisation 2007 £m	Capital additions 2007 £m	Impairment losses recognised in income 2006 £m	Depreciation and amortisation 2006 £m	Capital additions 2006 £m
Security Services	–	72.5	201.3	2.5	58.2	139.7
Cash Services	–	68.1	192.1	–	67.7	73.9
Head office	–	0.6	2.9	–	0.3	0.6
Total	–	141.2	396.3	2.5	126.2	214.2

Notes to the consolidated financial statements (continued)

6 Business and geographical segments (continued)

Other information by geographical location (continued)

By geographical segment	Capital additions 2007 £m	Capital additions 2006 £m
UK and Ireland	83.3	46.2
Continental Europe	124.7	64.5
Europe	208.0	110.7
North America	13.2	15.2
Middle East and Gulf States	27.4	31.0
Latin America and the Caribbean	13.6	20.3
Africa	106.1	17.0
Asia Pacific	25.1	19.4
New Markets	172.2	87.7
Head office	2.9	0.6
Total	396.3	214.2

7 Discontinued operations

Operations qualifying as discontinued in the current year primarily comprise: G4S Cash Services (France) SAS, disposed of on 2 July 2007; the security services businesses in France, which principally include Group 4 Securicor SAS; and the security services businesses in Germany, which principally include G4S Sicherheitsdienste GmbH and G4S Sicherheitssysteme GmbH, Berlin. The disposal of the security services businesses in both France and Germany is still in progress.

Additionally, operations qualifying as discontinued in the prior year primarily comprise the German cash services business of G4S Geld-und Wertdienste GmbH, where terms were agreed for divestment on 22 December 2006, and the business and assets of Cognisa Transportation, Inc, disposed of on 28 December 2006.

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

	2007 £m	2006 £m
Revenue	284.9	393.2
Expenses	(293.9)	(407.8)
Operating loss before interest and taxation (PBIT)	(9.0)	(14.6)
Net finance costs	(3.3)	(3.0)
Attributable tax credit/(expense)	0.3	(1.4)
Total operating loss for the year	(12.0)	(19.0)
Profit/(loss) on disposal of discontinued operations (note 18)	9.1	(19.2)
Adjustment in respect of disposals in the prior year	2.9	5.2
Net loss attributable to discontinued operations	–	(33.0)

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

The 2006 adjustment in respect of disposals in the prior year comprises £3.2m relating to the finalisation of the disposal of Cognisa Security and £2.0m relating to the finalisation of the disposal of Falck Security Nederland.

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

7 Discontinued operations (continued)

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

	2007 £m	2006 £m
Net cash flows from operating activities	12.5	(10.8)
Net cash flows from investing activities	(1.4)	6.4
Net cash flows from financing activities	2.7	(3.7)
	13.8	(8.1)

8 Profit from operations before interest and taxation (PBIT)

The income statement can be analysed as follows:

Continuing operations	2007 £m	2006 £m
Revenue	4,490.4	4,036.8
Cost of sales	(3,485.4)	(3,158.0)
Gross profit	1,005.0	878.8
Administration expenses	(737.5)	(643.2)
Share of profit from associates	3.0	2.8
PBIT	270.5	238.4

Included within administration expenses is £41.6m (2006: £36.0m) 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):

	2007 £m	2006 £m
Cost of sales		
Cost of inventories recognised as an expense	92.4	68.0
Write-down of inventories to net realisable value	0.6	0.5
Reversal of inventories previously written down to net realisable value because subsequently sold	–	(0.2)
Administration expenses		
Amortisation of acquisition-related intangible assets	41.6	36.0
Amortisation of other intangible assets	8.5	7.4
Depreciation of property, plant and equipment	91.1	82.8
Impairment of property, plant and equipment and intangible assets other than acquisition-related	–	2.5
Profit on disposal of property, plant and equipment and intangible assets other than acquisition-related	(14.4)	(1.6)
Impairment of trade receivables	5.4	4.6
Litigation settlements	0.7	0.1
Research and development expenditure	2.1	1.4
Operating lease rentals payable	96.7	85.0
Operating sub-lease rentals receivable	(3.0)	(1.9)
Cost of equity-settled transactions	4.1	5.0
Government grants received as a contribution towards wage costs	(2.2)	(2.3)
Net foreign translation adjustments	(0.2)	1.0

Notes to the consolidated financial statements (continued)

10 Auditors' remuneration

	2007 £m	2006 £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	**2.6**	2.2
Other services pursuant to legislation	**0.2**	0.1
Taxation services	**0.3**	0.3
Corporate finance services	**0.4**	0.2
Fees payable to other auditors for the audit of the company's subsidiaries pursuant to legislation	**0.5**	0.6

The Corporate Governance Statement on pages 34 to 36 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:

	2007 Number	2006 Number
By business segment		
Security Services	**466,035**	403,079
Cash Services	**41,255**	36,866
Not allocated, including shared administration and head office	**190**	183
Total average number of employees	**507,480**	440,128
By geographical segment		
Europe	**115,951**	114,216
North America	**53,414**	51,919
New Markets	**337,925**	273,810
Not allocated, including shared administration and head office	**190**	183
Total average number of employees	**507,480**	440,128

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

	2007 £m	2006 £m
Wages and salaries	**2,772.2**	2,654.3
Social security costs	**410.2**	387.8
Employee benefits	**75.3**	66.2
Total staff costs	**3,257.7**	3,108.3

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 37 to 44.

12 Finance income

	2007 £m	2006 £m
Interest income on cash, cash equivalents and investments	12.4	9.9
Other interest income	2.7	2.4
Expected return on defined retirement benefit scheme assets	77.3	67.2
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	92.6	79.5

13 Finance costs

	2007 £m	2006 £m
Interest on bank overdrafts and loans	53.0	49.6
Interest on loan notes	13.5	–
Interest on obligations under finance leases	3.3	2.4
Other interest charges	4.2	0.2
Total group borrowing costs	74.0	52.2
Finance costs on defined retirement benefit obligations	72.3	66.2
Total finance costs	146.3	118.4

Included within interest on bank overdrafts and loans is a credit of £2.1m (2006: £2.5m) relating to cash flow hedges that were transferred from equity during the year.

14 Taxation

	Continuing operations 2007 £m	Discontinued operations 2007 £m	Total 2007 £m	Continuing operations 2006 £m	Discontinued operations 2006 £m	Total 2006 £m
Current taxation						
UK corporation tax	2.6	–	2.6	10.1	–	10.1
Overseas tax	64.5	(0.3)	64.2	49.7	1.4	51.1
Adjustments in respect of prior years:						
UK corporation tax	(7.1)	–	(7.1)	0.7	–	0.7
Overseas tax	–	–	–	(3.5)	–	(3.5)
Total current taxation expense/(credit)	60.0	(0.3)	59.7	57.0	1.4	58.4
Deferred taxation (see note 36)						
Current year	(7.4)	–	(7.4)	–	–	–
Adjustments in respect of prior years	3.6	–	3.6	(0.4)	–	(0.4)
Total deferred taxation credit	(3.8)	–	(3.8)	(0.4)	–	(0.4)
Total income tax expense/(credit) for the year	56.2	(0.3)	55.9	56.6	1.4	58.0

UK corporation tax is calculated at 30.0% (2006: 30.0%) of the estimated assessable profits for the period. The total income tax expense for the year includes a £1.7m credit resulting from the deferred tax movement arising from the reduction in the UK corporation tax rate from 30.0% to 28.0%. Taxation for other jurisdictions 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:

	2007 £m	2006 £m
Profit/(loss) before taxation		
Continuing operations	**216.8**	199.5
Discontinued operations	**(0.3)**	(31.6)
Total profit before taxation	**216.5**	167.9
Tax at UK corporation tax rate of 30.0% (2006: 30.0%)	**65.0**	50.4
Expenses that are not deductible in determining taxable profit	**2.2**	5.1
Tax losses not recognised in the current year	**1.5**	13.7
Different tax rates of subsidiaries operating in non-UK jurisdictions	**(9.3)**	(8.0)
Adjustments for previous years	**(3.5)**	(3.2)
Total income tax charge	**55.9**	58.0
Effective tax rate	**25.8%**	34.5%

In addition to the income tax expense charged to the income statement, a tax charge of £14.0m (2006: £1.4m) has been recognised in equity.

15 Dividends

	Pence per share	DKK per share	2007 £m	2006 £m
Amounts recognised as distributions to equity holders of the parent in the year				
Final dividend for the year ended 31 December 2005	2.24	0.2435	–	28.3
Interim dividend for the six months ended 30 June 2006	1.69	0.1863	–	21.5
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**	–
			59.3	49.8
Proposed final dividend for the year ended 31 December 2007	2.85p	0.2786	**36.3**	

The proposed final dividend is subject to approval by shareholders at the Annual General Meeting. If so approved, it will be paid on 6 June 2008 to shareholders who are on the register on 2 May 2008. The exchange rate used to translate it into Danish kroner is that at 10 March 2008.

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

	2007 £m	2006 £m
From continuing and discontinued operations		
Earnings		
Profit for the year attributable to equity holders of the parent	**147.2**	96.5
Effect of dilutive potential ordinary shares (net of tax)	**0.2**	0.3
Profit for the purposes of diluted earnings per share	**147.4**	96.8
Number of shares (m)		
Weighted average number of ordinary shares	**1,275.2**	1,268.3
Effect of dilutive potential ordinary shares	**1.5**	5.4
Weighted average number of ordinary shares for the purposes of diluted earnings/(loss) per share	**1,276.7**	1,273.7
Earnings per share from continuing and discontinued operations (pence)		
Basic	**11.5p**	7.6p
Diluted	**11.5p**	7.6p

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

	2007 £m	2006 £m
From continuing operations		
Earnings		
Profit for the year attributable to equity holders of the parent	**147.2**	96.5
Adjustment to exclude loss for the year from discontinued operations (net of tax) (note 7)	**–**	33.0
Profit from continuing operations	**147.2**	129.5
Effect of dilutive potential ordinary shares (net of tax)	**0.2**	0.3
Profit from continuing operations for the purpose of diluted earnings per share	**147.4**	129.8
Earnings per share from continuing operations (pence)		
Basic	**11.5p**	10.2p
Diluted	**11.5p**	10.2p
From discontinued operations		
Loss per share from discontinued operations (pence)		
Basic	**–**	(2.6)p
Diluted	**–**	(2.6)p
From adjusted earnings		
Earnings		
Profit from continuing operations	**147.2**	129.5
Adjustment to exclude net retirement benefit finance income (net of tax)	**(3.6)**	(0.7)
Adjustment to exclude amortisation of acquisition-related intangible assets (net of tax)	**26.7**	25.2
Adjusted profit for the year attributable to equity holders of the parent	**170.3**	154.0
Weighted average number of ordinary shares (m)	**1,275.2**	1,268.3
Adjusted earnings per share (pence)	**13.4p**	12.1p

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.

