



Securing Your World

G4S plc
Annual Report
and Accounts 2012



Performance highlights

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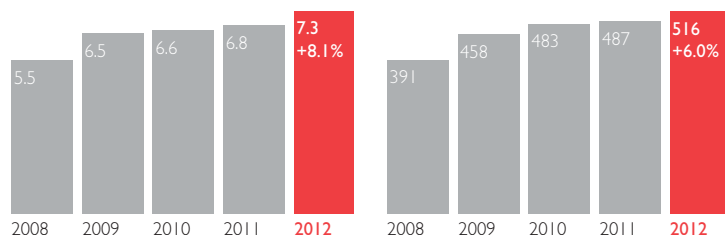
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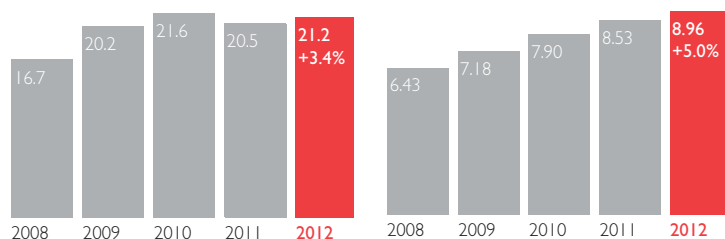
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Group turnover* **£7.3bn** PBITA** **£516m**



Adjusted EPS+ **21.2p** Dividend **8.96p**



Operating cash flow*** **£492m** Organic turnover growth* **6.9%**

95% of PBITA

(2011: 5.1%)

	Revenue		PBITA	
	2012	2011	2012	2011
At constant exchange rates excluding Olympics	7,297	6,750	516	487
Exchange difference	–	169	–	12
Olympic Games contract	204	47	–	3
Total continuing at actual rates	7,501	6,966	516	502
PBITA margin at constant rates excluding Olympics			7.1%	7.2%

The revenue and PBITA from the Olympic Games contract has been excluded from the tables on pages 1 to 40. The contract loss and additional costs resulted in a total loss of £88m which was booked as an exceptional item.

* 2011 and 2012 at constant (2012) exchange rates, adjusted for disposals and discontinued businesses and excluding Olympics contract. 2008–2010 as reported excluding US Government Solutions

** PBITA is defined as profit before interest, taxation, amortisation of acquisition-related intangible assets, acquisition-related costs and exceptional items

*** As defined by management, see Financial review, page 44

+ 2011 and 2012 at constant (2012) exchange rates, adjusted for disposals and discontinued businesses and excluding Olympics contract. 2008–2010 as reported. EPS attributable to equity shareholders of G4S plc was 3.4p in 2012 and 12.9p in 2011. For 2012 EPS attributable to equity shareholders includes items of £88m related to the Olympic Games contract, £45m of restructuring costs and a £63m loss related to discontinued items. For a full reconciliation, see page 104

G4S is the world's leading international security solutions group, which specialises in secure outsourcing in countries and sectors where security and safety risks are considered a strategic threat.

We make a difference by helping people to operate in safe and secure environments where they can thrive and prosper and we believe this role can only grow in importance.

G4S is the largest employer on the London Stock Exchange, with operations in more than 125 countries and over 620,000 employees.

In this annual report we feature the important work carried out by our employees across our 125 countries. We are proud of the role they play in securing your world.

G4S at a glance

Our vision

Our vision is to be **recognised** as the **global leader** in providing **secure outsourcing solutions**, to help customers to achieve their own strategic goals and to deliver sustainable growth for G4S and long-term value for shareholders.

Our operating segments

We assess and manage security and safety risks for buildings, infrastructure, materials, valuables, people and society.

We segment our services into two key service lines – secure solutions and cash solutions.

Secure solutions

Integrated security solutions for commercial organisations in areas such as risk consulting, manned security and security systems and a range of services including protection of critical national infrastructure, care and justice services, integrated facilities services and border protection for governments.

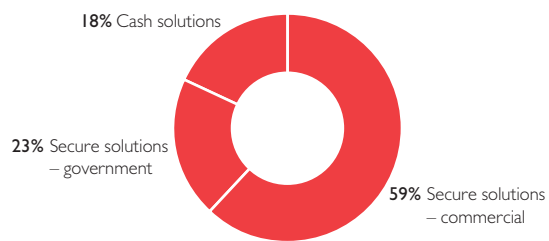
Cash solutions

Outsourcing of cash cycle management for central banks, financial institutions and retailers.

➤ Find out more on pages 32 to 40 for a review of secure solutions and cash solutions

Turnover by segment 2012*

%



* excluding Olympic Games contract

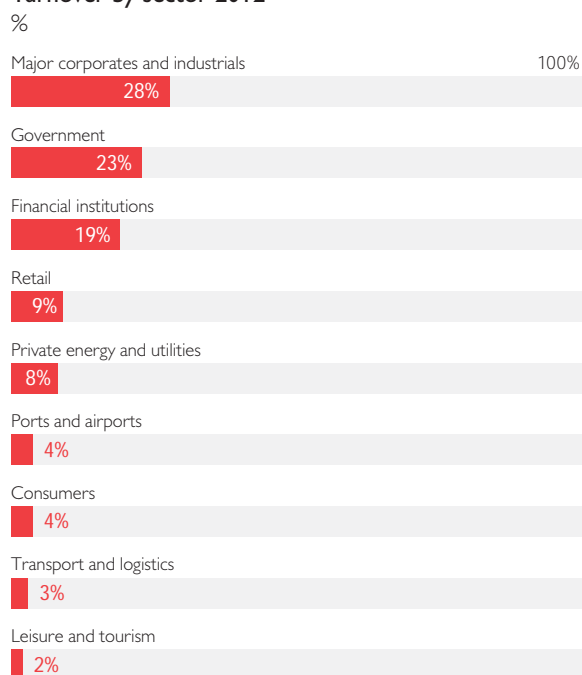
Our key sectors and customers

Our two key customer groups are commercial businesses and governments. In the commercial sector we have a broad customer base with thousands of commercial customers ranging from small local companies to large multinational corporations.

The duration of customer contracts vary, from high-profile annual contracts for securing sporting or entertainment events to 25-year government contracts for the construction and management of prisons. In practice, many of our customer relationships are long-term and result in contracts being renewed regularly, resulting in high customer retention rates that are above 90% averaged across the group annually.

➤ Find out more on our customers and key sectors on pages 32 to 40

Turnover by sector 2012*



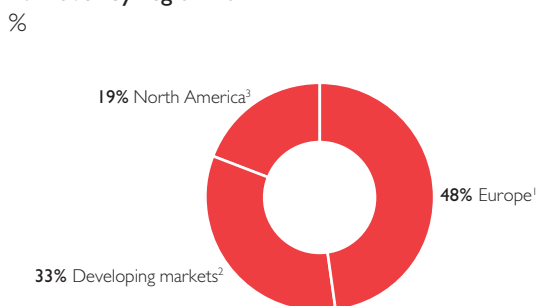
* excluding Olympic Games contract

Our broad geographic reach

G4S has a unique global footprint with operations in over 125 countries, including a strong presence in higher growth developing markets.

➤ Find out more on page 15

Turnover by region 2012*



* excluding Olympic Games contract

¹ UK, Ireland and Continental Europe

² Middle East and Gulf States, Latin America and the Caribbean, Africa, South Asia and Asia Pacific

³ USA and Canada

Our business characteristics

Our key strengths

Our key strengths are what differentiate us in the market.

Integrated security solutions

G4S is able to design and manage security solutions that bring together its capabilities in project management, risk consultancy, secure facilities management, physical security, intelligent systems and high quality security-trained personnel to address the security challenges faced by a broad range of customers around the world.

Strong developing markets presence

G4S's global presence, market share and experience of working in developing markets constitute key strengths. Relatively high levels of GDP growth in certain developing markets, increasing demand for security services and G4S's ability to export its experience from its operations in more developed markets drive positive revenue and margin trends for the group in developing markets.

Cash solutions expertise

Understanding and managing cash cycles is one of the group's core skills. Central banks, commercial banks and retailers outsource their cash management to G4S as the group has the capability and experience to drive substantial efficiencies in the system and achieve better returns for its customers over the longer term.

Solutions approach

Each individual area of the business is a driver of value for the group. But it is when they come together that they truly make a difference. Exporting G4S's government expertise to new countries, leveraging its cash solutions model across developing markets and using its global risk management and security capabilities to protect some of the world's best known brands across international markets, drive even greater value for the group.

Government partnerships

Government outsourcing is a strong, long-term source of growth as public sector spending remains under pressure and governments turn to the private sector to provide a number of outsourced services. Government contracts, which represented approximately 23% of group revenues for the year ended 31 December 2012, tend to be long-term strategic partnerships, with recurring revenues.

Our investment attributes

G4S creates shareholder value as a result of a number of core investment attributes.

Growth

- Organic revenue growth
- Developing markets exposure
- Major position in UK Government outsourcing
- A GDP + growth business
- Disciplined M&A

G4S has delivered strong organic growth since its creation in 2004, performing well above global GDP growth despite recent pressure on the economic environment. We are able to do this as a result of our significant and increasing exposure to higher growth developing markets and leading market positions in key growth markets such as the UK Government outsourcing sector, where growth is strong and expected to continue. Organic growth is supplemented by disciplined reinvestment of free cash flow in acquisitions focused on extending our developing markets presence in key growth countries and adding capability to help address the needs of customers in growing sectors.



Resilience

- Well diversified business
- Defensive services
- Structural growth through the cycle
- High customer retention and visibility of earnings

Our business is well diversified across more than 125 countries and numerous customer sectors, with no over-reliance on any single area. Security is at the core of our service proposition and is one of the areas on which governments and commercial customers focus for cost-savings and reductions during economically challenging times, creating opportunities for outsourcing. We have a growing number of long-term contracts coupled with excellent customer relationships and a customer service culture which result in strong customer retention rates and good earnings visibility.



Strong financial disciplines

- Operational efficiency and margin expansion
- Free cash flow generation/ cash conversion
- Disciplined and coherent M&A/ capital return policy

Our track record of delivery has been achieved within a framework of strong financial discipline focusing on operational efficiency to drive margin expansion and a continual focus on high levels of cash generation. We look to achieve an appropriate balance in our capital structure between investment in acquisitions and investment returns through a progressive dividend policy.

These attributes, combined with the growing reputation of G4S as the world's leading security solutions provider, should result in superior returns for our investors over the longer term.

Chairman's statement

Building on strong foundations for the future



This is my first statement in a G4S annual report, having taken over from Alf Duch-Pedersen as chairman of the board in June last year. Neither Alf nor I appreciated then the extent of the challenges the group would have to face during the second half of 2012. However, although my first few months in office were something of a baptism of fire in some respects, I am pleased to say that we have come through these difficulties and have learned a lot as well. It is important to keep a sense of perspective too. The group operates in so many parts of the world, providing vital services to thousands of customers and doing so to the very highest standards. This underlying strength in depth is reflected in the company's results for 2012.

As part of my planned introduction to the role of chairman, I have had the opportunity to visit a variety of the group's operations in different parts of the world and have met with many of its senior leaders in a range of forums. I have been extremely impressed by the enthusiasm and professionalism of the group's managers.

I have also been able to meet most of the company's larger shareholders. Keeping in touch with investors is an essential part of my role and I intend to maintain regular contact with them in future.

Financial performance

The macroeconomic conditions in many of our markets continue to be difficult. In much of Europe, growth is non-existent and the problems with US Government spending are well known. Against this backdrop, the group's results in 2012 are strong, with good organic growth overall and excellent cash conversion. Our wide geographical spread and involvement in developing markets with higher GDP growth has stood us in good stead and in developed markets where outsourcing trends are strong, we continue to make good progress. In the light of this performance and in view of our confidence in the group's strategy, the directors propose a final dividend of 5.54p (DKK 0.473) per share, payable on 14 June 2013. With an interim dividend of 3.42p (DKK 0.322) per share paid on 19 October 2012, the total dividend for the year will amount to 8.96p (DKK 0.795) per share. This represents a 5% increase on the total dividend for 2011.

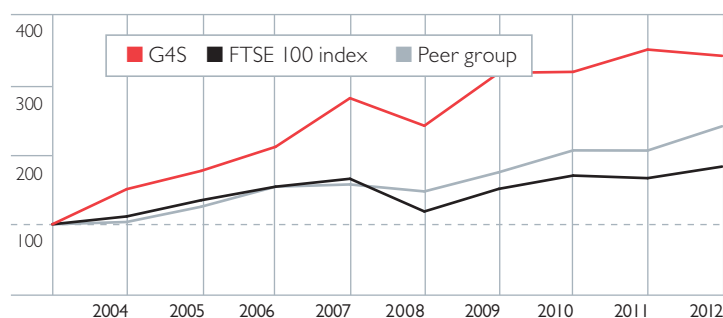
Reputation and risk management

No consideration of the company's performance in 2012 can ignore the Olympics contract. It made headlines and brought us to the public's attention, especially in the UK, and for all the wrong reasons. With help from PwC, the board conducted a thorough review of the circumstances surrounding the group's performance on delivering the Olympics contract to ensure that the reasons for the problems were properly understood and so that any necessary remedial actions could be identified and taken. It was very important to me as the new chairman, and to the whole board, that we took whatever steps were necessary to learn these lessons, no matter how painful this process might be.

We are satisfied that there was no systemic problem in the way that the group operated its business and that it was the unique nature of the Olympics contract and the compressed timeframe in which it had to be delivered which were at the heart of the group's failure to deliver all that it should have done on this occasion. Nevertheless, we have introduced stronger mechanisms for reviewing risks in general and contract risk in particular, including lowering the value threshold for contracts requiring board approval.

2004–2012 total shareholder return performance

Value (p)



8.96p

Total dividend per share up 5%

The new, strengthened, Risk Committee will be a focus for this activity and a newly created chief operating officer role will increase the ability of the executive team to ensure that risk management is at the heart of key business decisions.

The board review also concluded that there had been no significant shortcomings in Nick Buckles' performance, nor any serious failings attributable to him in connection with the Olympics contract. Consequently the board decided it was in the company's and its stakeholders' best interests that he should remain as our CEO. I was and remain entirely confident that this was the right decision.

Away from the media frenzy in the UK in the summer, hundreds of thousands of the group's employees continued to provide outstanding service levels in what can sometimes be difficult and occasionally dangerous circumstances. Any objective assessment of the group's capabilities should of course be based on the excellent work which the group has always provided and continued to provide throughout 2012. We understand though that reputations are hard won and sometimes too easily lost, so we are determined to repair the damage the group suffered in the summer by continuing to do what we do best and doing it well. Rebuilding the trust and confidence of the UK Government in G4S is an essential part of that process of course and the settlement with the organising committee of the Olympic Games and recent contract awards by UK public bodies are indeed good news.

The board

2012 saw change on the board, with the retirement of Alf Duch-Pedersen and my appointment as his replacement. I would like to thank Alf for his service to the group, both as chairman since 2006 and before that as a director of the company and its predecessors. Continually refreshing a board is not just a corporate governance nicety, it is also vitally important if a board is to function as effectively as possible. The Nomination Committee has therefore considered carefully the range of skills and experience

which the board needs and has taken account of the fact that, over time, we will lose the skills and experience of some of our current board members as they retire or move on.

I am delighted therefore that we have been able to recruit Paul Spence and Adam Crozier and that we will shortly be joined by Tim Weller. Their qualities will be invaluable to the board and to the group as we continue to develop the business.

At the conclusion of this year's AGM, and having served for nine years, both Paul Condon and Bo Lerenius will retire from the board. The whole board will be sorry to see them go and I am very grateful for their support in the short time we have worked together.

As usual, the board conducted a review of its own performance in 2012. Taking account of the conclusions of that review, the board has set itself a number of clear objectives for 2013 and I intend to report in future on how the board has performed in relation to them.

The future

2013 will be a time of both change and consolidation for the group. There have been a number of changes at both board and group executive committee level and there will be new challenges involved in making our new risk management processes a seamless part of the way we operate and in ensuring that our services always meet or exceed our customers' expectations.

The group will however continue to grow and develop and I have learned in the short time that I have been involved with the company that, in this aim, it is well served by dedicated and professional employees all over the world.

John Connolly
Chairman

Chief Executive's interview

Looking forward with confidence



In 2012, we achieved our eighth consecutive year of underlying revenue, PBITA and dividend growth. This demonstrates that, despite ongoing economic uncertainty in 2012 and the challenges of delivering the London 2012 security contract, the underlying business has performed well and the positive trading momentum is expected to continue.

We are confident in the future and expect to continue our track record of growth whilst maintaining our discipline on margins and cash generation.

How would you sum up the group's trading for 2012?

Despite continued economic challenges in Europe, the overall business has performed well with an acceleration in organic growth to 6.9% from 5.1% in 2011.

Group revenues were up by 8.1% on the prior year and the key highlights of the year were the strong growth in the UK government and US commercial businesses and the continued strong performance in developing markets. Our developing markets activities achieved organic growth of 10% and they now make up 33% of the group's revenue.

Despite the economic challenges of low GDP growth and the impact of low interest rates in developed markets on our cash solutions business, we managed to maintain margins overall through continuing to focus on keeping costs under control and cash flow generation.

What were the main highlights of the year?

There were a number of significant highlights during 2012, which either contributed to our performance in the year or laid the foundations for future growth and success.

Overall, we have performed strongly with organic growth of nearly 7% against a difficult trading environment and the distractions of the Olympics contract in the summer. We worked hard to implement substantial cost savings during the first half of the year, significantly reducing our overhead costs to help counter the current margin headwinds, particularly in Europe, resulting in us maintaining our margins at 7.1%.

Despite significant economic challenges, our US Commercial business grew particularly strongly in 2012, as a result of a firm focus on customer service and retention, the expansion of a number of existing contracts and a number of new business wins such as Google, Gallagher Bassett and Iberdola. Overall the US commercial business grew by 11% in the year.

One of the key achievements during the year was the mobilisation of a number of major contracts in the UK. We began the facilities management of more than 340 court buildings across the Midlands, Wales and the North of England in February this year on behalf of the UK Ministry of Justice. We opened Oakwood Prison, one of the largest in the UK, providing places for over 1,600 prisoners in the West Midlands during April, and commenced the provision of transport and accommodation for asylum applicants across four regions of the UK in June. In April, we also successfully mobilised the first major support services contract with Lincolnshire Police Authority where we provide a wide variety of back office functions to allow the force to concentrate more resources on front line policing services – reducing the Police Authority running costs by around 16% in the first nine months of the contract.

Our developing markets businesses performed well in the year and we continue to focus on developing markets for future growth. We expanded our presence in the high growth Brazilian market in the second half of 2012 through the acquisition of Vanguarda, one of the country's leading security providers, to complement the acquisition of Interativa which was completed late in 2011. These acquisitions provide us with an excellent platform for growth in one of the world's leading economies and help to strengthen our service offering and capabilities across the region to include security, facilities management and technology.

We have made excellent progress during the year in establishing our product-specific service excellence centres which are focused on ensuring long-term operational efficiency, high quality service standards, the development of technology to support service delivery and the sharing of best practice across our main service lines. These service excellence centres have already had a significant impact on the businesses through reduction in attack losses in the cash solutions business and assisted nine countries in identifying profit improvement opportunities.

It is also important to recognise the efforts of our managers and finance teams in terms of keeping the focus on generating cash throughout the year, particularly against a difficult economic environment where customers have been looking to extend payment terms and hang on to their cash for as long as possible. Delivering 95% of PBITA as cash in 2012 was a significant achievement.

What were the biggest challenges of the year and how did they impact the group's performance?

The most significant challenge of 2012 was handling the issues associated with our failure to provide the contracted number of security personnel for the Olympic Games. The Games was a huge success for Britain and as a British company which has been an important part of British society for over 75 years, we wanted to play our part in delivering a great Games for Britain.

The realisation as the Games approached, that the workforce numbers we believed to be in place would not materialise, was a big shock for us all and was the start of one of the toughest periods in the group's history.

On the plus side, I was impressed with the way that colleagues across the group – from both the UK and overseas – stepped in to help resolve the issues as soon as they came to light. This meant that, in the end, we were able to recruit around 16,000 security staff and around 8,000 of them worked at the Games on the peak day. Overall we delivered around 82% of the contracted requirement and all of the security workforce requirements for the transition period between the Olympics and Paralympics and throughout the Paralympic Games.

Reputationally, the group faced extreme scrutiny, particularly from politicians and the media, which took an enormous amount of effort and resource to manage. The detailed financial implications are highlighted elsewhere in this report, but the overall impact was that rather than making a modest profit on the contract, we will make a loss on the contract of £70m having agreed to refund a significant proportion of the management fee as a gesture of goodwill to the UK Government – an important customer for the group. We also incurred additional costs of £11m relating to external fees and a further £7m in sponsorship and marketing costs. This all equates to a total loss of £88m.

Whilst the overall situation was extremely disappointing for us, I am proud of the way our staff worked together with the military and police to ensure that the Games was safe and secure. Having reached agreement on the settlement, we hope that in 2013 we can put the issue behind us and continue to demonstrate that G4S is a great company which plays an important role in societies all over the world through the efforts of our over 620,000 loyal and dedicated employees.

Strategic review

Chief Executive's interview continued

In November, we were faced with what seemed like a significant change of policy by the UK Government when the Ministry of Justice announced that it would not outsource a number of prisons to the private sector and would be taking an existing outsourced prison back under the control of the Prison Service. Whilst this was disappointing to us and to the market at the time, there does appear to be some positive news as a result of the developing UK prison policy, which will include a substantial amount of outsourcing of services such as rehabilitation, facilities management and other related services. We are in a good position to bid for these contracts which are estimated to be worth around £1bn per annum.

2012 was a challenging year for our US Government Solutions business as a result of a significant reduction in the US Federal Government spending in both the US domestic government sector and in contracts for overseas landmine clearance. We introduced a number of cost-saving measures during the year to mitigate the challenges in this market and have recently announced our intention to divest the business to a parent which would be able to add or create more value than we are able to, being a foreign parent with limited control over the business strategy and restricted access to important commercial data and limited ability to manage the business and share best practice.

Elsewhere, trading conditions, particularly in Continental Europe continued to be tough with increasing margin pressure on contract renewals across many developed markets. Early in 2012 we began our programme of overhead cost saving measures which have helped to protect our margins in the latter half of the year and should provide a good basis on which to move forward in 2013.

What lessons have you learned during the year and what will you do differently in the future as a result?

We commissioned a thorough review of our performance on the London 2012 Olympic security contract with the assistance of PwC and the findings were published in September 2012. The review concluded that the failures were specific to the very special nature of the contract, but we decided to take a number of actions to ensure that best practices are applied consistently across the entire group.

With that in mind, we are implementing a more rigorous risk assessment for new contracts and improving contract take-on processes and project management. Board oversight of new contracts is also being enhanced including review and approval of large or complex contracts.

We are also strengthening the Group Executive team with the appointment of a chief operating officer, whose responsibilities will include a specific focus on operational procedures, risk management and quality of customer

service and delivery. Recruitment for this role is well underway and we hope to announce an appointment during the first half of this year.

Elsewhere, we have continued to focus on keeping costs down and reviewing our overhead structures and resources to make sure we are in good shape to weather the ongoing economic storm.

What are the key elements of the strategy for 2013 and the future?

There is no change to the group strategy for 2013 – security is at the core of our offer and, although we may move into related services in specific markets should opportunities take us there, we will remain true to our security heritage.

We will continue to focus on developing long-term relationships with businesses and governments in countries and sectors where security and safety risks are considered a strategic threat and where we can help customers achieve their own strategic objectives.

With limited medium-term opportunities for growth in Continental Europe, we will continue to look to developing markets for enhanced growth opportunities and to build on our market-leading positions in many of these markets. We will aim to export the knowledge and expertise which we have in more developed markets to these higher growth regions.

We will drive secure solutions and cash solutions markets through the various phases of development to encourage greater outsourcing and focus our attention on larger, more complex bids for new business. We will also focus on effectively managing any risks associated with these contracts by implementing enhanced contract risk management and assessment processes.

We will maintain our focus on service excellence, on retaining and growing our business with existing customers and winning new business across a wide range of markets and sectors. Our sector-focused strategy in areas where security and safety are of vital importance is a key differentiator for us and it has proved successful in the last 12 months. We will continue to focus our skills in enhanced risk management and safety and security in key sectors such as ports and maritime, aviation, oil and gas, and mining industries.

We are constantly looking to develop and refresh our talent pipeline and we will continue to do this in the coming year through the development of our people to build their skills, knowledge and behaviours and to ensure that we have robust succession plans in place for the key roles across the group.

How do mergers and acquisitions fit into your future strategy?

Acquisitions continue to be an important part of the strategy, particularly in developing markets where we can either improve our market share or where an acquisition can act as a catalyst to drive outsourcing opportunities. Overall, we expect to spend around £200m on acquisitions each year.

We believe there are substantial growth opportunities in these markets and we are targeting 50% of our revenues to come from developing markets by 2019.

We will also continue to be more active in terms of divestments where a service line is not core to the group, where a business could result in material reputational damage to the group or it is unable to reach the group minimum targets within a set period of time under our ownership or where an alternative parent could add or derive more value from a business.

What targets or goals are you setting for 2013?

Overall, our key business objectives for 2013 are to drive organic growth, deliver margin improvement, optimise our organisational development and to build and protect our reputation.

Key Business Objectives:

Drive organic growth	Deliver margin improvement
Optimise organisational development	Build and protect reputation

 Find out more on pages 21 to 29

More specifically, we will focus on continuing to improve our organic growth performance through customer service, contract retention and expansion and through winning new business in key target areas.

We are aiming to increase the proportion of our revenues generated in developing markets with a six-year target of 50% of the group total as key security markets such as Brazil and China open up to foreign investment and where we can import our expertise from more developed markets in order to raise standards, deliver operational best practice and help our customers to achieve their own strategic objectives.