17 Acquisitions

Current year acquisitions

The group undertook a number of acquisitions in the year, none of which were individually material. Principal acquisitions in subsidiary undertakings include 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. 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 assets acquired of subsidiary undertakings	7.8	0.3	9.4	**17.5**
Acquisition of minority interests	19.2	0.3	1.4	**20.9**
Total provisional fair value of net assets acquired	27.0	0.6	10.8	**38.4**
Goodwill	92.5	1.6	85.1	**179.2**
Total purchase consideration	119.5	2.2	95.9	**217.6**

Notes to the consolidated financial statements (continued)

17 Acquisitions (continued)

Current year acquisitions (continued)

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**
Acquisition-related intangible assets	–	34.1	**34.1**
Other intangible assets	1.0	(0.7)	**0.3**
Property, plant and equipment	24.5	(1.9)	**22.6**
Inventories	4.0	(0.4)	**3.6**
Trade and other receivables	50.2	(3.6)	**46.6**
Deferred tax assets	0.1	–	**0.1**
Cash and cash equivalents	11.6	–	**11.6**
Trade and other payables	(46.7)	(2.4)	**(49.1)**
Current tax liabilities	(1.6)	(1.1)	**(2.7)**
Provisions	(7.7)	(3.1)	**(10.8)**
Borrowings	(22.9)	–	**(22.9)**
Deferred tax liabilities	–	(9.7)	**(9.7)**
Minority interests	(10.7)	4.5	**(6.2)**
Net assets acquired of subsidiary undertakings	1.8	15.7	**17.5**
Acquisition of minority interests	17.8	3.1	**20.9**
Goodwill			**179.2**
Total purchase consideration			**217.6**
Satisfied by:			
Cash			**147.7**
Transaction costs			**3.9**
Contingent consideration			**66.0**
Total purchase consideration			**217.6**

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 £34.1m attributable to the acquisition of subsidiary undertakings and £3.1m attributable to the acquisition of minority interests. 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. Final fair value adjustments will, if required, be reflected in the comparative to the 2008 consolidated financial statements.

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.

From the date 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.

Prior year acquisitions

The group undertook a number of acquisitions in 2006, none of which were individually material. Principal acquisitions in subsidiary undertakings included the purchase of controlling interests in the Chilean company, Servicios Generales, Limitada, a manned security services provider, and in al Majal Security Services, a security services and cash services business in Saudi Arabia. In addition, the group increased its interests in United Arab Emirates.

17 Acquisitions (continued)

Prior year acquisitions (continued)

At 31 December 2006, the fair value adjustments made against net assets acquired were provisional. The initial accounting in respect of acquisitions made during 2006 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	–	17.6	**17.6**
Property, plant and equipment and intangible assets other than acquisition-related	7.0	(0.5)	**6.5**
Deferred tax assets	0.2	–	**0.2**
Current assets	22.0	(2.1)	**19.9**
Current liabilities	(10.6)	(4.7)	**(15.3)**
Non-current liabilities	(6.6)	(6.4)	**(13.0)**
Minority interests	(1.8)	0.6	**(1.2)**
Net assets acquired of subsidiary undertakings	10.2	4.5	**14.7**
Acquisition of minority interests	6.4	4.6	**11.0**
Goodwill			**72.7**
Total purchase consideration			**98.4**
Satisfied by:			
Cash			**96.0**
Transaction costs			**0.7**
Contingent consideration			**1.7**
Total purchase consideration			**98.4**

Included within current assets acquired is £3.5m of cash and cash equivalents.

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 £17.6m attributable to the acquisition of subsidiary undertakings and £4.6m attributable to the acquisition of minority interests. On completion of the fair value exercise during 2007, adjustments made to the provisional calculation amounted to £4.7m, with an equivalent increase in the reported value of goodwill. The comparative balance sheet at 31 December 2006 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 £10.1m arising on the acquisition of minority interests.

In the year of acquisition, in aggregate, the acquired businesses contributed £57.1m to revenues, £7.8m to PBITA and £1.8m to profit for the part year they were under the group's ownership. If all acquisitions had occurred on 1 January 2006, group revenue would have been £4,092.2m, PBITA would have been £279.5m and profit for the year would have been £110.0m.

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, North America and Africa, were satisfied by total consideration of £66m. In addition, there was a cash outflow of £41m in respect of contingent consideration accrued at 31 December 2007.

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.

Acquisition of the Global Solutions group (GSL)

In December 2007, the group announced the acquisition of the entire share capital of De Facto 1119 Limited, the holding company of GSL, for a total consideration of £355m payable in cash on completion. GSL is an international leader in the provision of support services for governments, companies and public authorities. The acquisition is subject to approval from the European Commission. The acquisition is expected to complete following the receipt of such approval in 2008.

Offer for ArmorGroup International plc

In March 2008, the group announced that it was making a recommended cash offer for the shares of ArmorGroup International plc. ArmorGroup is a leading provider of defensive, protective security services to national governments, multinational corporations and international peace and security agencies operating in hazardous environments.

Notes to the consolidated financial statements (continued)

18 Disposal of a subsidiary

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

In 2006, the group disposed of the German cash services business of G4S Geld-und Wertdienste GmbH, where terms were agreed for divestment on 22 December 2006, and the business and assets of Cognisa Transportation, Inc, disposed of on 28 December 2006.

The net assets of operations disposed of were as follows:

	2007 £m	2006 £m
Goodwill	–	7.7
Property, plant and equipment and intangible assets other than acquisition-related	12.9	6.9
Current assets	6.6	11.1
Liabilities	(8.3)	(14.5)
Net assets of operations disposed	11.2	11.2
Financial liabilities arising on disposal	–	14.7
Profit/(loss) on disposal	9.1	(19.2)
Total consideration	20.3	6.7
Satisfied by:		
Cash	20.3	6.7

In the current year, £12.4m was paid relating to the disposal of the German cash services business G4S Geld-und Wertdienste GmbH. These amounts were fully provided for within the loss on disposal recognised in 2006.

In the prior year, a further £3.2m was received relating to the finalisation of proceeds from the sale of Cognisa Security in 2005.

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

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	179.2	–	37.2	–	0.2	0.1	216.7
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	1,358.1	16.2	317.9	10.7	7.0	60.5	1,770.4
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	**1,332.4**	**5.2**	**211.2**	**3.5**	**6.2**	**25.1**	**1,583.6**

19 Intangible assets (continued)

2006	Goodwill	Acquisition-related intangible assets			Other intangible assets		Total
		Trademarks	Customer related	Technology	Development expenditure	Software	
	£m	£m	£m	£m	£m	£m	£m
Cost							
At 1 January 2006	1,229.0	16.9	259.7	12.3	2.8	47.2	1,567.9
Acquisition of businesses	72.7	–	22.2	–	–	0.1	95.0
Additions	–	–	–	–	2.2	4.9	7.1
Disposals	–	–	–	–	–	(0.7)	(0.7)
Disposal of businesses	(7.7)	–	–	–	–	(2.3)	(10.0)
Translation adjustments	(76.0)	(0.5)	(7.1)	(1.4)	(0.2)	(2.1)	(87.3)
At 31 December 2006	1,218.0	16.4	274.8	10.9	4.8	47.1	1,572.0
Amortisation and accumulated impairment losses							
At 1 January 2006	(52.7)	(4.7)	(39.3)	(3.5)	(0.1)	(22.6)	(122.9)
Amortisation charge	–	(3.3)	(30.5)	(2.2)	(0.3)	(7.1)	(43.4)
Impairment losses for the year	–	–	–	–	–	(2.5)	(2.5)
Disposals	–	–	–	–	–	0.2	0.2
Disposal of businesses	–	–	–	–	–	1.8	1.8
Translation adjustments	10.3	0.1	1.4	0.5	0.1	0.8	13.2
At 31 December 2006	(42.4)	(7.9)	(68.4)	(5.2)	(0.3)	(29.4)	(153.6)
Carrying amount							
At 1 January 2006	1,176.3	12.2	220.4	8.8	2.7	24.6	1,445.0
At 31 December 2006	1,175.6	8.5	206.4	5.7	4.5	17.7	1,418.4

Included within software is internally generated software with a gross carrying value of £4.7m (2006: £3.5m), and accumulated amortisation of £2.2m (2006: £1.4m), giving a net book value of £2.5m (2006: £2.1m). During the year, additions amounted to £1.2m (2006: £2.4m) and the amortisation charge associated to these assets was £0.8m (2006: £1.3m).

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 2007 was £152.3m (2006: £172.6m), and the amortisation period remaining in respect of these assets is six 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 following CGUs have significant carrying amounts of goodwill:

	2007 £m	2006 £m
US security services (manned security)	**246.6**	250.4
UK cash services	**226.1**	226.1
UK security services (justice services)	**105.8**	94.0
Netherlands security services	**103.8**	95.4
UK security services (manned security)	**65.7**	63.4
Other (all allocated)	**584.4**	446.3
Total goodwill	**1,332.4**	1,175.6

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 just prior to the year end when the budgeting process is finalised. The group's impairment test compares the carrying value of each CGU to its recoverable amount. 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.