We will maintain our discipline on margins through good cost control and sharing of operational best practice as the service excellence centres continue to gain further traction across the operation and as we keep the cost base under constant review.

We will aim to upgrade our approach to contract risk management through the development of new processes for monitoring major contracts and increasing board and senior management visibility of contract issues. The addition of a new chief operating officer to the Group Executive team will be a key element of this focus.

We are targeting strong EPS growth and believe we can deliver that as a result of structural growth trends in the security industry and outsourcing trends, our strong developing markets presence and continued focus on margins and cash generation and are maintaining our overall target of generating at least 85% of PBITA as cash during the year.

How would you summarise the outlook for the group?

Despite the disappointment of the Olympics contract in 2012, the underlying trading across the majority of the group remains strong. The economic pressure is continuing to be challenging in Continental Europe. However, I am confident about the prospects for the group in 2013 based on our market leading businesses, broad customer base and contract pipeline. We continue to see good opportunities from outsourcing in key sectors such as government, financial institutions, aviation, oil and gas, mining and ports. The breadth of our portfolio in over 125 countries continues to present many new growth opportunities.

Nick Buckles

Chief executive officer

Key performance indicators

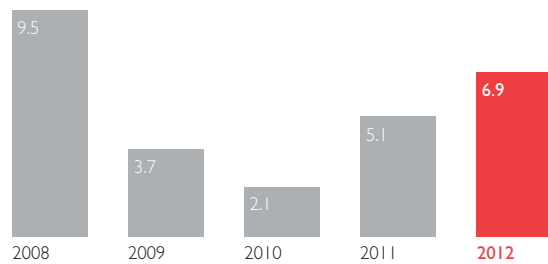
Driving business improvement

Financial KPIs

The key financial performance indicators (KPIs) for the group and G4S operational management across both the secure solutions and cash solutions businesses are organic growth, cash conversion (operating cash flow as a percentage of PBITA) and PBITA margin.

Organic turnover growth*
%

6.9%



Organic growth is used as the best measurement of growth inherent within a business, and it is widely accepted as such.

G4S revenues grew 6.9% organically excluding the Olympics contract in 2012, up from 5.1% in 2011. Organic growth was assisted by strong growth across most regions, particularly in developing markets. Our long-term aim is to achieve organic growth above GDP. Depending on contract phasing and the economic environment, we target to grow between 6% and 8% per annum in the long term.

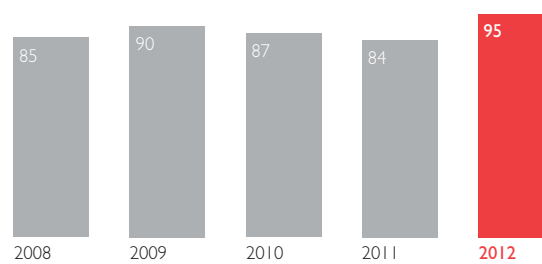
➤ See pages 21 and 22 for more detail on our plans to drive organic growth as one of our key business objectives.

Gross margin

For 2013, a new KPI of gross margin has been introduced for operational management. Gross margin is used to measure the proportion of revenue the business retains after incurring the direct costs associated with providing services to customers.

Cash conversion*
%

95%

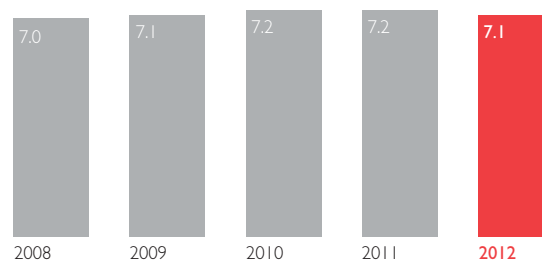


Cash conversion is used to measure the cash generation of the group and how successful the business is at managing its operating capital.

Through continual analysis of all aspects of the operating cash cycle to improve cash collections, we exceeded our cash conversion target of 85% of PBITA in 2012.

PBITA margin*
%

7.1%



PBITA margin is used as a measure of success in controlling the cost base relative to sales.

The operating margin for secure solutions (82% of revenues) was slightly lower at 7.0% in 2012 from 7.2% in 2011 due to UK Government contract phasing, whilst the cash solutions margin was maintained at 10.5%, resulting in the overall margin performance for the year of 7.1%.

➤ See page 24 for more detail on our plans to improve margins as one of our key business objectives.

*Excluding Olympics contract and adjusted for disposals and discontinued operations

Non-financial KPIs

Managers across the group are also targeted to achieve additional objectives which are agreed on an individual basis and will usually be linked to business plan milestones.

Some examples of non-financial KPIs achieved in 2012 include:

- acquisition of a manned security business and a security licence in Brazil
- formation of a joint venture in China and security licence approval
- development of a group human rights policy

All objectives and targets are focused on driving the business performance forward and delivering the group's solutions strategy over the longer term.

HR standards and KPIs

We believe strong employee relationships help deliver excellent customer service. To ensure that G4S delivers on its commitments to its employees, businesses are required to report monthly on key metrics relating to:



➤ See pages 48, 51 and 52 for some of our key CSR KPIs and our progress against them in 2012. More detail can also be found in the 2012 G4S CSR report.

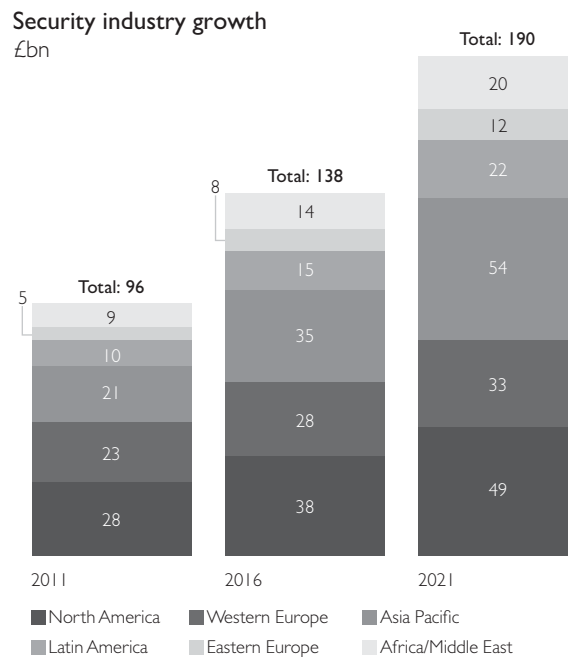
Marketplace

Building on our leading market positions

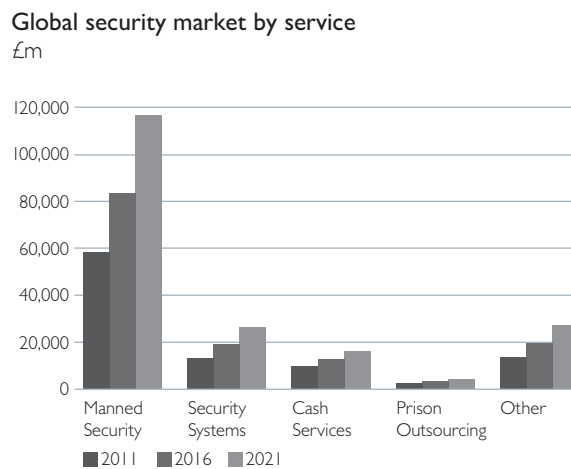
The global security market

The “business to business” global security market is estimated to generate revenues of around £96bn per annum.

Based on the latest published market research (Freedonia Report on World Security Services, January 2013), and G4S analysis, G4S estimates that the global security market will grow by around 7% per year from 2011 to 2021.



As an integrated security provider, we are active in all types of security and according to the Freedonia report, the market in 2011 was split by service type as shown on the chart to the right. Looking at the Freedonia forecasts, the split by service type is not expected to be very different ten years later in 2021.



50%
of the global security market is expected to be in developing markets by 2016

G4S major markets

With operations in more than 125 countries, G4S is a truly global security services provider.

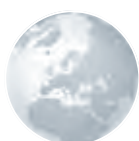
Total security market size

The charts below show the size of the major markets in each region for G4S.



UK and Ireland

UK	£6,000m
Ireland	£400m



Europe

Netherlands	£1,500m
Belgium	£600m
Sweden	£800m
Austria	£600m
Turkey	£2,000m



Africa

South Africa	£2,000m
Kenya	£150m
Morocco	£150m
Nigeria	£600m



North America

USA	£24,000m
Canada	£1,800m



Asia Middle East

India	£1,300m
Saudi Arabia	£1,000m
Australia	£1,200m
China/HK	£3,750m



Latin America

Brazil	£6,000m
Argentina	£1,000m
Colombia	£750m
Mexico	£2,000m

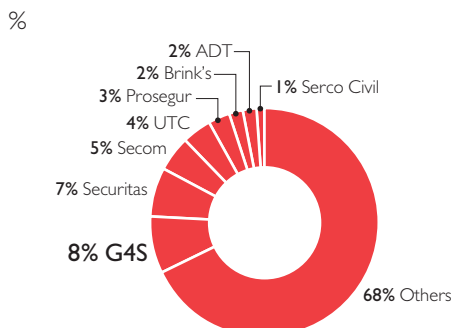
Competitive environment

The global security industry consists of a number of highly competitive markets, particularly in the manned security sector where markets can be fragmented.

At a local level, G4S competes with local companies for the provision of individual service lines. At a global level G4S has no peer with which it competes directly in all service lines across all geographies.

Company	Service lines	Competing geographies
Loomis	Cash solutions	UK, Finland
Securitas	Secure solutions	UK, Europe, North America
Brink's	Cash solutions	Canada, Asia, Small number in Europe
Serco	Government outsourcing	UK, Australia
ISS	Secure solutions	UK, Southern Europe, Asia
Mitie	Secure solutions	UK

Global market shares – 2012



£2.4bn

Of revenues were generated by G4S in developing markets in 2012

10%

Organic growth was achieved by G4S in developing markets in 2012

Our business model

The G4S business model is focused on developing partnerships with customers to move from a basic level of service delivery and excellence in each of our core services in phase 1, through to delivering analysis, expertise and design capability in phase 2 and the design, project management and delivery of fully outsourced solutions for our customers in phase 3.

As the service complexity and customer integration increases, so does the customer partnership and the longevity of the relationship. G4S becomes an integral part of the customer's organisation helping them to achieve their own strategic objectives. A key goal is to encourage an increased proportion of customer relationships which are of the type described in phase 3 in the model here.

➤ See pages 18 and 19 to see how the G4S business model is applied to our key markets and services to drive markets through the various phases of development from 1 to 3.

Strategic phases

3

Manage

Delivery of outsourced solutions

2

Analysis and Design

Delivery of expertise and design capability

1

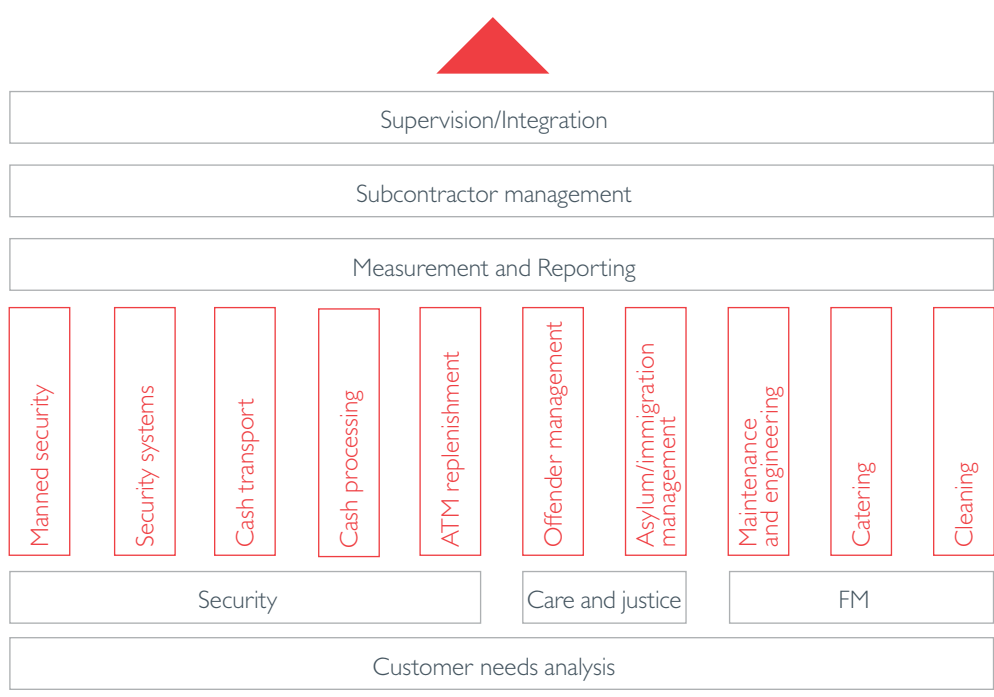
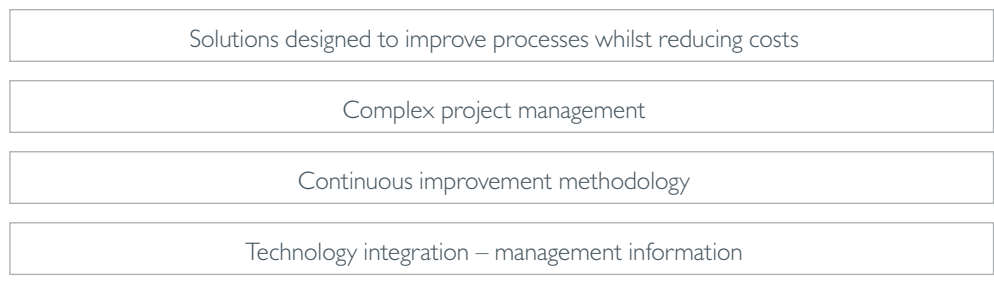
Operate

Delivery of service excellence in each core service with supervisory overlay

Business enhancing

Ensuring compliance/reducing losses

G4S delivery



Increasing customer partnership

Delivering enhanced growth

By applying the G4S business model to our key markets and services, we can drive markets through the various phases of development from the provision of basic services to full outsourcing. As each market moves at a different pace, the current opportunities for delivery of the strategy are shown in the charts below.

Secure solutions

Market development: In the secure solutions service line, commercial facilities management (FM) is only developed as an extension of government outsourcing or FM capability in developed markets, whereas it can often be a standalone service line created specifically for the commercial sector in developing markets.

Market development

Developed markets

	Manned security	Security systems	Integrated security	Government outsourcing and facilities	Commercial facilities management
UK	● ●	● ●	● ●	● ●	● ●
Australia	● ●	● ●	● ●	● ●	●
Northern Europe	● ●	● ●	● ●	●	●
Southern Europe	● ●	● ●	● ●	●	●
US	● ●	● ●	● ●	● ●	●

Developing markets

	Manned security	Security systems	Integrated security	Government outsourcing and facilities	Commercial facilities management
Brazil, India and China	● ●	● ●	● ●	● ●	● ●
Middle East	● ●	● ●	● ●	● ●	● ●
Eastern Europe	● ●	● ●	● ●	●	●
Other Developing Markets	● ●	● ●	● ●	●	●

● Current G4S service line ● Current market opportunity ● Future market development opportunity ● No short to medium-term market opportunity

Cash solutions

Market development: The same market development model applies to the cash solutions service line. Market position in cash solutions is important in achieving and maintaining market leadership. We believe we are market leader in the majority of the 70 countries in which we operate cash solutions businesses.

Market development

Developed markets

	Cash transport and processing	Enhanced ATM and cash processing services	ATM management and cash centre management
UK	● ●	● ●	● ●
Australia	●	●	●
Northern Europe	● ●	● ●	●
Southern Europe	● ●	● ●	●
US	●	●	●

Developing markets

	Cash transport and processing	Enhanced ATM and cash processing	ATM management and cash centre
Brazil, India and China	●	●	●
Middle East	● ●	●	●
Eastern Europe	● ●	● ●	●
Other Developing Markets	● ●	● ●	● ●

● Current G4S service line ● Current market opportunity
● Future market development opportunity

Growth drivers

With strong market positions in developed and developing markets complementing global outsourcing trends, G4S has a sustainable growth strategy. The key drivers of growth are a combination of external drivers and G4S strengths.

All G4S service lines: Growth drivers which are common to all G4S service lines are summarised below:

- Economic environment and GDP growth
- Competitive environment
- Regulation and regulatory environment
- Level of customer relationship
- Innovation or continuous improvement
- G4S reputation and track record
- Customer satisfaction and retention

Other growth drivers are specific to a particular service line:

Secure solutions service line: The key growth drivers are summarised below:

- Customer attitude to risk management
- G4S focus on high growth segments
- Growth of international accounts
- Increasing infrastructure investment in developing markets
- G4S ability to integrate manpower and technology
- Multi-service or service bundling trends in developing markets
- Customer focus on security
- Customer propensity to outsource
- Customer budgetary pressures

Cash solutions service line: The key growth drivers are summarised below:

- Role and strategy of central banks
- Development phases of the cash cycle
- Appetite for outsourcing
- Product innovation
- Interest rates
- Levels of crime

➤ See pages 32 to 40 for more detail on the secure solutions and cash solutions services and customers.



Magnus
Port of Gothenburg
Gothenburg, Sweden

I work as part of a team which checks and secures more than 40 million tonnes of cargo and over 1.5 million people that pass through Scandinavia's largest port each year.

Key business objectives

Drive organic growth



Context

In normalised market conditions, our business should be able to grow ahead of global GDP growth. Depending on contract phasing and the economic environment, we target organic growth of between 6% and 8% per annum in the long term.

Key objectives and progress

Drive outsourcing in all markets

A key element of our business model is to drive outsourcing in all of our markets, whether it be in secure solutions or cash solutions or with commercial customers or governments. This leads to G4S becoming integral to its customers' success, increased customer partnerships and longer term contracts, resulting in greater visibility of future revenues.

➤ See pages 18 and 19 for more detail on outsourcing opportunities by geographic region and by business segment.

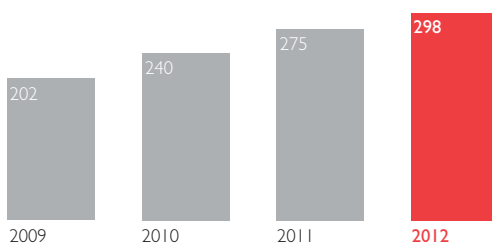
Focus on high growth markets where security and safety are key

By focusing on specific sectors where a greater emphasis is placed on security and safety we are able to provide expertise which is relevant to the specific needs of the market which enables us to differentiate the G4S offer from that of our competitors. This has proved successful in a number of key sectors such as aviation, ports, oil & gas and mining as shown in the charts below which give the compound annual growth rates (CAGR).

Aviation sector

Revenue
£m

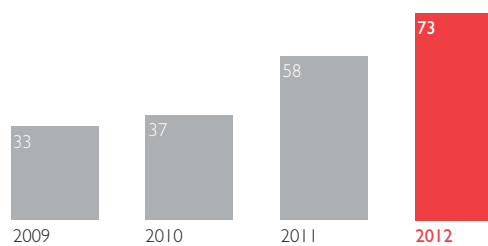
CAGR
+14%



Ports sector

Revenue
£m

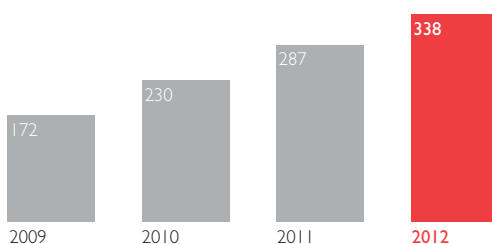
CAGR
+30%



Oil and gas sector

Revenue
£m

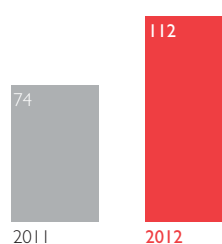
CAGR
+20%



Mining sector (new in 2012)

Revenue
£m

CAGR
+51%



Strategic review

Key business objectives

Drive organic growth continued

Investment in international accounts

Our continued investment in global account management for international customers and a global business development programme allows us to leverage our unique footprint and service offering. In 2012, as well as retaining all managed international accounts, our international accounts revenue grew by 12% through a combination of existing accounts and some new wins.

Global service delivery frameworks for service consistency

One of the roles of the service excellence centres is to ensure best practice and consistent service are delivered to our customers. This should ensure high levels of customer retention.

Increased focus on large bids and long-term customer partnerships

We continue to invest in recruiting and training high calibre business development resource at a country, regional and global level. The deployment of multinational bid teams on our largest and most complex bids has been successful such as those with DP World and Shell and we will continue to invest in our strategic account management programme as part of the G4S Way.

➤ See page 26 for more detail on the G4S Way.

Roll out of best practice sales, bidding and account management processes

We introduced Salesforce.com during 2011 and 2012 to ensure global collaboration on international accounts and help retain customers through best practice account management processes. Salesforce.com gives visibility around the contract pipeline so we can deploy the best resources to the biggest opportunities and drive productivity of the sales organisation.

Achieve strong customer retention

Our focus on account management and retention has resulted in halving the rate of large customer contract losses since 2010. Overall the group contract retention rate is around 90% per annum. We will continue to use our customer account management programme allied to driving service consistency and standards to deliver industry-leading customer retention levels.

Target acquisitions which can accelerate organic growth potential

Our acquisition strategy focuses on acquiring businesses which can help build share in key markets (particularly in high growth developing markets), improving market positions in the cash solutions services lines where this is a critical success factor and adding capability which helps to expand and extend contracts with existing customers as well as winning new business. All of these factors are significant contributors to long-term growth.

Increased focus on government outsourcing

As part of our market development strategy, we aim to encourage more governments to outsource services to the private sector, enabling them to reduce costs and in many cases deliver a better service as a result of increased commercial competition. Government contracts, which represented approximately 23% of group revenues in 2012, tend to be long-term strategic partnerships with recurring revenues.



Overview

Strategic review

Performance

Governance

Financial statements

Shareholder information

Shiva
Abu Dhabi, UAE

As part of the event security team for the Abu Dhabi Grand Prix, I help to ensure the safety and security of 40,000 fans who enjoy this major motor sports event each year.

Key business objectives

Deliver margin improvement



Context

We target a long-term group PBITA margin of around 7%, depending on the business and geographic mix. The group has minimum operating margin targets for the various service lines in different types of markets.

In developed markets, we target margins of 5% for manned security businesses and 10% for businesses providing security systems, cash solutions, justice services and risk management and consultancy services.

In developing markets, margin targets are higher, with a target of 8% for manned security and facilities management and 12.5% for all other service lines.

Key objectives and progress

Deliver procurement benefits

Managing costs is a key element of our strategy and in some cases our businesses procure similar products and services across multiple markets. During 2012 we undertook a major review of procurement, addressing around £500m of external spend across areas such as vehicles, uniforms, communications and travel.

Ensure overheads are appropriate to economic conditions

A key element of the overhead review process which was conducted in 2012, was to ensure that, whilst we needed the right resources and skills in the right places of the organisation, we were able to better manage our costs, particularly in markets which continue to face pricing and margin pressures.

➤ See page 26 for more detail on the overhead savings achieved during this process.

Deliver service excellence and operational best practice

In 2012, we invested around £10m in sales and marketing and establishing a series of service excellence centres (SECs), created to focus on service standards, operational best practice and the best use of technology to manage our business efficiently and effectively. This effort is focused on retaining customers through high quality service, but is also key to us improving our gross margins across the business. In recent years, during the economic downturn, gross margins have come under increasing pressure, primarily in the manned security businesses across Continental Europe.

Conduct effective business reviews and have in place strong financial controls

We have a standardised monthly trading review process across the whole group which goes down to branch level and we continually review the group finance manual to enhance the business monitoring processes and to ensure that financial controls are optimised.

Divestment strategy for non-core or non-value creating businesses

Whilst the group continues to acquire businesses which can add scale in key markets, drive outsourcing trends or add key sector or service capabilities, we also have an active policy of divesting businesses which do not meet key financial or strategic targets or if better value can be derived from an alternative parent. Since 2006, we have divested businesses in France, Germany and Poland and specific service lines such as cash solutions in Taiwan and Sweden, and a home alarms business in Norway. We also announced in March this year that we are divesting our US Government Solutions business as we felt an alternative parent would not face the same challenges as a non-US parent such as G4S.

Target increased growth in higher margin businesses

We focus on key geographies, sectors and services which have higher margin potential. For example, we are targeting an increase in our business in developing markets where margins are higher than more commoditised developed markets. We focus on key commercial sectors such as ports and oil and gas where security is a key requirement and where we can add value to our customers' business. We encourage outsourcing in areas such as cash management and facilities management where we can take greater responsibility for a broader range of services and increase the number of long-term customer partnerships where we are more able to control costs and drive continuous margin improvements. Targeting increased growth in specific higher margin businesses such as these, enables us to continue to improve group margins over the longer term.



Andreza
Menino Jesus Hospital,
São Paulo, Brazil

I provide specialist hospital cleaning services to protect 400 young patients from superbugs and infections – supporting their return to health.

Key business objectives

Optimise organisational development



Context

We see organisational development as key to achieving the strategy – both in terms of making sure we have the right skills, capabilities and experience and we are developing our talent in line with strategic objectives, and also ensuring that business units are structured appropriately and have the right resource to deliver for our customers.

Key objectives and progress

Ensure appropriate organisational design for strategy delivery

During 2012 we reviewed our organisation from top to bottom, trying to ensure we have the right level of overheads at each level within the group structure – this resulted in a reduction in group and regional overheads of approximately 1,500 positions, reflecting an annual cost saving of around £35m. As part of that process, we integrated the former cash solutions division into our regional structure to ensure a greater focus on customers at a local market level and to achieve certain back office synergies. We will keep overheads under constant review to ensure that we have the appropriate organisational design to deliver on the group's key business objectives.