Notes to the consolidated financial statements (continued)

19 Intangible assets (continued)

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 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. 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 progressively reduced in the projections for years four and five. Growth rates across the group's CGUs range from 0% to 18%. Future cash flows are discounted at a pre-tax, weighted average cost of capital which for the group is 11.3% (2006: 10.8%).This rate is adjusted where appropriate to reflect the different financial risks in each country in which the CGUs operate.

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 2007 or for the year ended 31 December 2006.

The key assumptions used in the discounted cash flow calculations relate to the discount rate and underlying economic growth rate. With all other variables being equal, an impairment of approximately £5m would arise if either the group discount rate were to be increased by 1.5% to 12.8%, with an equivalent increase in the discount rate for all countries, or the underlying growth rate in all countries were to be reduced by 1.6%. 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

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	3.1	19.5	22.6
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	157.6	629.1	786.7
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	**122.0**	**278.9**	**400.9**

20 Property, plant and equipment (continued)

2006	Land and buildings £m	Equipment and vehicles £m	Total £m
Cost			
At 1 January 2006	142.4	489.9	632.3
Acquisition of businesses	0.7	5.7	6.4
Additions	12.3	93.4	105.7
Disposals	(8.2)	(12.4)	(20.6)
Disposal of businesses	(4.9)	(12.8)	(17.7)
Translation adjustments	(4.5)	(23.4)	(27.9)
At 31 December 2006	137.8	540.4	678.2
Depreciation and accumulated impairment losses			
At 1 January 2006	(28.2)	(249.5)	(277.7)
Depreciation charge	(8.5)	(74.3)	(82.8)
Disposals	3.6	8.4	12.0
Disposal of businesses	1.4	9.9	11.3
Translation adjustments	1.2	12.7	13.9
At 31 December 2006	(30.5)	(292.8)	(323.3)
Carrying amount			
At 1 January 2006	114.2	240.4	354.6
At 31 December 2006	107.3	247.6	354.9

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

	2007 £m	2006 £m
Net book value	50.8	52.3
Accumulated depreciation	47.9	34.2
Depreciation charge for the year	14.0	11.2

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:

	2007 £m	2006 £m
Net book value	32.5	29.3
Accumulated depreciation	49.0	40.2
Depreciation charge for the year	7.5	5.6

The net book value of land and buildings comprises:

	2007 £m	2006 £m
Freeholds	51.3	42.9
Long leaseholds (50 years and over)	17.0	14.1
Short leaseholds (under 50 years)	53.7	50.3

At 31 December 2007 the group had entered into contractual commitments for the acquisition of property, plant and equipment amounting to £2.1m (2006: £4.3m).

Notes to the consolidated financial statements (continued)

21 Investment in joint ventures

The group has the following significant interests in joint ventures:

(a) The group owns 100% of the equity of Wackenhut Services, Inc. ("WSI") under US Foreign Ownership Controlling Interest provisions, governed through a proxy agreement. WSI provides security services to US Government agencies including security services on sites deemed to be strategically sensitive. In accordance with the proxy agreement the group is excluded from access to operational information and is represented by directors on the WSI board who are independent of the group but under fiduciary and contractual obligation to act in the best interest of the shareholder. The group, through the proxy agreement, retains the power to veto certain material operational and strategic decisions. As day to day management of the business remains with an independent board, WSI is accounted for as a joint venture. This means that the group proportionately consolidates the results of WSI at 100%, giving rise to an accounting result identical to that which would be the case if WSI were accounted for as a subsidiary.

(b) 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. In addition, at 31 December 2006, the group's 49% equity shareholding in Safeguards Securicor Sdn Bhd, in Malaysia, was accounted for as a joint venture. During 2007, the group obtained control of this operation which is now accounted for as a subsidiary.

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	2007 £m	2006 £m
Income	320.6	344.4
Expenses	(307.1)	(326.4)
Profit after tax	13.5	18.0

Balance sheet	2007 £m	2006 £m
Assets		
Non-current assets	54.5	49.7
Current assets	92.6	75.8
	147.1	125.5
Liabilities		
Current liabilities	(56.3)	(41.6)
Non-current liabilities	(52.5)	(43.2)
	(108.8)	(84.8)
Net assets	38.3	40.7

22 Investment in associates

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

	2007 £m	2006 £m
Total assets	14.2	13.1
Total liabilities	(4.0)	(5.8)
Net investment in associates	10.2	7.3
Revenue	75.8	83.6
Profit for the year	3.0	2.8

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

23 Inventories

	2007 £m	2006 £m
Raw materials	12.5	9.0
Work in progress	7.4	9.5
Finished goods including consumables	37.2	31.0
Total inventories	57.1	49.5

24 Investments

Investments comprise primarily listed securities of £61.6m (2006: £64.2m) 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

	2007 £m	2006 £m
Within current assets		
Trade debtors	788.5	709.7
Allowance for doubtful debts	(36.4)	(25.7)
Amounts owed by associated undertakings	3.3	1.2
Other debtors	64.4	58.2
Prepayments and accrued income	51.6	40.7
Amounts due from construction contract customers (see note 26)	11.3	7.0
Derivative financial instruments at fair value (see note 32)	2.3	7.2
Total trade and other receivables included within current assets	885.0	798.3
Within non-current assets		
Derivative financial instruments at fair value (see note 32)	15.1	1.4
Other debtors	13.9	7.3
Amounts receivable under PFI contracts	40.4	41.2
Total trade and other receivables included within non-current assets	69.4	49.9

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 100 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:

	2007 £m	2006 £m
At 1 January	(25.7)	(24.9)
Amounts written off during the year	5.4	4.6
Increase in allowance	(16.1)	(5.4)
At 31 December	(36.4)	(25.7)

Included within trade receivables are trade debtors with a carrying amount of £290m (2006: £351m) 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 2007 that were overdue for payment was 39% (2006: 32%). The group-wide average age of all trade debtors at year end was 58 days (2006: 56 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 increased its ownership interest in Bridgend Custodial Services Ltd to 59%. There were no further changes in these arrangements during the year. The projects are 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:

	2007 £m	2006 £m
Amounts due from contract customers included in trade and other receivables	11.3	7.0
Amounts due to contract customers included in trade and other payables	(1.7)	(1.5)
Net balances relating to construction contracts	9.6	5.5
Contract costs incurred plus recognised profits less recognised losses to date	32.2	22.6
Less: Progress billings	(22.6)	(17.1)
Net balances relating to construction contracts	9.6	5.5

At 31 December 2007, advances received from customers for contract work amounted to £2.8m (2006: £3.6m).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.

27 Disposal groups classified as held for sale

Disposal groups classified as held for sale as at 31 December 2007 primarily comprise the assets and liabilities associated with the security services businesses in France, which principally include Group 4 Securicor SAS, and the security services businesses in Germany, which principally include G4S Sicherheitsdienste GmbH and G4S Sicherheitssysteme GmbH, Berlin.

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

	2007 £m
ASSETS	
Goodwill and acquisition-related intangible assets	57.6
Property, plant and equipment and intangible assets other than acquisition-related	5.8
Inventories	3.3
Trade and other receivables	56.6
Cash and cash equivalents	7.6
Total assets classified as held for sale	130.9
LIABILITIES	
Bank overdrafts	(8.3)
Bank loans	(0.6)
Trade and other payables	(62.3)
Current tax liabilities	(2.0)
Retirement benefit obligations	(1.1)
Provisions	(4.0)
Total liabilities associated with assets classified as held for sale	(78.3)
Net assets of disposal group	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:

	2007 £m	2006 £m
Cash and cash equivalents	381.3	307.5
Bank overdrafts	(109.9)	(97.5)
Cash, cash equivalents and bank overdrafts included within disposal groups classified as held for sale	(0.7)	–
Total cash, cash equivalents and bank overdrafts	270.7	210.0

Cash and cash equivalents principally comprise short-term money market deposits, current account balances and cash held in ATM machines and in 2007 bore interest at a weighted average rate of 3.3% (2006: 3.2%). 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 80 group companies at 31 December 2007. It is anticipated that the number of participants in the group will continue to grow. At 31 December 2007 £82.9m (2006: £75.2m) 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 £28.1m (2006: £17.7m) 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.

29 Bank overdrafts, bank loans and loan notes

	2007 £m	2006 £m
Bank overdrafts	109.9	97.5
Bank loans	809.7	900.4
Loan notes	290.4	–
Total bank overdrafts, bank loans and loan notes	1,210.0	997.9
The borrowings are repayable as follows:		
On demand or within one year	190.5	167.6
In the second year	10.7	6.5
In the third to fifth years inclusive	702.1	805.5
After five years	306.7	18.3
Total bank overdrafts, bank loans and loan notes	1,210.0	997.9
Less: Amount due for settlement within 12 months (shown under current liabilities):		
– Bank overdrafts	(109.9)	(97.5)
– Bank loans	(80.6)	(70.1)
	(190.5)	(167.6)
Amount due for settlement after 12 months	1,019.5	830.3

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

	Sterling £m	Euros £m	US Dollars £m	Others £m	Total £m
Bank overdrafts	64.4	12.4	2.6	30.5	109.9
Bank loans	184.9	329.2	242.2	53.4	809.7
Loan notes	–	–	290.4	–	290.4
At 31 December 2007	**249.3**	**341.6**	**535.2**	**83.9**	**1,210.0**
Bank overdrafts	61.4	12.1	1.1	22.9	97.5
Bank loans	126.1	293.6	447.8	32.9	900.4
At 31 December 2006	187.5	305.7	448.9	55.8	997.9

Of the borrowings in currency other than sterling, £821m (2006: £763m) are designated as net investment hedging instruments.

Notes to the consolidated financial statements (continued)

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

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

	2007 %	2006 %
Bank overdrafts	6.0	4.3
Bank loans	5.7	5.1
Loan notes	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 £30m maturing June 2008 with a one year term out option, and uncommitted facilities of £410.9m (2006: £353.3m). At 31 December 2007, undrawn committed available facilities amounted to £427.9m (2006: £227.7m). 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 (£276.3m) on 1st March 2007. The notes mature in March 2014 ($100m), March 2017 ($200m), March 2019 ($145m) and March 2022 ($105m).