Target optimum business unit design and overheads

We conducted an exercise during 2012 to compare similar businesses operating in markets with comparable characteristics. This enabled us to assess current operational and cost structures and recommend what the appropriate structures should be for these businesses. This enabled us to create a series of best practice operational models for businesses against which they can assess their structures and relative performance. In 2013, we will look to drive further operational standardisation and "right-sizing" through the next phase of this programme.

Embed the G4S Way across the country operating model

As our cash solutions and secure solutions businesses have different business models and market development phases (see pages 16 to 19), we report their financial performance separately. Our primary operational model is based on a country model, however there are a number of important group level standards and practices which we expect businesses to adopt everywhere.

The so-called "G4S Way" incorporates a number of key standards and practices which are shown below. Each element of the G4S Way is owned and championed by a member of the Group Executive team.

The six standards and practices of the G4S way:

- Service excellence – service standards and best operational systems
- Business review processes and financial controls
- Sales and business development processes
- Senior talent management and human resources processes
- Legal frameworks and approvals processes
- Ethical standards, reputation and crisis management

Constantly improve employee stability and satisfaction

Ensuring that our employees are fully engaged and involved in their work is key to delivering high levels of customer service and customer retention. Managing labour turnover is an important factor in ensuring a stable workforce. About 70% of our workforce has over one year of service with the group and we aim to keep employee stability at or above this level through a variety of engagement initiatives which include training, employee communications, appraisals, regular feedback from employees and various forms of interaction with employee representatives. We have well established HR standards that our businesses must meet in their management of employees. These help to drive a culture of respect and trust.

Focus on recruiting and retaining the best people

We take great care to ensure that we only employ the best people for our business through the use of rigorous recruitment, selection and screening techniques. We are always aiming to improve the efficiency and effectiveness of these processes and technology and social media is used increasingly to attract and engage with suitable candidates. We recruited over 260,000 employees in 2012.

➤ See page 51 of the 2012 CSR Report for more detail on Securing our People.

Transfer expertise from more developed markets into developing markets

We have an unrivalled geographic footprint which has been developed over many years and is unique amongst its peers. Our service standards and expertise are also usually superior to those of local competitors. This means we are a trusted partner for our customers, which are keen to secure their people and assets and comply with local standards and regulations. This has meant that the range of services supplied to customers has broadened to a multi-service offering, covering manned security, security systems, cash solutions, systems integration, monitoring and response and facilities services.

Ensure high standards of HR, succession planning and talent management

Attracting and developing the right talent is key to our success. We have co-ordinated processes for identifying high potential employees and plan suitable career paths for their development and movement into more senior positions. Our aim is to fill 70% of line management positions internally and in 2012 we filled a vacancy at Group Executive team level through an internal promotion from our talent pool.



Surender
Delhi, India

Every day I help more than half a million people to travel safely on the Delhi Metro.

Key business objectives

Build and protect reputation



Context

Our standards of ethics and integrity are core to the philosophy of the group and are a key differentiator, particularly in less developed markets. The business we are in means that we can be exposed to physical and financial risks and we work hard to make sure that we have in place actions to mitigate risks to the group's performance and reputation.

Key objectives

Ensure high standards of business ethics and group policy compliance

We play an important role in societies across the world and we believe it is important that the impact we have in those societies is a positive one. We have in place high ethical standards which we expect our managers and employees to achieve across the group. Those standards and policies are reinforced at every opportunity and we monitor compliance with those standards through rigorous business review, audit and whistle-blowing processes.

Have in place strong legal frameworks and approval processes

In order to ensure contractual compliance, risk mitigation and legal compliance, we have in place strong legal frameworks and approval processes across our businesses. The legal framework and approval processes are implemented by the regional legal teams applying group legal policies and guidelines which are monitored by regular reporting and review by group internal audit.

Focus on risk management and mitigation

As an international business sometimes operating in complex environments, risk management and mitigation is a key focus for the group. Risk committees exist at a country, regional and group level and at the heart of our risk management philosophy we have a risk assessment, control and self-evaluation process which enables managers to identify key risks and to ensure that processes are put in place to avoid unnecessary risks or to deal with risks should they occur. In 2013, we are further developing our approach to risk management through a new board level risk committee, which will become the responsibility of the newly-created COO role.

➤ See pages 46 and 47 for a more detailed discussion of our risk assessment and management process.

Ensure robust crisis response processes and procedures are in place

We have a comprehensive crisis response process in place which is adopted by all countries. This ensures that in the event of a crisis, be it physical or reputational, we are able to react promptly and appropriately to minimise any impact on the business or its reputation.

Engage with key stakeholder groups to build awareness of, and loyalty towards, the organisation

Engagement with key internal and external stakeholders helps us to improve our business, attract and retain more customers, keep and motivate our staff and ultimately be more successful. We engage with employees through local and global surveys as well as through day-to-day interaction with supervisors and managers. We have strong relationships with unions and other employee representative groups and work hard to ensure that we collectively raise standards in the industry. We focus on customers through strong account management and operational interfaces in addition to independent surveys. We participate in industry and business associations and trade bodies to improve markets and raise standards. We have regular dialogue with ethical and other investment groups to ensure that the business is clearly understood and that we can attract the right investment for the future growth of the business. We build partnerships with experts who can help us to develop our strategies and processes in key areas such as human rights and health and safety.

➤ See page 31 for a more detailed discussion on stakeholder relationships and engagement.

Resources and relationships

Organisational structure

G4S is managed through a regional structure, led by four regional CEOs and a Regional President. The regional CEOs are members of the Group Executive team.

At a strategic level, the CEO and CFO monitor the group's investments and performance across the two main service lines of secure solutions and cash solutions, which have different business models. At an operational level, our business is managed on a geographic basis.

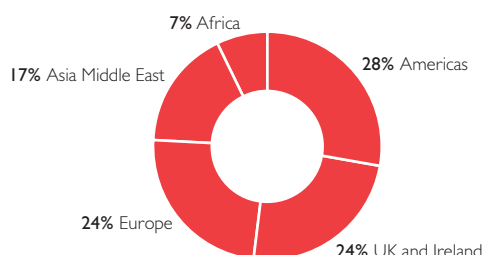
Regional performance is reviewed by the group CEO and CFO on a monthly basis and a business review process is implemented throughout each region to ensure good visibility of business performance and issues on an ongoing basis.

Our structure enables us to deliver our strategic objectives, maintain a strong governance framework, develop integrated solutions, target key regional markets and build long-term customer relationships.

➤ See pages 58 to 61 for Group Executive team biographies.

Revenue by region

%



Employees

G4S has more than 620,000 employees and operations in over 125 countries.

As at the end of December 2012, G4S employees were located as follows:

By geographical segment		2012
Europe	124,100	20%
North America	58,600	9%
Asia	207,800	34%
Middle East	44,500	7%
Africa	111,400	18%
Latin America and Caribbean	74,100	12%
Total average number of employees	620,500	100%

Of the total workforce, approximately 90% are employed in front-line positions delivering services to customers with the remainder working in management, supervisory and support roles.

G4S has set standards to ensure that all employees are treated with respect, dignity and fairness. These standards cover issues such as health and safety, diversity and inclusion, transparent and fair procedures for dealing with disciplinary matters, grievances and redundancies, reward and recognition, and labour relations and freedom of association. Local line and human resources managers are responsible for ensuring compliance with these standards.

➤ See pages 48 to 52 or the G4S 2012 CSR Report for more information on employee representation and engagement.

The G4S brand

The group was created in 2004 through the merger of the security business of Group 4 Falck and Securicor. Today, just nine years later, the G4S brand is widely recognised as a leader in security solutions.

This is particularly the case in our major developed markets and in some key developing markets where we are one of the few international security companies with a local presence.

Financial resources

The group continues to have strong cash flow generation, equivalent to 95% of PBITA in 2012, well above the target of 85%, and this is one of the key performance indicators for G4S management. In addition, the group's funding position is strong, with sufficient headroom and available committed facilities to finance current investment plans.

➤ See the Financial review on pages 42 and 45.



Grahame Gibson
Regional CEO
Americas



Dan Ryan
Regional CEO
Asia Middle East



Willem van de Ven
Regional CEO
Europe



Richard Morris
Regional CEO
UK and Ireland

Our role in society

G4S plays an important role in society. We make a difference by helping people to operate in safe and secure environments where they can thrive and prosper and we believe this role can only grow in importance.

Furthermore, managing our relationships with customers, employees and communities, and mitigating our impact on the environment is fundamental to our strategy because it reinforces employee loyalty and helps us attract new employees. It helps us secure new customers and retain existing ones. Investors expect high standards of ethics and responsible business practices.

Our values

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

Expertise

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

Performance

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

Best people

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

Integrity

We can always be trusted to do the right thing

Teamwork and collaboration

We collaborate for the benefit of G4S as a whole

Stakeholder relationships

G4S engages with multiple stakeholders on a variety of issues.

Customers

The very nature of G4S's business requires its management and employees to understand its customers' business issues and risks and provide appropriate solutions. Customer engagement also helps to improve customer service and to develop new services to help customers achieve their own goals.

Employees and their representatives

As a service business, G4S is judged on its service delivery and the difference it can make for customers – it is essential that employees understand their role in service delivery, are trained well, rewarded appropriately, have the right tools for the job and are motivated to deliver a quality service. A third of the group's employees are represented by a union or collective bargaining method. G4S works with unions, union federations and other employee representatives to improve standards for employees and to make sure any issues are dealt with appropriately and consistently.

➤ See the 2012 CSR report for more detail.

Investors

Attracting appropriate investment in the group enables G4S to develop its business and to continue to invest in its growth strategies. Ensuring that its strategies and practices are aligned to investor needs and principles is a core element of developing investor confidence and ensuring that the group continues to attract the investment it requires.

➤ See page 68 for more detail.

Industry bodies

As an international leader in its sector G4S willingly takes on responsibility for establishing strong benchmarks wherever it operates, and plays a pivotal role in raising standards in the wider industry and society as a whole. Many G4S managers and employees play an active role in industry bodies and associations across the world.

Governments and legislators

In addition to creating and implementing legislation, governments are also some of the group's largest customers and are therefore an important stakeholder for the group. G4S supports regulation which is designed to improve standards and proactively encourages it where possible. It is important to ensure that legislative developments do not create unfair competitive environments or unnecessary burdens on business activities.

Experts

Experts on specific topics help the group to ensure that its policies and practices are aligned with best practice in many areas such as its environmental impact, health and safety and human rights.

Operational review

Secure solutions

The secure solutions businesses provide a broad range of solutions to both commercial and government customers. They use their risk management, security and sector expertise to encourage greater outsourcing of the security needs of commercial and government facilities in markets such as ports, airports, retail, financial institutions and the oil and gas sector, and for government departments such as justice, police, health, foreign affairs and border control. Secure solutions accounted for 82% of group revenue and 76% of PBITA for the year ended 31 December 2012.

Services

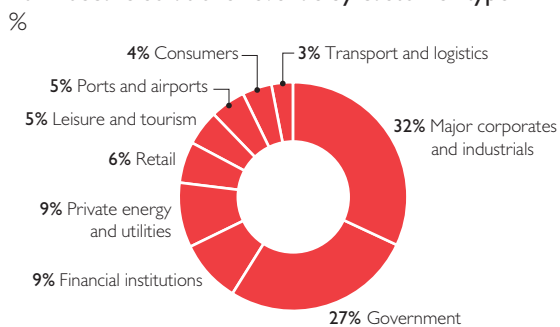
The secure solutions segment covers a wide range of security services, including:

Manned security services	Trained and screened security officers
Security systems	Access control, CCTV, intruder alarms, fire detection, video analytics and security and building systems integration technology
Monitoring and response services	Key holding, mobile security patrol and response services and alarm receiving and monitoring facilities
Secure facilities services	Integrated facilities services for entire sites or estates for commercial customers and governments
Risk management and consultancy services	Risk management consultancy services including mine detection and clearance services
Electronic monitoring of offenders	Electronic tagging and monitoring of offenders at home or in the community
Police services	Back office support functions for police forces, support for front line policing including the provision of custody suite services and forensic medical services
Management of juvenile and adult custody centres	Management of all aspects of a facility and those held within the facility – similar centres are also used for the detention of asylum applicants
Prisoner escorting	Transportation of prisoners and asylum applicants between courts, police stations and custody centres

Contracts and relationships

G4S has a very diverse contract portfolio which is not dependent on any particular customer or sector. The duration of contracts varies from high profile annual sporting events such as the tennis championships at Wimbledon and the Ryder Cup, to 25-year private prison contracts. However, even when the contract terms are short, in practice many relationships become long term and result in contracts being renewed year after year. This is demonstrated in our customer retention rates which average above 90% across most regions.

2012 Secure solutions revenue by customer type



Strategy

We aim to:

- Use our expertise and geographic presence to differentiate our business
- Drive outsourcing and minimise commoditisation of traditional security services
- Offer an integrated security solution to customers

Key operational highlights

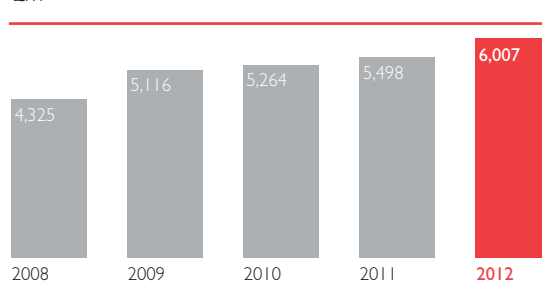
- Continued strong growth in developing markets
- Excellent organic growth in North America commercial and UK Government sectors

Risks and mitigation

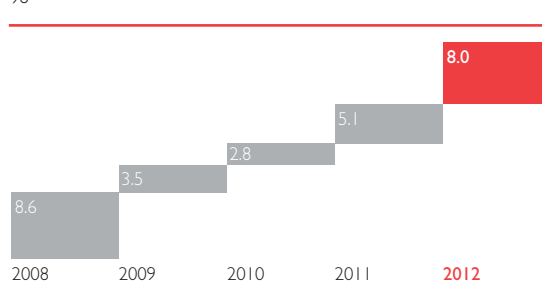
A full summary of key risks and mitigations can be found in the risk assessment and management section on pages 46 and 47.

Key Performance Indicators

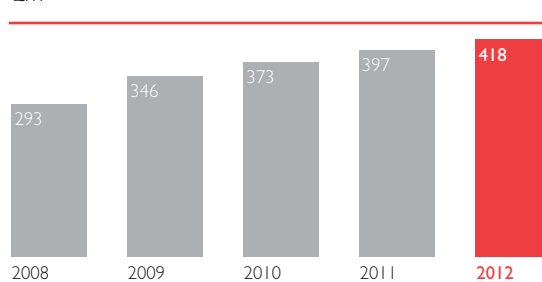
Turnover* – secure solutions



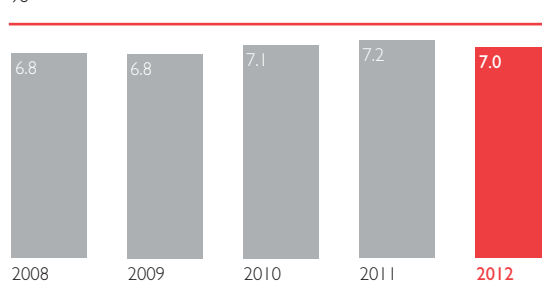
Organic growth* – secure solutions



PBITA* – secure solutions



PBITA margin – secure solutions



*2011 and 2012 at constant (2012) exchange rates excluding the Olympic Games contract and adjusted for divestments and discontinued businesses. 2008–2010 as reported adjusted for divestment of US Government Solutions.

Performance

Operational review

Secure solutions continued

2012 performance

The secure solutions business performed well with excellent organic growth of 8%, assisted by strong UK government, US commercial and developing markets growth. Margins were down slightly at 7.0% due to the effect of UK Government contract phasing.

UK and Ireland

There was excellent organic growth of 8% in the **UK and Ireland** with the main growth drivers being the integrated services business, which provides facilities services to UK Government and a growing number of commercial organisations, and the utilities services business which is consolidating its position as a leading meter reading and smart meter installation business.

Organic growth in the UK Government sector was 13% and included major contract wins and extensions such as:

- Total facilities management for the Ministry of Justice at more than 340 court buildings across the Midlands, Wales and the North of England which was mobilised in February 2012
- The provision of transport and accommodation for asylum applicants for the UK Border Agency for two regions – the Midlands and the East of England and the North East, Yorkshire and Humberside which completed the transition from previous suppliers in December. This is a significant achievement as it was a complex mobilisation involving multiple stakeholders
- Outsourcing services for Lincolnshire Police – the first contract of its kind to be awarded by a British Police Authority. This contract mobilised in April 2012 and the transition has gone extremely smoothly with excellent service delivery and will result in savings of £28m over ten years as well as enabling investment in new technologies. The Lincolnshire contract includes a framework agreement for ten other police forces and G4S is continuing to have discussions with a number of police forces regarding similar outsourcing propositions
- The opening and ongoing management of the newest and one of the largest prisons in the UK, HMP Oakwood which opened in April 2012 and which now holds over 1,200 prisoners

G4S has been selected by the Department of Work & Pensions to join only a handful of companies eligible to compete to deliver contact centre services across the UK. In addition, a five-year contract to provide electronic monitoring in Scotland starts in April this year and

G4S was recently granted a two-year extension on the Medway Youth Training Centre contract until March 2015. G4S Integrated Services has been awarded its largest FM contract in the healthcare sector for the Pennine Acute Hospitals NHS Trust in Greater Manchester and the Care & Justice Services business was awarded a contract to supply electronic monitoring equipment to the Ministry of Justice in France. The pipeline of UK Government outsourcing opportunities remains strong, particularly in areas such as rehabilitation, facilities management, police and health sectors.

The UK commercial business won extensions to contracts with major corporates such as British Airways and Shell, the latter of which has awarded G4S security contracts at 50 additional sites and seven new countries in 2012. G4S Utility Services also won a number of significant smart meter installation and data management contracts for British Gas and other major utility providers. The pipeline of new major commercial contracts remains strong in the UK, particularly within the media and financial sectors.

Trading conditions in Ireland remained challenging in 2012 but the bidding pipeline, especially in the area of security systems, looks encouraging for the remainder of the year.

Continental Europe

The Continental Europe region performed reasonably against an uncertain economic backdrop. Overall organic growth was 2%. The European parliament contract in **Belgium** ended in May 2012 but G4S **Luxembourg** was successful in winning the security contract for the European parliament in Luxembourg in April 2012. Margins were down slightly due to challenging economic conditions throughout the region. To counteract this, a number of efficiency initiatives were implemented which reduced direct and overhead employee headcount numbers by around 250, alongside a number of location closures throughout Europe. This will help support margins in Europe over the next 18 months.

Revenues for the security systems business, which accounts for around 20% of Continental European secure solutions revenues, were similar to the prior year. There were some notable strong performances in the region – in **Sweden**, G4S won a secure solutions contract with AB Volvo from April 2012 for three years and the security systems business grew strongly. In addition there were contract wins in **Belgium, Norway, Finland, Austria** and **Denmark** for customers in the government, retail, transportation and telecoms sectors. The business in **Greece** has performed well despite the challenges of the economic crisis and several new contracts have started recently with organisations such as the US Embassy and Hellenic Petroleum.

Organic growth in most Eastern European markets has now stabilised to the low single-digit level overall, but there have been declines in **Hungary** and the **Czech Republic** offset by excellent growth in **Ukraine** and **Uzbekistan**. A significant contract has been won with a major steel manufacturer in Ukraine and contracts have also been won recently in **Slovakia** for companies in sectors such as manufacturing, electronics and retail. The group divested its businesses in **Poland** in July.

North America

Organic growth in North America was strong at 11%, assisted by a strong performance in the **US** commercial business and the start-up of the CATSA aviation contract in **Canada**. Margins were lower compared to the prior year due to a decline in major infrastructure system projects. The US security systems business worked on a number of systems integration projects for Tampa Airport, Iberdrola, and the Port of Tacoma and has a record order book representing more than 12 months' work in hand.

In the **United States** the commercial sector had its strongest year on record with a continuing positive outlook and a strong visible sales pipeline. Recent contract awards have been in the technology, healthcare, distribution, chemical, manufacturing and retail sectors. G4S commenced the provision of security solutions for a major automotive company from January 2012 valued at \$70m per annum for three years. The group's largest commercial contract with Bank of America was extended until 2014 and G4S North America has been awarded a secure solutions contract with Google for some of its locations in the United States and data centres in Belgium and Finland.

Additional examples of major contract awards include: worldwide security services for GE – building on a long-standing service relationship – and compliance and investigations services for Gallagher Bassett, where G4S will staff and manage the Special Investigations Unit responsible for investigating fraudulent workers' compensation claims.

The group has already taken steps to mitigate the cost impact of the Patient Protection and Affordable Care Act (PPACA) during 2013 and is evaluating the most effective way to mitigate the increase to our cost base thereafter. Most of the health plans currently provided to G4S employees already meet the current requirements of the PPACA and so it is not expected to have a significant impact on US margins.

2012 was a challenging year for the group's US Government Solutions business as a result of a significant reduction in US federal government spending in both the US domestic government sector and in contracts for

overseas landmine clearance. The group has announced it has decided to divest the business to a parent able to add or create more value than G4S is able to, being a foreign parent with limited control over the operations of the business and restricted access to the data required to run the business successfully.

In **Canada**, the organic growth rate was more than 30% driven mainly by the CATSA aviation security contract which started on 1 November 2011. The contract is for security at 21 airports in the Pacific region of Canada and has expected revenue of more than CAD\$ 400m over the initial five-year term.

Developing markets

In Developing markets, revenue growth was 15% and organic growth was excellent at 10%, with margins maintained overall.

Organic growth in **Asia** was 9% and margins were up from 5.5% to 5.8% due to improved business performance in a number of countries. There was strong organic revenue growth in **Thailand**, **Philippines**, **China** and **Indonesia**. The business in **India**, the largest market in the region for the group, has refocused its activity on high growth, higher margin contracts and achieved a good performance with double-digit revenue growth and strongly improved margins. In **China**, a new joint venture has been awarded the group's first manned security licence in the province of Zhejiang following a change in the law to allow foreign ownership of manned security companies. The group plans to offer a premium security service to serve its broad multinational customer base located in the province and penetrate the substantial local Chinese business opportunities. The group exited **Pakistan** during October 2012.

A manned security contract with the United Nations in **Papua New Guinea** started in August. There was modest revenue growth in **Australia** with recent wins including DP World and Bechtel and a new immigration contract offsetting the loss of the Western Australia prisoner transportation contract and there is positive growth momentum in Australia going into 2013. The offender monitoring contract in **New Zealand** was extended to the end of 2013.

In the **Middle East**, organic growth was 5% helped by double-digit growth rates in **Lebanon** and **Egypt** but this was offset by weakness in some systems businesses in the region. Margins improved compared to the prior year due to one-off government legislated payments made in **Saudi Arabia** in H1 2011. Recent contract wins include an electronic monitoring contract in **Saudi Arabia** and in **UAE** for the Abu Dhabi Educational Council and Dubai Airport.

Performance

Operational review

Secure solutions continued

The group exited the US Embassy contract in Kabul, **Afghanistan** in July.

Africa performed strongly with organic growth of 9% particularly in **Kenya**, **Morocco** and **DRC**. Margins were lower at 8.1%, due to contract losses in **Nigeria** however the business appears to have stabilised there. New contracts won or renewed are mainly in key strategic sectors such as automotive, aviation, mining, oil and gas and foreign embassies, including the US embassy in the **Ivory Coast**. The current bidding pipeline in Africa is very strong – particularly in financial services, mining and embassies, with increasing numbers of both multi-country, pan-African and larger scale bids.

The **Latin America** and **Caribbean** region has performed well with organic growth of 14% and improved margins as a result of strong performances across most countries.

There have also been a number of strategic contract wins, for example in the financial services, government, mining and oil and gas sectors. In September, the group announced the extension of its presence in **Brazil** with the acquisition of Vanguarda, a leading security solutions provider which provides G4S with a manned security licence in Brazil. The group was also successful in bidding for security systems contracts in Brazil, winning a significant contract with Telebras and a contract for the Manaus football stadium.