The committed bank facilities and the loan notes are subject to one financial covenant and any non-compliance with the covenant may lead to an acceleration of maturity. The group was fully in compliance with the financial covenant throughout the year to 31 December 2007 and, where applicable, the year to 31 December 2006. The group has not defaulted on, or breached the terms of, any material loans during the year.

Bank overdrafts and bank loans are stated at amortised cost. Loan notes are stated at amortised cost recalculated at an effective interest rate current at the balance sheet date. The directors believe the fair value of the group's bank overdrafts, bank loans and loan notes, calculated from market prices, approximates to their book value.

30 Obligations under finance leases

	Minimum lease payments 2007 £m	Minimum lease payments 2006 £m	Present value of minimum lease payments 2007 £m	Present value of minimum lease payments 2006 £m
Amounts payable under finance leases:				
Within one year	18.7	15.6	16.2	13.6
In the second to fifth years inclusive	40.3	40.8	35.6	35.0
After five years	11.2	8.4	10.4	7.5
	70.2	64.8	62.2	56.1
Less: Future finance charges on finance leases	(8.0)	(8.7)		
Present value of lease obligations	62.2	56.1		
Less: Amount due for settlement within 12 months (shown under current liabilities)			(16.2)	(13.6)
Amount due for settlement after 12 months			46.0	42.5

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 2007, the weighted average effective borrowing rate was 5.4% (2006: 5.5%). 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

	2007 £m	2006 £m
Within current liabilities:		
Trade creditors	**137.1**	116.6
Amounts due to construction contract customers (see note 26)	**1.7**	1.5
Amounts owed to associated undertakings	**0.3**	0.7
Other taxation and social security costs	**129.1**	140.3
Other creditors	**409.4**	311.2
Accruals and deferred income	**153.0**	138.5
Derivative financial instruments at fair value (see note 32)	**15.1**	1.4
Total trade and other payables included within current liabilities	**845.7**	710.2
Within non-current liabilities:		
Derivative financial instruments at fair value (see note 32)	**6.7**	0.3
Other creditors	**32.0**	0.7
Total trade and other payables included within non-current liabilities	**38.7**	1.0

Trade and other payables principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 46 days (2006: 42 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.

32 Derivative financial instruments

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

	Assets 2007 £m	Assets 2006 £m	Liabilities 2007 £m	Liabilities 2006 £m
Forward foreign exchange contracts	**–**	6.3	**13.6**	0.9
Interest rate swaps designated as cash flow hedges	**3.1**	2.3	**8.2**	0.4
Interest rate swaps designated as fair value hedges	**14.3**	–	**–**	–
Commodity swaps	**–**	–	**–**	0.4
	17.4	8.6	**21.8**	1.7
Less: Non-current portion	**(15.1)**	(1.4)	**(6.7)**	(0.3)
Current portion	**2.3**	7.2	**15.1**	1.4

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 fallen by £11.3m during the year.

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

	Assets 2007 £m	Assets 2006 £m	Liabilities 2007 £m	Liabilities 2006 £m
Within one year	**0.1**	0.5	**0.1**	0.4
In the second year	**1.0**	0.3	**0.9**	–
In the third year	**0.6**	1.1	**1.1**	–
In the fourth year	**0.7**	0.2	**2.2**	–
In the fifth year or greater	**0.7**	0.2	**3.9**	0.4
Total carrying value of cash flow hedges	**3.1**	2.3	**8.2**	0.8

32 Derivative financial instruments (continued)

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

	Assets 2007 £m	Assets 2006 £m	Liabilities 2007 £m	Liabilities 2006 £m
Within one year	1.7	1.4	1.6	0.4
In the second year	0.6	0.5	3.1	0.1
In the third year	0.4	0.4	1.7	0.2
In the fourth year	0.2	0.1	0.9	0.1
In the fifth year or greater	0.2	–	0.9	0.1
Total cash flows	3.1	2.4	8.2	0.9

33 Financial risk

Capital management

The group's objective in managing its capital 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 a BBB rated entity. The group therefore aims generally to maintain its net debt expressed as a multiple of cash generated from operations within a range corresponding to those of BBB rated entities.

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 3 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 2007 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. Policy demands a minimum of 20% of such facilities to remain unutilised and in practice the group runs comfortably above this level.

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

31 December 2006	22%
31 March 2007	47%
30 June 2007	41%
30 September 2007	39%
31 December 2007	38%

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:

June 2008	£30m
June 2012	£1,087m
March 2014	£50m
March 2017	£100m
March 2019	£73m
March 2022	£53m

33 Financial risk (continued)

Liquidity risk (continued)

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.

Following the example of the inaugural US Private Placement of loan notes issued in March 2007, the group will continue to seek to diversify its sources of finance and reduce further the proportion of bank supplied finance.

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 2007 was £373.2m (2006: £342.4m). All these contracts had matured by 29 February 2008, at which point they were replaced with new forward foreign exchange contracts. 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 2007, the group's US dollar, euro, Canadian dollar and Danish krone net assets were approximately 98%, 90%, 93% and 83% respectively hedged by foreign currency loans and foreign exchange forward contracts (2006: US dollar 90.6% and euro 94.7%).

The financial instruments used to hedge the foreign currency translation exposure had a fair value loss of £13.6m at 31 December 2007. Assuming a 1% depreciation of GBP against each of the hedged currencies, the fair value loss on these instruments would increase by a further £3.9m. This additional fair value loss would be posted to equity. A simultaneous depreciation of GBP against all currencies is unlikely based on past market movements.

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 period of five years. At 31 December 2007 the nominal value of such contracts was £213.5m (in respect of US dollar) (2006: £196.7m) and £183.6m (in respect of euro) (2006: £141.5m), their weighted average interest rate was 4.9% (US dollar) (2006: 4.9%) and 3.8% (euro) (2006: 3.4%), and their weighted average period to maturity was three 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 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 core group borrowings are held in USD, euro and GBP. Although the impact of rising interest rates is partly shielded by 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 2007 debt position constant throughout 2008, an additional interest charge of £5.6m would be expected in the 2008 financial year.

Commodity risk and commodity swaps

The group's principal commodity risk relates to the fluctuating level of diesel prices, particularly affecting its cash services businesses. Commodity swaps are sometimes used to fix synthetically part of the exposure and reduce the associated cost volatility. There were no commodity swaps in place at 31 December 2007.

Notes to the consolidated financial statements (continued)

33 Financial risk (continued)

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. For short-term transactions (under one year), the financial counterparty must be investment grade rated by either the Standard & Poor's or Moody's rating agency. For long-term transactions, 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 2007 the largest two counterparty exposures related to Treasury transactions were £5.3m and £4.4m and held with institutions with long term Standard & Poor's credit ratings of AA and AA- respectively. These exposures represent 30% and 25% of the carrying values of derivative financial instruments with a fair value gain at the balance sheet date.

The group operates a multi-currency notional pooling cash management system with a wholly owned subsidiary of an AA rated bank. At year end credit balances of £84.5m were pooled with debit balances of £82.9m, resulting in a net pool balance of £1.6m. 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 £57.9m (2006: £49.8m).

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 2007 totalled £4.7m (2006: £4.2m). The estimated amounts of contributions expected to be paid to the schemes during the financial year commencing 1 January 2008 in respect of the ongoing accrual of benefits is approximately £4.9m.

Defined benefit arrangements

The group operates a number of defined benefit retirement arrangements where the benefits are based on employees' length of service and final pensionable 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 2007 totalled £1.8m (2006: £1.6m). 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) have been reclassified, for disclosure purposes, into the material funded defined retirement benefit schemes category.

34 Retirement benefit obligations (continued)

The carrying values of retirement benefit obligations at the balance sheet date are presented below:

	2007 £m	2006 £m
UK	**121.6**	210.7
Rest of World	**13.9**	15.7
Net liability on material funded defined retirement benefit schemes	**135.5**	226.4
Unfunded and other funded defined retirement benefit obligations	**31.9**	24.1
	167.4	250.5
Less: Amounts included within current liabilities	**(47.3)**	(42.2)
Included within non-current liabilities	**120.1**	208.3

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 two arrangements: the pension scheme demerged from the former Group 4 Falck A/S with total membership of approximately 8,000 and 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. Regular actuarial assessments of the schemes are carried out, the latest being at 31 March 2007 in respect of the Group 4 scheme and at 5 April 2006 in respect of the Securicor scheme. Pension obligations stated in the balance sheet take account of future service and earnings increases, have been updated to 31 December 2007 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 2007		
Discount rate	5.8%	5.5%
Expected return on scheme assets	6.7%	5.8%
Expected rate of salary increases	5.2%	3.3%
Future pension increases	3.4%	2.1%
Inflation	3.4%	2.2%
Key assumptions used 2006		
Discount rate	5.2%	4.8%
Expected return on scheme assets	6.5%	5.8%
Expected rate of salary increases	4.9%	3.7%
Future pension increases	3.1%	2.3%
Inflation	3.1%	2.3%

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) Short Cohort Male
> Current and future pensioners 115% of PFA92 (YOB) Short Cohort Female

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 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)
Amounts recognised in income 2006			
Current service cost	(10.2)	(3.5)	(13.7)
Past service cost	(0.4)	(0.7)	(1.1)
Finance cost on defined retirement benefit obligations	(63.3)	(2.9)	(66.2)
Expected return on defined retirement benefit scheme assets	64.8	2.4	67.2
Total amounts recognised in income	(9.1)	(4.7)	(13.8)

Notes to the consolidated financial statements (continued)

34 Retirement benefit obligations (continued)

The amounts recognised in income are included within the following categories in the income statement:

	2007 £m	2006 £m
Cost of sales	(11.3)	(11.1)
Administration expenses	(4.3)	(3.7)
Finance income	77.3	67.2
Finance costs	(72.3)	(66.2)
Total	(10.6)	(13.8)

Actuarial gains and losses recognised cumulatively in the statement of recognised income and expense are as follows:

	2007 £m	2006 £m
At 1 January	(72.5)	(39.1)
Recognised in the year	64.7	(33.4)
At 31 December	(7.8)	(72.5)

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
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

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:

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**

2006	UK £m	Rest of World £m	Total £m
Obligations			
At 1 January 2006	1,199.3	61.1	1,260.4
Service cost	10.2	3.5	13.7
Past service cost	0.4	0.7	1.1
Interest cost	63.3	2.9	66.2
Contributions from scheme members	3.5	1.0	4.5
Actuarial losses/(gains)	85.4	(4.0)	81.4
Benefits paid	(36.7)	(1.2)	(37.9)
Acquisitions/divestments	0.4	0.5	0.9
Other	3.0	–	3.0
Translation adjustments	–	(3.4)	(3.4)
At 31 December 2006	1,328.8	61.1	1,389.9
Assets			
At 1 January 2006	1,004.5	39.3	1,043.8
Expected return on scheme assets	64.8	2.4	67.2
Actuarial gains	45.4	2.6	48.0
Actual return on scheme assets	110.2	5.0	115.2
Contributions from the sponsoring companies	33.2	3.2	36.4
Contributions from scheme members	3.5	1.0	4.5
Benefits paid	(36.7)	(1.2)	(37.9)
Acquisitions/divestments	0.4	0.5	0.9
Other	3.0	–	3.0
Translation adjustments	–	(2.4)	(2.4)
At 31 December 2006	1,118.1	45.4	1,163.5

The contribution from sponsoring companies in 2007 included £26.1m (2006: £24.2m) of additional contributions in respect of the deficit in the schemes. 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
2007			
Equity instruments	68%	50%	67%
Debt instruments	30%	21%	30%
Property	–	4%	–
Other assets	2%	25%	3%
	100%	100%	100%
2006			
Equity instruments	70%	64%	70%
Debt instruments	27%	27%	27%
Property	–	6%	–
Other assets	3%	3%	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
2007 (return expected in 2008)	6.9%	6.2%	6.9%
2006 (return expected in 2007)	6.7%	6.2%	6.7%
2005 (return expected in 2006)	6.5%	5.8%	6.4%

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.

The history of experience adjustments is as follows:

2007	UK	Rest of World	Total
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

34 Retirement benefit obligations (continued)

2004	UK	Rest of World	Total
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 2008 in respect of the ongoing accrual of benefits is approximately £18m 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 around £26m will also be made in 2008 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 5.8%, in respect of the UK schemes at 31 December 2007 (5.2% at 31 December 2006). 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 £26m.

Liability calculations are also heavily impacted 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 19.6 years. The weighted average life expectancy at 65 of a male currently aged 52 has been assumed as 20.4 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 £49m.

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	Other £m	Total £m
At 1 January 2007	11.5	1.9	37.9	10.1	18.6	80.0
Additional provision in the year	3.6	5.2	12.2	–	–	21.0
On acquisition of subsidiary	–	0.2	–	8.2	2.4	10.8
Utilisation of provision	(2.3)	(1.2)	(10.9)	(3.6)	(18.6)	(36.6)
Unused amounts reversed	(0.6)	(2.4)	(9.0)	–	(2.5)	(14.5)
Reversals on disposal of a subsidiary	–	–	–	–	(0.6)	(0.6)
Reclassified as held for sale	(2.0)	–	–	(2.0)	–	(4.0)
Translation adjustments	0.2	0.2	–	0.3	0.7	1.4
At 31 December 2007	**10.4**	**3.9**	**30.2**	**13.0**	**–**	**57.5**

Included in current liabilities	23.6
Included in non-current liabilities	33.9
	57.5

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.

35 Provisions (continued)

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 services, 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 mainly comprises the provision against future liabilities for 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 relating to rent, rates, service charges and costs of marketing the properties. Whilst the likelihood of settlement of these obligations is considered probable, there is uncertainty over their value and duration.

Other provisions

Other provisions include amounts arising in respect of disposals where their final calculation is dependent on future events. The company and various of its subsidiaries are, from time to time, parties to legal proceedings and claims which arise in the ordinary course of business. Provision is made for the estimated value of settlements likely to be made, but both this value and the timing of any payments are uncertain. The directors do not anticipate, taking account of legal and other professional advice as appropriate, that the outcome of these proceedings and claims will have a material adverse effect on the group's financial position or on the results of its operations.

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 2006	74.1	(70.9)	8.2	16.7	28.1
(Charge)/credit to the income statement	(10.6)	10.8	(1.4)	1.6	0.4
Acquisition of subsidiaries	–	(3.9)	–	–	(3.9)
Credit/(charge) to equity	9.7	–	–	(2.1)	7.6
Translation adjustments	–	2.8	–	(1.0)	1.8
At 31 December 2006	73.2	(61.2)	6.8	15.2	34.0
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	–	(9.7)	–	0.1	(9.6)
(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**	**(59.7)**	**5.1**	**26.7**	**9.2**

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:

	2007 £m	2006 £m
Deferred tax liabilities	**(75.0)**	(81.7)
Deferred tax assets	**84.2**	115.7
Total deferred tax position	**9.2**	34.0

At the balance sheet date, the group has unutilised tax losses of approximately £126.5m (2006: £118.4m) potentially available for offset against future profits. A deferred tax asset of £5.1m (2006: £6.8m) has been recognised in respect of approximately £19.3m (2006: £32.1m) of gross losses. No deferred tax asset has been recognised in respect of the remaining £107.2m (2006: £86.3m) 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 £0.8m, £3.0m, £1.7m, £1.4m and £0.4m which will expire in 2008, 2009, 2010, 2011 and 2012 respectively. Other losses may be carried forward indefinitely.

36 Deferred tax (continued)

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 £2,504m (2006: £1,056m). 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 £39.0m (2006: £31.8m) 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.

37 Share capital

G4S plc	At 31 December 2007 Authorised £	At 31 December 2007 Issued and fully paid £	At 31 December 2006 Authorised £	At 31 December 2006 Issued and fully paid £
Ordinary shares of 25p each (2006: 25p each)	**500,000,000**	**320,177,685**	500,000,000	319,954,230

	Number	Nominal value £m
Ordinary shares in issue		
At 1 January 2006	1,268,715,480	317.2
Shares issued on exercise of options:		
Executive Scheme	3,556,271	0.9
Sharesave Scheme	7,545,167	1.9
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 31 December 2007	**1,280,710,738**	**320.2**

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 2007, 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
1	72,901	107.98p	2008
9	450,000	164p	2008 – 2009
9	300,000	133.75p	2008 – 2010
10	230,000	153p	2008 – 2010
5	1,655,000	108p	2008 – 2011
2	150,000	130p	2008 – 2012
1	25,000	85p	2008 – 2013
1	25,000	79.75p	2008 – 2013
1	50,000	91p	2008 – 2013

The proceeds from shares allotted under this scheme during the year amounted to £783,769 (2006: £4,266,774).

Notes to the consolidated financial statements (continued)

37 Share capital (continued)

(b) Sharesave scheme

All remaining shares under this scheme have been exercised or have lapsed during the year. The proceeds from shares allotted under this scheme during the year amounted to £144,845 (2006: £4,860,469).

All of the above options are inclusive of those held by directors as set out in the Directors' Remuneration Report on page 42.

5,209,320 shares are held by an employee benefit trust as detailed in note 38.

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 2006	4.0	157.0	(5.8)	49.8	426.3	(6.3)	625.0
Net recognised income/(expense) attributable to equity shareholders of the parent	–	73.8	10.6	(52.6)	–	–	31.8
Shares issued	6.3	–	–	–	–	–	6.3
Dividends declared	–	(49.8)	–	–	–	–	(49.8)
Own shares purchased	–	–	–	–	–	(3.1)	(3.1)
Equity-settled transactions	–	5.0	–	–	–	–	5.0
At 31 December 2006	10.3	186.0	4.8	(2.8)	426.3	(9.4)	615.2
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**

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 holds 5,209,320 shares (2006: 6,022,967 shares), to satisfy the vesting of awards under the performance share plan and performance-related and synergy bonus schemes. During the year 1,451,326 shares were purchased by the trust, whilst 2,264,973 shares were used to satisfy the vesting of awards under the schemes. At 31 December 2007, the cost of shares held by the trust was £8,953,071 (2006: £9,435,828), whilst the market value of these shares was £12,749,808 (2006: £11,323,178). Shares held by the trust are treated as treasury shares, are deducted from equity, do not bear dividends and are excluded from the calculations of earnings per share.

39 Analysis of net debt

A reconciliation of net debt to amounts in the consolidated balance sheet is presented below:

	2007 £m	2006 £m
Cash and cash equivalents	381.3	307.5
Investments	73.2	73.7
Net debt included within disposal groups classified as held for sale	(1.5)	–
Bank overdrafts	(109.9)	(97.5)
Bank loans	(809.7)	(900.4)
Loan notes	(290.4)	–
Fair value of loan note derivative financial instruments	14.3	–
Obligations under finance leases	(62.2)	(56.1)
Total net debt	(804.9)	(672.8)

An analysis of movements in net debt in the year is presented below:

	2007 £m	2006 £m
Increase in cash, cash equivalents and bank overdrafts per consolidated cash flow statement	48.8	16.1
Purchase of investments	0.3	21.8
Increase in debt and lease financing	(135.8)	(86.7)
Change in net debt resulting from cash flows	(86.7)	(48.8)
Borrowings acquired with subsidiaries	(22.9)	(2.5)
Net additions to finance leases	(10.3)	(19.6)
Movement in net debt in the year	(119.9)	(70.9)
Translation adjustments	(12.2)	55.4
Net debt at the beginning of the year	(672.8)	(657.3)
Net debt at the end of the year	(804.9)	(672.8)

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:

	2007 £m	2006 £m
Within one year	95.6	72.4
In the second to fifth years inclusive	185.8	140.2
After five years	148.2	130.4
Total operating lease commitments	429.6	343.0

The group leases a number of its office properties, vehicles and other operating equipment under operating leases. Leased properties 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 £16.4m (2006: £18.3m).