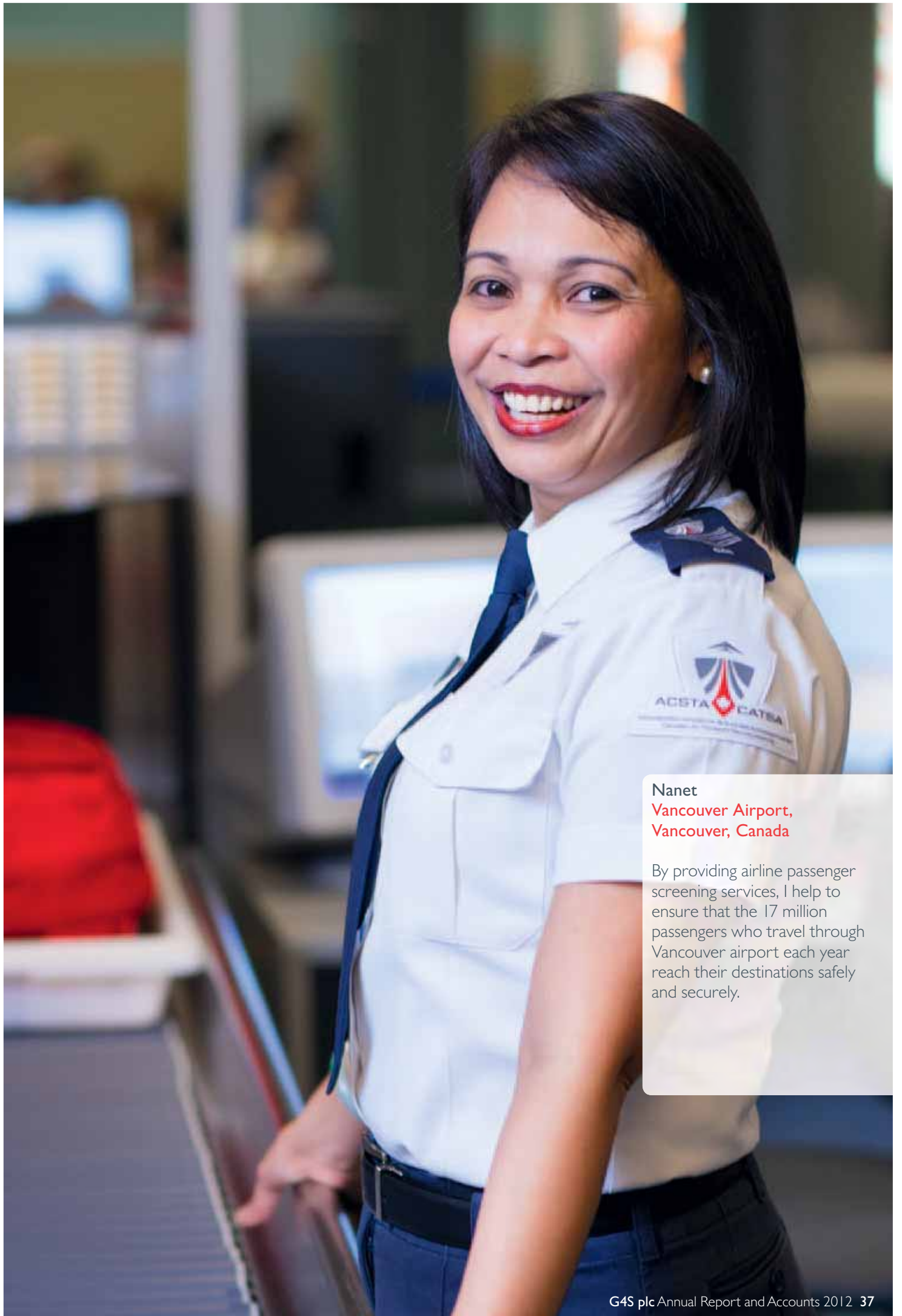
Total	Turnover £m		PBITA £m		Margins %		Organic growth
	2012	2011*	2012	2011*	2012	2011*	2012
Europe*	2,705	2,583	190	192	7.0%	7.4%	5%
North America*	1,311	1,182	76	73	5.8%	6.2%	11%
Developing markets*	1,991	1,733	152	132	7.6%	7.6%	10%
Total secure solutions*	6,007	5,498	418	397	7.0%	7.2%	8%
Exchange differences	–	127	–	8			
At actual exchange rates	6,007	5,625	418	405			

Europe	Turnover £m		PBITA £m		Margins %		Organic growth
	2012	2011*	2012	2011*	2012	2011*	2012
UK and Ireland*	1,312	1,200	115	116	8.8%	9.7%	8%
Continental Europe*	1,393	1,383	75	76	5.4%	5.5%	2%
Total Europe*	2,705	2,583	190	192	7.0%	7.4%	5%

North America	Turnover £m		PBITA £m		Margins %		Organic growth
	2012	2011*	2012	2011*	2012	2011*	2012
North America*	1,311	1,182	76	73	5.8%	6.2%	11%

Developing markets	Turnover £m		PBITA £m		Margins %		Organic growth
	2012	2011*	2012	2011*	2012	2011*	2012
Asia*	671	615	39	34	5.8%	5.5%	9%
Middle East*	381	371	33	31	8.7%	8.4%	5%
Africa*	357	326	29	31	8.1%	9.5%	9%
Latin America and Caribbean*	582	421	51	36	8.8%	8.6%	14%
Total developing markets*	1,991	1,733	152	132	7.6%	7.6%	10%

*At constant exchange rates.



Nanet
**Vancouver Airport,
Vancouver, Canada**

By providing airline passenger screening services, I help to ensure that the 17 million passengers who travel through Vancouver airport each year reach their destinations safely and securely.

Operational review

Cash solutions

The cash solutions businesses manage cash primarily for financial institutions and retailers. G4S's detailed understanding of the cash cycle ensures that cash is managed efficiently in an economy, allowing G4S's customers to focus on their core businesses. Cash solutions accounted for 18% of group revenues and 24% of group PBITA for the year ended 31 December 2012.

Services

Cash solutions covers a wide range of services including:

Cash transportation	Secure transportation of cash using high security vehicles, fully screened and trained personnel and purpose-built technology to transport, protect, count and reconcile the cash to customer records
Cash management	Management of cash on behalf of financial institutions which includes cash transportation, the design, build and management of purpose-built high security cash centres, counting and reconciling cash, fitness sorting of notes for use in ATM machines, counterfeit detection and removal and redistribution of cash to bank branches, ATMs and retail customers – all managed within strict security guidelines and timescales in order to maximise the efficiency of the cash cycle. Cash management is also used for counting and reconciling cash from non-financial institution customers
Cash consulting	Provision of consultancy services to central banks and commercial banks on overall cash management strategy, bank note production and security and all aspects of cash cycle efficiency
ATM management	Managing ATMs on behalf of banks, retailers and independent ATM providers – including cash forecasting, cash transportation and reconciliation services, first-line maintenance and ATM engineering services
Retail cash management	Provision of systems and hardware, such as CASH360, which provide an automated cash office for retail sites to improve security of cash, electronic audit trails of takings and a real time view of retail cash balances
Secure international transportation of cash and valuables	Bespoke international transportation and insurance of currency, gems, precious metals and other valuables

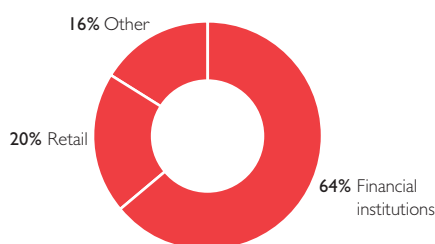
Contracts and relationships

The duration of contracts in the cash solutions service line vary, with most being on an annual basis and those contracts requiring a higher capital intensity, such as cash processing, being usually five years' duration.

However, even when contract terms are short, in practice many relationships become long term, rolling over from one year to the next. This is demonstrated in our annual customer retention rates which average above 90% across most regions.

Key sectors

2012 Cash solutions revenue by customer type %



Strategy

We aim to:

- Play a key role in the management of the cash cycle on behalf of central banks, commercial banks and retailers, allowing them to focus on their core business
- Use our developed market cash cycle expertise and track record to encourage central bank and financial institution outsourcing in developing markets
- Continue to implement innovative technology such as CASH360

Key operational highlights

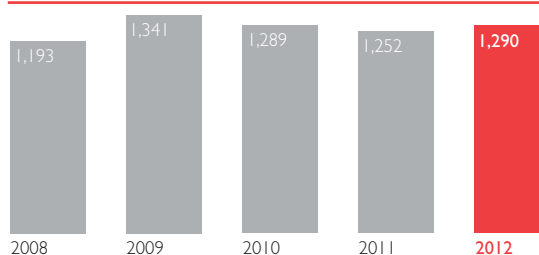
- Continued strong performance in developing markets
- Continued difficult economic environment of low interest rates in developed markets
- Improved margins in North America

Risks and mitigation

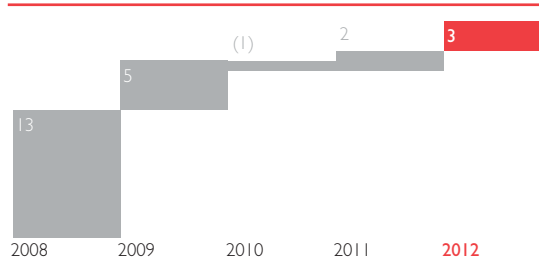
A full summary of the key risks and mitigations can be found in the risk assessment and management section on pages 46 and 47.

Key performance indicators

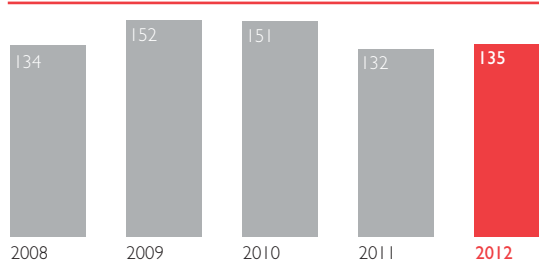
Turnover* – cash solutions £m



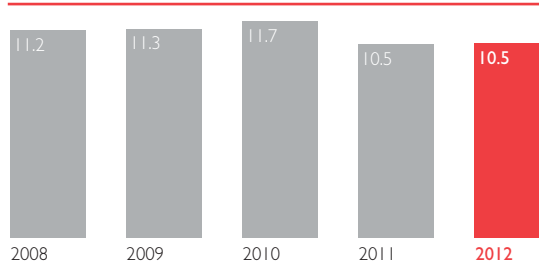
Organic growth* – cash solutions %



PBITA* – cash solutions £m



PBITA margin – cash solutions %



*2011 and 2012 at constant (2012) exchange rates, excluding the Olympic Games contract and adjusted for divestments and discontinued businesses. 2008–2010 as reported.

Performance

Operational review

Cash solutions continued

2012 performance

The cash solutions business delivered a solid performance overall with organic revenue growth of 3% despite the continuation of low interest rates having a negative impact on developed markets growth opportunities. Overall margins were maintained at 10.5%, with improvements in North America and Developing markets margins offset by the impact of contract phasing in the UK.

Europe

Organic growth in Europe declined by 1%. In the UK and Ireland, revenues declined by 1% as a result of the loss of two ATM contracts in the middle of 2011 which also impacted margins. Performance began to improve towards the end of the year as three major new contracts commenced and as a result of a cost reduction programme in Ireland. The new contracts are for financial institutions providing outsourcing of cash processing and cash machine replenishment and engineering at bank branches and remote sites. The engineering is provided on a full 24/7 basis – an industry first. The outlook for 2013 is also positive with a solid pipeline of outsourcing contracts.

Outside the UK, margins improved through strong underlying business performance and cost cutting measures. In Sweden, the cash solutions business was sold in February 2012. Elsewhere in Continental Europe, organic growth was positive, helped by product development in the Netherlands, strong performances across all services in Belgium, and productivity improvements in Finland. Serbia achieved double-digit growth.

North America

In North America, the performance of the cash solutions business in Canada was improved through stronger alignment in key sectors with the Canadian secure solutions business in the first half of 2012. This has resulted in contract awards and extensions with key customers in the retail and financial services sectors.

Developing markets

Organic growth in Developing markets was good at 10% and margins improved slightly overall due mainly to an improved performance in the Middle East cash solutions businesses. In particular the businesses in Saudi Arabia and UAE achieved an improved performance and excellent growth. Strong margins were achieved in Hong Kong, aided by successfully negotiating price increases with a number of key customers. In Ecuador, three leading financial institutions – Banco Bolivariano, Banco Internacional and Produbanco – have selected G4S to provide cash-in-transit services to more than 250 bank branches around the country. With services set to begin in May 2013, the seven-year contract has an overall value of £26m. In South Africa, in January 2013, G4S acquired Deposita, the South African market leader in cash devices and related cash-in-transit, cash processing and insurance services for the retail sector. The Deposita technology will broaden the G4S Cash360 technology offering especially in other Developing markets.

Total	Turnover £m		PBITA £m		Margins %		Organic growth
	2012	2011*	2012	2011*	2012	2011*	2012
Europe*	780	785	78	83	10.0%	10.6%	-1%
North America*	114	106	5	2	4.4%	1.9%	8%
Developing markets*	396	361	52	47	13.1%	13.0%	10%
Total cash solutions*	1,290	1,252	135	132	10.5%	10.5%	3%
Exchange differences	–	42	–	5			
At actual exchange rates	1,290	1,294	135	137			

*At constant exchange rates.



Overview

Strategic review

Performance

Governance

Financial statements

Shareholder information

Bart-Jan Nieuwegein, near Utrecht, Netherlands

Each week I service more than 250 ATM machines across central Holland to make sure the one million people using them have round-the-clock access to their cash.

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 89 to 94 and those that are most critical and/or require the greatest level of judgement are discussed in note 4 on page 95.

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 32 to 40. Profit from operations before amortisation and impairment of acquisition-related intangible assets and exceptional items (PBITA) amounted to £516m, an increase of 2.8% on the £502m in 2011 and an increase of 5.3% at constant exchange rates.

Acquisitions and acquisition-related intangible assets

Investment in acquisitions in the year amounted to £93m, all paid in cash during the year. This investment generated goodwill of £76m and other acquisition-related intangible assets of £31m. In addition, the group incurred acquisition costs of £7m which have been expensed.

The group undertook several acquisitions in the current year, the most significant of which was the purchase of the entire share capital of Vanguarda, a security personnel, security systems and monitoring services provider in Brazil.

The group undertook several acquisitions in the prior year, the most significant of which were the purchase of the entire share capital of Interativa, a facilities management business in Brazil, Munt Centrale B.V., a coin management service company based in the Netherlands, and The Cotswold Group Limited, the UK's market leader in surveillance, fraud, analytics, intelligence and investigations services.