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 2007	Weighted average exercise price (pence) 2007	Number of shares under option 2006	Weighted average exercise price (pence) 2006
Outstanding at 1 January	**3,912,990**	**117.73**	15,377,443	91.23
Forfeited during the year	**–**	**–**	(249,061)	70.50
Exercised during the year	**(893,820)**	**103.89**	(11,101,438)	82.22
Expired during the year	**(61,269)**	**64.00**	(113,954)	104.00
Outstanding at 31 December	**2,957,901**	**123.02**	3,912,990	117.73
Exercisable at 31 December	**2,957,901**	**123.02**	3,912,990	117.73

The weighted average share price at the date of exercise for share options exercised during the year was 197.85p (2006: 174.56p). All options outstanding at 31 December 2007 were vested.

No share option expense has been recognised in the income statement during the year (2006: £1.4m) as all share options had previously 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 2007 Number	PSP 2007 Number	Total 2007 Number	Performance-related bonus scheme 2006 Number	PSP 2006 Number	Total 2006 Number
Outstanding at 1 January	**1,915,270**	**11,154,403**	**13,069,673**	–	7,763,419	7,763,419
Allocated during the year	**377,725**	**4,359,350**	**4,737,075**	1,915,270	3,716,815	5,632,085
Transferred during the year	**(311,218)**	**(1,953,755)**	**(2,264,973)**	–	–	–
Forfeited during the year	**–**	**(952,469)**	**(952,469)**	–	(325,831)	(325,831)
Expired during the year	**–**	**(1,147,460)**	**(1,147,460)**	–	–	–
Outstanding at 31 December	**1,981,777**	**11,460,069**	**13,441,846**	1,915,270	11,154,403	13,069,673

The weighted average remaining contractual life of conditional share allocations outstanding at 31 December 2007 was 16 months (2006: 17 months). The weighted average share price at the date of allocation of shares allocated conditionally during the year was 216.83p (2006: 185.14p) and the contractual life of all conditional allocations was three years.

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%.

42 Share-based payments (continued)

Shares allocated conditionally (continued)

Total expenses of £4.1m were recognised in the income statement in the year (2006: £3.6m) 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 2007 £m	Joint ventures 2006 £m	Associates 2007 £m	Associates 2006 £m
Transactions				
Revenue	13.8	14.5	–	–
Balances				
Amounts due to related parties				
Creditors	–	–	1.5	5.4
Amounts due from related parties				
Debtors	0.7	1.4	–	–
Loans	2.3	3.5	–	–

Revenue relates to fees of £10.4m (2006: £9.6m) charged to Bridgend Custodial Services Ltd and fees of £3.4m (2006: £4.9m) 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.

Transactions with Mr Jørgen Philip-Sørensen, whilst a director (retired 30 June 2006)

In 2006, the group purchased air transport services of £19,300 and leased office facilities for £34,707 from Mr Jørgen Philip-Sørensen at cost price.

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 £1.4m at 31 December 2007 (2006: £1.5m).

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 41 to 44.

	2007 £	2006 £
Short-term employee benefits	4,869,365	4,337,944
Post-employment benefits	343,443	826,777
Other long-term benefits	28,896	22,138
Share-based payment	2,344,412	2,022,518
Total	7,586,116	7,209,377

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.

On 7 March 2008 the group signed committed bank facilities amounting to £350m. These facilities expire on 31 December 2008, although the group can exercise an option to extend the facilities to 30 June 2009.

Notes to the consolidated financial statements (continued)

45 Significant investments

The companies listed below are those which were part of the group at 31 December 2007 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:

Security services	S
Cash services	C

These businesses operate principally in the country in which they are incorporated.

	Product segment	Country of incorporation	Ultimate ownership
Subsidiary undertakings			
Group 4 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 Aviation Security (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 Justice Services Limited	S	England	100%
G4S Security Services (UK) Limited	S	England	100%
Group 4 Technology Limited	S	England	100%
Group 4 Total Security Limited	S	England	100%
Falck Eesti AS	S+C	Estonia	65%
G4S Security Services Oy	S	Finland	100%
Group 4 Securicor SAS	S	France	100%
G4S Sicherheitsdienste GmbH	S	Germany	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%
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 [4]	S	Saudi Arabia	49%
Fidelity Cash Management Services (Pty) Limited	C	South Africa	50%
G4S Security Services (SA) (Pty) Limited	S	South Africa	80%
G4S Cash Services (Sverige) AB	C	Sweden	100%
G4S Security Services (Sverige) AB	S	Sweden	100%
G4S Youth Services LLC	S	USA	90%
The Wackenhut Corporation	S	USA	100%
Joint ventures (see note 21)			
Bridgend Custodial Services Limited [3]	S	England	59%
STC (Milton Keynes) Limited	S	England	50%
Wackenhut Services, Inc.	S	USA	100%
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, so as to obtain the benefits from their activities. These are therefore consolidated as full subsidiaries.

Parent company balance sheet

At 31 December 2007

	Notes	2007 £m	2006 £m
Fixed assets			
Tangible assets	*(b)*	4.3	3.9
Investments	*(c)*	2,214.9	587.5
		2,219.2	591.4
Current assets			
Debtors	*(d)*	1,418.1	1,176.3
Cash at bank and in hand		9.7	7.7
		1,427.8	1,184.0
Creditors – amounts falling due within one year			
Bank overdraft (unsecured)		(63.6)	(61.1)
Borrowings (unsecured)	*(e)*	(15.0)	(25.0)
Other	*(f)*	(2,141.2)	(504.5)
		(2,219.8)	(590.6)
Net current (liabilities)/assets		(792.0)	593.4
Total assets less current liabilities		1,427.2	1,184.8
Creditors – amounts falling due after more than one year			
Borrowings (unsecured)	*(e)*	(962.4)	(786.2)
Other	*(f)*	(4.8)	(0.3)
		(967.2)	(786.5)
Provisions for liabilities and charges	*(i)*	(2.7)	(3.8)
Net assets		457.3	394.5
Capital and reserves			
Called up share capital	*37*	320.2	320.0
Share premium and reserves	*(j)*	137.1	74.5
Equity shareholders' funds	*(k)*	457.3	394.5

The parent company financial statements were approved by the board of directors and authorised for issue on 7 April 2008.

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.

> **Cash and cash equivalents**
Cash and cash equivalents 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 group 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.

(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

Assets held under finance leases are included as tangible fixed assets at their capital value and depreciated over the shorter of the lease term and their useful economic life. The capital element of future rentals is included within creditors and finance charges are allocated to accounting periods over the period of the lease.

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 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 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.

The company grants share options over its own shares to the employees of subsidiary companies. The company does not receive goods or services in exchange for these options. These are accounted for as a written call option on the entity's own shares and do not result in an accounting entry upon grant. When the share options are subsequently exercised the resulting entries are either to increase share capital and share premium for new shares issued or to record a reduction in the treasury shares owned by the employee benefit trust.

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.

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 2007	3.0	2.4	5.4
Additions at cost	–	1.5	1.5
Disposals	–	(0.6)	(0.6)
At 31 December 2007	3.0	3.3	6.3
Depreciation			
At 1 January 2007	(0.8)	(0.7)	(1.5)
Charge for the year	(0.2)	(0.3)	(0.5)
At 31 December 2007	(1.0)	(1.0)	(2.0)
Net book value			
At 31 December 2007	**2.0**	**2.3**	**4.3**
At 31 December 2006	2.2	1.7	3.9

The net book value of land and buildings comprises short leasehold buildings (under 50 years).

(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 2007	587.5
Additions	3,193.4
Disposals	(1,566.0)
At 31 December 2007	**2,214.9**

The increase in the carrying value of subsidiary undertakings in the year is mainly due to a reorganisation of the legal structure in respect of some of the company's subsidiaries in which transfers were reflected at market values. Full details of significant investments held by the parent company and the group are detailed in note 45 to the consolidated financial statements.

(d) Debtors

	2007 £m	2006 £m
Amounts owed by group undertakings	**1,369.2**	1,150.7
Other debtors	**29.0**	16.1
Prepayments and accrued income	**2.8**	0.9
Derivative financial instruments at fair value	**17.1**	8.6
Total debtors	**1,418.1**	1,176.3

Included within derivative financial instruments at fair value is £14.8m due after more than one year (2006: £1.4m). See note (g) for further details.

Included in other debtors is £8.3m (2006: £6.5m) with regard to deferred tax comprised as follows:

	2007 £m	2006 £m
Accelerated capital allowances	**(0.4)**	(0.3)
Employee benefits, including equity-settled transactions and special pension contributions	**4.0**	9.0
Changes in fair value of hedging derivatives	**4.7**	(2.2)
Total deferred tax	**8.3**	6.5

The reconciliation of deferred tax balances is as follows:

	Total £m
At 1 January 2007	6.5
Credited to profit and loss	(5.1)
Charged to equity in relation to changes in fair value of hedging derivatives	6.9
At 31 December 2007	**8.3**

(e) Borrowings (unsecured)

The unsecured borrowings are in the following currencies:

	2007 £m	2006 £m
Sterling	**150.0**	89.9
Euro	**325.4**	291.3
US dollar	**502.0**	430.0
Total unsecured borrowings	**977.4**	811.2

Notes to the parent company financial statements (continued)

(e) Borrowings (unsecured) (continued)

The payment profile of the unsecured borrowings is as follows:

	2007 £m	2006 £m
Repayable within one year	**15.0**	25.0
Repayable within two to five years	**672.0**	786.2
Repayable after five years	**290.4**	–
Total unsecured borrowings	**977.4**	811.2

Undrawn committed facilities mature as follows:

	2007 £m	2006 £m
Within one year	**15.0**	5.0
Within two to five years	**412.9**	212.5
Total undrawn committed facilities	**427.9**	217.5

Borrowings consist of £687.0m of floating rate bank loans (2006: £811.2m) and £290.4m of fixed rate loan notes (2006: £nil). Bank loans are stated at amortised cost. Loan notes are stated at amortised cost recalculated at an effective interest rate current at the balance sheet date. The directors believe the fair value of the group's bank loans and loan notes, calculated from market prices, 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

	2007 £m	2006 £m
Amounts falling due within one year:		
Trade creditors	**1.8**	0.5
Amounts owed to group undertakings	**2,101.8**	493.6
Other taxation and social security costs	**1.1**	1.2
Other creditors	**9.6**	4.2
Accruals and deferred income	**12.1**	4.0
Derivative financial instruments at fair value	**14.8**	1.0
Total creditors – amounts falling due within one year	**2,141.2**	504.5
Amounts falling due after more than one year:		
Derivative financial instruments at fair value	**4.8**	0.3

(g) Derivative financial instruments

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

	Assets 2007 £m	Assets 2006 £m	Liabilities 2007 £m	Liabilities 2006 £m
Forward foreign exchange contracts	**–**	6.3	**13.6**	0.9
Interest rate swaps designated as cash flow hedges	**2.8**	2.3	**6.0**	0.4
Interest rate swaps designated as fair value hedges	**14.3**	–	**–**	–
	17.1	8.6	**19.6**	1.3
Amounts falling due after more than one year	**(14.8)**	(1.4)	**(4.8)**	(0.3)
Amounts falling due within one year	**2.3**	7.2	**14.8**	1.0

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 fallen by £9.8m during the year.

(g) Derivative financial instruments (continued)

The interest rate swaps which qualify as cash flow hedges have the following maturities:

	Assets 2007 £m	Assets 2006 £m	Liabilities 2007 £m	Liabilities 2006 £m
Within one year	0.1	0.5	0.1	–
In the second year	1.0	0.3	0.9	–
In the third year	0.6	1.1	1.1	–
In the fourth year	0.7	0.2	2.2	–
In the fifth year	0.4	0.2	1.7	0.4
Total carrying value of cash flow hedges	2.8	2.3	6.0	0.4

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

	Assets 2007 £m	Assets 2006 £m	Liabilities 2007 £m	Liabilities 2006 £m
Within one year	1.7	1.3	1.3	–
In the second year	0.6	0.5	2.8	0.1
In the third year	0.3	0.4	1.4	0.2
In the fourth year	0.2	0.1	0.5	0.1
In the fifth year	–	–	–	0.1
Total cash flows	2.8	2.3	6.0	0.5

(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 2007 was £373.2m (2006: £342.4m). All these contracts had matured by 29 February 2008, at which point they were replaced with new forward foreign exchange contracts.

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 2007 the nominal value of such contracts was £213.5m (in respect of US dollar) (2006: £196.7m) and £183.6m (in respect of euro) (2006: £141.5m), their weighted average interest rate was 4.9% (US dollar) (2006: 4.9%) and 3.8% (euro) (2006: 3.4%), and their weighted average period to maturity was three 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 issue 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.

Notes to the parent company financial statements (continued)

(h) Financial risk (continued)

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. For short-term transactions (under one year), the financial counterparty must be investment grade rated by either the Standard & Poor's or Moody's rating agency. For long-term transactions, 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 2007 the largest two counterparty exposures related to Treasury transactions were £5.3m and £4.4m and held with institutions with long term Standard & Poor's credit ratings of AA and AA- respectively. These exposures represent 30% and 25% of the carrying values of derivative financial instruments at the balance sheet date.

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.

(i) Provisions for liabilities and charges

	Onerous contracts £m
At 1 January 2007	3.8
Utilisation of provisions	(1.1)
At 31 December 2007	**2.7**

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 2007	10.3	73.6	(9.4)	74.5
Retained profit	–	137.4	–	137.4
Changes in fair value of hedging derivatives	–	(24.1)	–	(24.1)
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
Tax on equity movements	–	6.9	–	6.9
At 31 December 2007	**11.0**	**135.1**	**(9.0)**	**137.1**

(k) Reconciliation of movements in equity shareholders' funds for the year ended 31 December 2007

	2007 £m	2006 £m
Retained profit/(loss) for the year	**137.4**	(6.4)
Changes in fair value of hedging derivatives	**(24.1)**	13.1
Shares issued	**0.9**	9.1
Dividends declared	**(59.3)**	(49.8)
Own shares purchased	**(3.1)**	(3.1)
Equity-settled transactions	**4.1**	5.0
Tax on equity movements	**6.9**	(2.2)
Net increase/(decrease) in shareholders' funds	**62.8**	(34.3)
Opening equity shareholders' funds	**394.5**	428.8
Closing equity shareholders' funds	**457.3**	394.5

(l) Operating lease commitments

At the balance sheet date, the company had annual commitments under non-cancellable operating leases, which expire as follows:

	2007 £m	2006 £m
Within one year	**0.2**	0.1
In the second to fifth years inclusive	**0.5**	0.7
After more than five years	**0.8**	0.8
Total operating lease commitments	**1.5**	1.6

(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

	2007 Number	2006 Number (Restated)
The average monthly number of employees of the company during the year was:	**178**	171

Total staff costs, including directors' emoluments, were as follows:

	2007 £m	2006 £m
Wages and salaries	**23.1**	22.0
Social security costs	**2.0**	1.9
Pension costs	**1.1**	1.3
Total staff costs	**26.2**	25.2

(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. The majority of the shares under option are attributable to employees of the company, however the company bears the full cost of share-based payment charges applicable to subsidiary undertakings. Therefore all 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 2007 guarantees totalling £377.4m (2006: £315.4m) 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 2007 totalled £18.2m (2006: £18.8m).

Group financial record

£m	2007	2006	2005	2004	2003
		Presented under IFRS			Presented under the then UK GAAP
Revenue	**4,490.4**	4,036.8	4,045.7	3,093.6	2,569.5
Profit before interest, taxation, amortisation of acquisition-related intangible assets and exceptional items	**312.1**	274.4	255.0	165.5	118.4
Profit/(loss) after taxation	**160.6**	109.9	90.7	(65.4)	(3.2)
Profit/(loss) attributable to shareholders	**147.2**	96.5	80.8	(72.3)	(9.7)
Non-current assets	**2,148.3**	1,946.2	1,966.7	1,876.0	693.6
Net assets	**1,123.0**	971.5	969.9	909.9	323.6
Net debt	**804.9**	672.8	657.3	586.4	382.4
Net debt/equity (%)	**72**	69	68	64	118
Return on net assets (%) (profit/(loss) after taxation/net assets)	**14**	11	9	(7)	(1)
Adjusted earnings per ordinary share (pence)	**13.4p**	12.1p	11.2p	9.5p	8.0p
Dividends for the year per ordinary share (pence)	**4.96p**	4.21p	3.54p	1.85p	0.46p
Average headcount (number)	**507,480**	440,128	395,771	306,313	230,472

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.

The figures presented for 2003 are in accordance with the then UK GAAP. The main adjustments that would be required to make them consistent with the 2007 financial statements which have been prepared under IFRS relate to:

(a) the non-amortisation of goodwill
(b) the recognition of separable or contractual intangible assets on a business combination
(c) the recognition of the funding balances for each retirement benefit scheme
(d) the recognition of a charge to income in respect of share options granted
(e) the accounting treatment of joint ventures under the proportionate consolidation method rather than the gross equity method of accounting
(f) the recognition of all derivative financial instruments at fair value
(g) the recognition of all taxable temporary timing differences between the accounting base and tax base of assets and liabilities
(h) dividends being provided for in the year in which they are declared
(i) the reclassification of certain contracts as finance leases rather than operating leases
(j) the reclassification of securities held by the group's captive insurance companies as a component of net debt

Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting of G4S plc will be held at Ironmongers' Hall, Barbican, London EC2Y 8AA on Thursday, 29 May 2008 at 2.00 pm.

Resolutions 1 to 7 will be proposed as ordinary resolutions. Resolutions 8 to 10 will be proposed as special resolutions.

1 To receive the financial statements of the Company for the year ended 31 December 2007 and the reports of the directors and auditor thereon.

2 To receive and approve the Directors' Remuneration Report contained in the financial statements for the year ended 31 December 2007.

3 To confirm and declare dividends.

4 To re-elect Grahame Gibson, a director who is retiring by rotation.

5 To re-elect Bo Lerenius, a director (and member of the Audit and Remuneration Committees) who is retiring by rotation.

6 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.

7 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 relevant securities (as defined in section 80(2) of the 1985 Act) up to an aggregate nominal amount of £106,500,000 provided that the authority hereby given shall expire on the date of the Company's Annual General Meeting in 2009, 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.

8 That the directors be and are hereby granted, pursuant to section 95 of the 1985 Act, power to allot equity securities (as defined in section 94(2) of the 1985 Act) for cash as if section 89(1) of the 1985 Act did not apply to such allotment, provided that this power shall be limited to:

(i) the allotment of equity securities in connection with a rights issue, open offer or other offer of securities in favour of the holders of ordinary shares on the register of members at such record dates 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) to the respective numbers of ordinary shares held or deemed to be held by them on any such record date, 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 depositary receipts or any other matter whatever; 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 value of £16,000,000;

and shall expire on the date of the Company's Annual General Meeting in 2009 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.

9 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 128,000,000;

(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 2009 (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).

Notice of Annual General Meeting (continued)

10 That the Company's articles of association be amended with effect from 1 October 2008 in accordance with the contents of the document entitled "Amendments to Articles" (a copy of which has been produced to the meeting and initialled by the chairman for the purposes of identification).

By order of the board
Peter David
Secretary
7 April 2008

The Manor
Manor Royal
Crawley
West Sussex RH10 9UN

Notes

(a) The Company's issued share capital as at the date of this notice is 1,281,190,738 ordinary shares with voting rights.

(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 at the office of the Company's registrar by 2.00 p.m. on 27 May 2008.**

(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 27 May 2008. 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.

Notes (continued)

(h) 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.

(i) 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 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 this 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.

(j) Copies of the articles of association of the Company marked up to show the proposed changes and the document entitled "Amendments to Articles" referred to in Resolution 10 are available on the Company's web site (www.g4s.com), at the Company's registered office and will also be available for inspection at the place of the Annual General Meeting for at least 15 minutes before and during the meeting.

(k) It should be noted that the Company's web site address is given in this notice solely for the purpose of providing access to information for shareholders. Neither the web site nor any e-mail address referred to on it may be used by shareholders or others to give notice to the Company in relation to the meeting or otherwise.

Recommendation and explanatory notes relating to business to be conducted at the Annual General Meeting on 29 May 2008

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 members 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 meeting are set out below:

1 Authority to Allot Shares (Resolution 7)

At the last AGM of the Company, held on 31 May 2007, the directors were given authority under section 80 of the Companies Act 1985 ("the 1985 Act") to allot ordinary shares in the capital of the Company up to a maximum nominal amount of £105,500,000 representing approximately 33% of the Company's then issued ordinary share capital. This authority was granted for a period ending on 1 May 2012.

The 1985 Act provides for such authority to be granted either by a 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 be renewed annually and that the authority be limited to the lesser of the authorised but unissued share capital and one third of the issued share capital.

Accordingly, the board considers it appropriate that a further similar authority be granted to allot ordinary shares in the capital of the Company up to a maximum nominal amount of £106,500,000, representing a little less than one-third of the Company's issued ordinary share capital as at 7 April 2008, during the period up to the conclusion of the next AGM in 2009.

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 5,209,320 shares held within the employee benefit trust and referred to on page 92 (note 37 to the consolidated financial statements) are accounted for as treasury shares.

2 Disapplication of Pre-emption Rights (Resolution 8)

Resolution 8 will empower the directors to allot ordinary shares in the capital of the Company for cash on a non pre-emptive basis (a) in connection with a rights or similar issue and (b) (otherwise than in connection with a rights issue) up to a maximum nominal value of £16,000,000, representing approximately 5% of the issued ordinary share capital of the Company as at 7 April 2008. Again, institutional best practice suggests that this authority should be renewed annually.

3 Purchase of Own Shares (Resolution 9)

Resolution 9 gives the Company authority to buy back its own ordinary shares in the market as permitted by the 1985 Act. The authority limits the number of shares which could be purchased to a maximum of 128,000,000 (representing a little less than 10% of the Company's issued ordinary share capital as at 7 April 2008) and sets minimum and maximum prices. This authority will expire at the conclusion of the AGM in 2009.

The directors have no present intention of exercising this authority, 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.

4 Amendment of Articles (Resolution 10)

The Company proposes to amend its articles of association to reflect the provisions of the Companies Act 2006 (the "2006 Act") which came, or will come, into effect in 2007 and 2008. As the 2006 Act will not be fully in force until October 2009, and it is not yet possible fully to reflect the 2006 Act changes, it is anticipated that shareholders will be asked to approve further changes to the articles of association at the 2009 AGM. The principal changes to the articles of association proposed to be made following the 2008 AGM relate to shareholder meetings and resolutions, transfers of shares and directors' conflicts of interest.

The provisions of the 2006 Act regarding shareholder meetings and resolutions came into force in October 2007, replacing the corresponding provisions of the 1985 Act. The new articles incorporate amendments in relation to meetings and resolutions to ensure consistency with the 2006 Act.

From 1 October 2008, under the 2006 Act a director has a statutory duty to avoid a situation where he has, or can have, a direct or indirect interest which conflicts, or possibly may conflict, with the company's interests. The 2006 Act allows directors of public companies to authorise conflicts or potential conflicts where the articles of association contain a provision allowing this authorisation. It is proposed that the Company's new articles of association should include such a provision.

The principal changes to the articles of association can be summarised as follows:

(a) Transfer of shares (article 40)

Under the 2006 Act, a company must either register a transfer or give the transferee notice of, and reasons for, its refusal to register the transfer. Any registration of a transfer or notice of refusal must be made or given as soon as practicable and in any event within two months from the date that the transfer is lodged with the company. Reasons for refusal must also be provided if a reasonable request is made by the transferee. The revised article will reflect these requirements.

(b) Disclosure of interests (article 48)

The provisions relating to the disclosure of interests in shares contained in the 1985 Act, including section 212 on company investigation powers, were repealed in January 2007. Section 793 and related sections in Part 22 of the 2006 Act, which contain the corresponding company investigation powers previously contained in section 212, were brought into force simultaneously. Article 38 reflects the replacement of section 212 of the 1985 Act with section 793 of the 2006 Act.

(c) Notice of general meetings (article 57)

The provisions in the revised articles dealing with the convening of general meetings and the length of notice required to convene general meetings are in line with the relevant provisions of the 2006 Act. In particular, a general meeting (other than the annual general meeting) to consider a special resolution can be convened on 14 days' notice whereas previously 21 days' notice was required.

(d) Quorum (article 70)

The article has been amended to make it clear that two persons who are proxies for the same member or representatives of the same body corporate can constitute a quorum.

(e) Polls (article 78)

The article has been amended to avoid any potential conflict with the provisions of section 329 of the 2006 Act which details the rights conferred on a proxy to demand a poll in various circumstances.

(f) Votes of members, proxies and corporate representatives (articles 90 and 99)

Under the 2006 Act, proxies are entitled to vote on a show of hands as well as on a poll, and members may appoint a proxy to exercise all or any of their rights to attend, speak and vote at meetings. Multiple proxies may be appointed provided that each proxy is appointed to exercise the rights attached to a different share or shares. The amendments reflect these new proxy rights (article 90). The 2006 Act also provides for multiple corporate representatives to be appointed and the articles therefore refer to the right to appoint multiple corporate representatives (article 99).

(g) Receipt of appointments of proxy and termination of proxy authority (article 93)

The article provides that proxies for a poll to be taken after the date of a meeting or adjourned meeting must be received not less than 24 hours, or such shorter time as the directors may determine, before the time of the poll.

(h) Availability of appointments of proxy (article 97)

The article provides for the directors to make available to the members at the Company's expense, facilities for appointing proxies. The article provides that proceedings at shareholder's meetings will not be invalidated as a result of any accidental omission or the failure due to circumstances beyond the Company's control to send or make available to shareholders appointments of proxy or invitations to appoint proxies.

Recommendation and explanatory notes relating to business to be conducted at the Annual General Meeting on 29 May 2008 (continued)

4 Amendment of Articles (Resolution 10) (continued)

(i) Directors' appointments, interests and conflicts of interest (articles 127, 127A and 132)

The 2006 Act sets out directors' general duties which largely codify the existing law but with some changes. Under the 2006 Act, from 1 October 2008 a director has a statutory duty to avoid a situation where he has, or can have, a direct or indirect interest which conflicts, or possibly may conflict, with the company's interests. The requirement is very broad and could apply, for example, if a director becomes a director of another company or a trustee of another organisation. The 2006 Act allows directors of public companies to authorise conflicts and potential conflicts where appropriate, if the articles of association contain a provision to this effect. The 2006 Act also allows the articles to contain other provisions for dealing with directors' conflicts of interest to avoid a breach of duty.

Article 127, which is the provision for dealing with conflicts in the current articles, allowing directors to be interested in transactions and to be an officer of or employed by or interested in a body corporate in which the Company is interested, has been amended so that it confirms that such interests, offices or employment will not infringe the conflicts duty as codified in the 2006 Act.

New article 127A gives the directors authority to approve conflict situations including other directorships held by the Company's directors and includes other provisions to allow conflicts of interest to be dealt with in a similar way to the current position.

There are safeguards which will apply when directors decide whether or not to authorise a conflict or potential conflict. First, only directors who have no interest in the matter being considered will be able to take the relevant decision and, secondly, in taking the decision the directors must act in a way they consider, in good faith, will be most likely to promote the Company's success. The directors will be able to impose limits or conditions when giving authorisation if they think this is appropriate.

The proposed new article 127A also contains provisions relating to confidential information, attendance at board meetings and availability of board papers to protect a director from being in breach of duty if a conflict of interest or potential conflict of interest arises. These provisions will only apply where the position giving rise to the potential conflict has previously been authorised by the directors.

The proposed amendment to Article 132, which deals with the quorum requirement for board meetings, clarifies that the presence of a quorum will be determined separately in relation to each matter or resolution considered or voted on at the meeting. This will mean that if a director cannot count in the quorum for a particular resolution (because for example he is interested in the outcome of the resolution) he may still count in the quorum for the other resolutions to be voted on at the meeting.

(j) Permitted interests and voting (article 137)

Article 137 identifies certain matters in relation to which directors are permitted to vote notwithstanding an interest in those matters. The 2006 Act contains a much wider definition of "connected person" of a director than had applied under the 1985 Act which would make declaration by directors of relevant interests very difficult in practice. It is therefore proposed to retain the status quo by preserving the definition of connected person which applied under the 1985 Act.

The previous exception relating to retirement schemes was confined only to schemes approved by the Inland Revenue. This has now been combined with a broader exception which relates to all arrangements including retirement benefit schemes in respect of which directors have no special privilege or advantage not generally awarded to the employees to whom the arrangements relate.

The other change in this article relates to the question of whether or not a director is interested in a resolution by virtue of holding shares in a company to which the resolution relates. The proposed amendment excludes shares which are held as treasury shares when calculating such directors' interests.

(k) Miscellaneous

The articles have also been amended to:

(1) delete references to sections of the 1985 Act and replace them with references to corresponding sections of the 2006 Act, where appropriate; and

(2) account for the fact that certain concepts under the 1985 Act have been done away with (for example, the concept of "extraordinary" resolutions).

Financial calendar and corporate addresses

Results announcements
Interim results – August
Final results – March

Dividend payment
Interim paid – 16 November 2007
Final payable – 6 June 2008

Annual General Meeting
29 May 2008

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Manor Royal
Crawley
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Registered number
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The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU
Telephone: within the UK 0871 664 0300 (calls cost 10p per minute plus network extras); from outside the UK +44 208 639 3399
Fax: +44 (0) 20 8658 3430
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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Registered Auditor
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