In 2011 the group also acquired the offender monitoring technology operations of Guidance Limited and certain contracts from Chubb, both in the UK, and the group purchased the remaining non-controlling interest in its security business in Turkey.

The contribution made by acquisitions to the results of the group during the year is shown in note 17 on pages 105 and 106.

During the prior year the group incurred £55m of aborted acquisition and legal costs. The aborted acquisition costs related to the proposed acquisition of ISS A/S which was terminated on 1 November 2011 and included debt underwriting fees, financing and hedging costs.

The charge for the year for the amortisation of acquisition-related intangible assets other than goodwill amounted to £86m. Goodwill is not amortised. Acquisition-related intangible assets included in the balance sheet at 31 December 2012 amounted to £2,123m goodwill and £204m other.

Financing items

Finance income was £94m and finance costs £209m, giving a net finance cost of £115m. Net interest payable on net debt was £101m. This is an increase of 2% over the 2011 cost of £99m due principally to the increase in the group's average gross debt. The group's average cost of gross borrowings in 2012 was 4.3% compared to 4.9% in 2011. The cost based on prevailing interest rates at 31 December 2012 was 3.9% compared to 3.8% at 31 December 2011.

Also included within financing are other net interest costs of £6m (2011: net income £4m), and a net cost of £8m (2011: net income of £3m) in respect of movements in the group's net retirement benefit obligations.

Restructuring costs

During 2012 the group undertook a detailed review of the overhead structure across all reporting levels and geographies in order to maximise efficiency and eliminate duplication. Restructuring generated a headcount reduction of over 1,500 positions. This resulted in an exceptional cost of £45m in the year as follows:

	Headcount reduction	People costs £m	Other costs £m	Total costs £m
UK	58	3	–	3
Continental Europe	257	12	8	20
North America	132	4	–	4
Developing markets	1,019	10	3	13
Head Office	48	2	3	5
Total	1,514	31	14	45

This restructuring will result in annualised cost savings of around £35m, whilst an additional £10m has been invested in the Service Excellence Centres. The group plans to achieve further cost savings in the medium term through procurement efficiencies and business process redesign.

Taxation

The taxation charge of £90m provided upon profit from operations before amortisation of acquisition-related intangible assets, acquisition-related expenses and exceptional items, represents an effective tax rate of 22%, consistent with 2011. The cash tax rate is 22.9% compared to 18.5% in 2011.

The group's target is to maintain the effective tax rate in the short term. 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 £25m.

Disposals and discontinued operations

The group disposed of its cash solutions business in Sweden in February 2012, its businesses in Poland in September 2012, its electronic monitoring businesses in North America in April 2012 and its security solutions business in Pakistan in October 2012.

During the prior year the group disposed of its business-to-consumer alarms business in Norway in December 2011, and of its interest in an SPV in the UK in December 2011.

Businesses classified as held for sale at 31 December 2012 related mainly to the US government solutions business which the group expects to sell during 2013. The assets of this business have been written down to their recoverable value by way of a £35m impairment charge to goodwill.

Businesses classified as held for sale at 31 December 2011 included the secure solutions and cash solutions businesses in Poland and the cash solutions business in Sweden. The Afghanistan-based business of UK Risk Assessment Services was classified as a discontinued business in the 2011 accounts. However, following the retention of the UK Kabul embassy contract in 2012 the business has been classified as continuing as at 31 December 2012.

The total consideration from business disposals received in 2012 was £19m.

The loss from discontinued operations of £63m (2011: £6m) relates to the post-tax trading of discontinued businesses and losses and associated costs relating to business disposals completed during the years as well as the write down of the US government solutions business's assets.

The contribution to the turnover and operating profit of the group from discontinued operations is shown in note 6 on pages 96 to 99 and their contribution to net profit and cash flows is detailed in note 7 on page 99.

Profit for the year

Profit for the year was £70m, compared to £198m in 2011, due primarily to the following movements in the year:

	2012	2011	Movement
PBITA	516	502	14
Amortisation and impairment	(86)	(96)	10
Acquisition-related expenses	(7)	(2)	(5)
Total loss on Olympics	(88)	–	(88)
Restructuring costs	(45)	–	(45)
Aborted acquisition costs	–	(55)	55
Net finance costs	(115)	(92)	(23)
Total tax charge	(42)	(53)	11
Loss from discontinued operations	(63)	(6)	(57)
Profit for the year	70	198	(128)

The total loss on the Olympics contract of £88m consists of an overall loss on the contract of £70m, additional costs relating mainly to charitable donations and external fees of £11m, and further sponsorship and marketing costs of £7m, all of which were taken as an exceptional charge in 2012.

Non-controlling interests

Profit attributable to non-controlling interests was £22m in 2012, an increase on £17m for 2011, as non-controlling partner shares in the group's organic and acquisitive growth increased during the year.

Earnings per share

Basic and diluted earnings per share from continuing and discontinued operations were 3.4p compared to 12.9p for 2011.

Adjusted earnings, as analysed in note 16 on page 104, excludes the result from discontinued operations, amortisation of acquisition-related intangible assets, acquisition-related costs, exceptional items and retirement benefit obligations financing items, all net of tax, and better allows the assessment of operational performance, the analysis of trends over time, the comparison of different businesses and the projection of future performance. Adjusted earnings per share was 21.2p, compared to 21.3p for 2011 or 20.5p at constant exchange rates.

Performance

Financial review continued

Dividends

The directors recommend a final dividend of 5.54p (DKK 0.4730) per share. This represents an increase of 8% upon the final dividend for the year to 31 December 2011 of 5.11p (DKK 0.4544) per share. The interim dividend was 3.42p (DKK 0.3220) per share and the total dividend, if approved, will be 8.96p (DKK 0.7950) per share, representing an increase of 5% over the 8.53p (DKK 0.5624) per share total dividend for 2011.

The proposed dividend cover is 2.4 times (2011: 2.7 times) on adjusted earnings. The group's intention is that dividends will continue to increase broadly in line with normalised adjusted earnings.

Cash flow

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

	2012 £m	2011 £m
PBITA	516	502
Depreciation and amortisation of intangible assets other than acquisition-related	140	126
Movement in working capital and provisions	(27)	(73)
Net cash flow from capital expenditure	(137)	(134)
Operating cash flow	492	421
Operating cash flow as a percentage of group PBITA	95%	84%

Overall operating cash generation for the year was excellent, 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:

	2012 £m	2011 £m
Cash flow from operating activities (IAS7 definition)	287	372
Net cash flow from capital expenditure	(137)	(134)
Discontinued operations and exceptional items	220	66
Add-back additional retirement benefit contributions	37	40
Add-back tax paid	85	77
Operating cash flow (G4S definition)	492	421

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

	2012 £m	2011 £m
Operating cash flow	492	421
Net interest paid	(111)	(102)
Tax paid	(85)	(77)
New finance leases	(21)	(11)
Free cash flow	275	231

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

	2012 £m	2011 £m
Free cash flow	275	231
Discontinued operations and exceptional items	(220)	(42)
Additional retirement benefit contributions	(37)	(40)
Net cash outflow on acquisitions	(86)	(159)
Net cash inflow from disposals	16	–
Net cash flow from associates	3	4
Dividends paid to non-controlling interests	(19)	(10)
Transactions with non-controlling interests	6	(18)
Share issues less share purchases	(6)	(13)
Dividends paid to equity holders of the parent	(120)	(114)
Other	2	–
Movement in net debt in the year	(186)	(161)
Foreign exchange translation adjustments to net debt	–	(29)
Net debt at 1 January	(1,616)	(1,426)
Net debt at 31 December	(1,802)	(1,616)

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 128.

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 116 to 119.

The group's funding position is strong, with sufficient headroom against available committed facilities with no significant debt maturing before 2016.

The group's primary sources of bank finance are a £1.1bn multicurrency revolving credit facility provided by a consortium of lending banks at a margin of 0.95% over LIBOR and maturing 10 March 2016.

On 1 March 2007 the group completed a \$550m private placement of unsecured senior loan notes, maturing at various dates between 2014 and 2022 and bearing interest at rates between 5.77% and 6.06%. The fixed interest rates payable have been swapped into floating rates for the term of the notes, at an average margin of 0.60% over LIBOR.

On 15 July 2008, the group completed a further \$514m and £69m private placement of unsecured senior loan notes, maturing at various dates between 2013 and 2020 and bearing interest at rates between 6.09% and 7.56%. The proceeds of the issue were used to reduce drawings against the revolving credit facility. \$265m of the US dollar receipts have been swapped into £134m fixed rate sterling for the term of the notes.

On 13 May 2009 the group issued a £350m note bearing an interest rate of 7.75% and maturing in 2019.

On 2 May 2012 the group issued a euro 600m note bearing an interest rate of 2.875% and maturing in 2017. Euro 325m was swapped into £266m fixed rate sterling and the interest rate on euro 90m was swapped to a floating rate linked to 6 month EURIBOR.

On 6 December 2012 the group issued a euro 500m note bearing an interest rate of 2.625% and maturing in 2018. Euro 350m was swapped into £284m fixed rate sterling and the interest rate on euro 120m was swapped to a floating rate linked to 6 month EURIBOR.

The group's net debt at 31 December 2012 was £1,802m. The group headroom at 31 December 2012 was £856m. The group has sufficient capacity to finance current investment plans.

Credit rating

On 9 March 2009, the group obtained a BBB Stable credit rating from Standard & Poor's. This credit rating supported the group's access to funding from the public bond, the private placement and the bank markets.

Following the G4S board Olympics contract review, Standard & Poor's, on 5th November 2012, downgraded the credit rating of G4S plc to BBB- with a Stable outlook. The board intends that the group should continue as an investment grade entity and will keep the rating under review.

Interest rates

The group's investments and borrowings at 31 December 2012 were at a mix of fixed rates of interest and floating rates of interest linked to LIBOR and EURIBOR. The private placement notes in March 2007 and July 2008 and the public notes in May 2009, May 2012 and December 2012 were all issued at fixed rates, whilst its investments and bank borrowings were all at variable rates of interest linked to LIBOR and EURIBOR. The group's interest risk policy requires treasury to fix a proportion of its interest exposure on a sliding scale in US dollars, sterling and euro, using the natural mix of fixed and floating interest rates emanating from the bond and bank markets and by utilising interest rate and cross currency swaps. The proceeds of the private placement notes issued in March 2007 and part of the public notes issued in May 2012 and December 2012 were swapped to floating interest rates and accounted for as fair value hedges, with a net gain at 31 December 2012 of £73m. The market value of the pay-fixed receive-variable swaps and the pay-fixed receive-fixed cross-currency swaps outstanding at 31 December 2012, accounted for as cash flow hedges, was a net gain of £21m.

Foreign currency

The group has many overseas subsidiaries and associates denominated in various different currencies. Treasury policy is to manage significant translation risks in respect of net operating assets using foreign currency denominated loans, where possible. The group no longer uses foreign exchange contracts to hedge the residual portion of net assets not hedged by way of loans. The group believes cash flow should not be put at risk by these instruments in order to preserve the carrying value of net assets, given the changed liquidity environment following the global credit crisis. At 31 December 2012, the group's US dollar and euro net assets were approximately 85% and 60% respectively hedged by foreign currency loans.

Exchange differences on the translation of foreign operations included in the consolidated statement of comprehensive income amount to a loss of £95m (2011: £65m).

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 2012, more than 140 group companies participated in the pool. Debit and credit balances of £360m were held within the cash pool and were offset for reporting purposes.

Retirement benefit obligations

The group's primary defined benefit retirement benefit scheme operates in the UK, but it also operates such schemes in a number of countries, particularly in Europe and North America. The latest completed full actuarial assessment of the three sections of the UK scheme was carried out as at 5 April 2009. The full actuarial assessment as at 5 April 2012 is in progress. The three sections of the UK scheme are the Group 4 scheme (approximately 8,000 members), the Securicor scheme (approximately 20,000 members) and the GSL scheme (approximately 2,000 members) acquired in 2008. This assessment and those of the group's other schemes have been updated to 31 December 2012. The group's funding shortfall on the valuation basis specified in IAS19 Employee Benefits was £436m before tax or £335m after tax (2011: £295m and £212m respectively).

The net pension obligation has increased by £141m since 31 December 2011 mainly due to a net actuarial loss as a result of the decrease in the discount rate used from 5.0% to 4.5%, although this was partly offset by an increase in inflation assumptions. Additional company contributions of £37m were paid into the scheme.

The group believes that, over the very long term in which retirement benefits become payable, investment returns should eliminate the deficit reported in the schemes in respect of past service liabilities. However, in recognition of the regulatory obligations upon pension fund trustees to address reported deficits, the group's deficit recovery plan will see additional cash contributions made to the scheme of approximately £38m in 2013. Future contributions will be agreed with the trustees when the 2012 actuarial valuation is completed.

Corporate governance

The group's policies regarding risk management and corporate governance are set out in the Corporate governance statement on pages 65 to 71.

Going concern

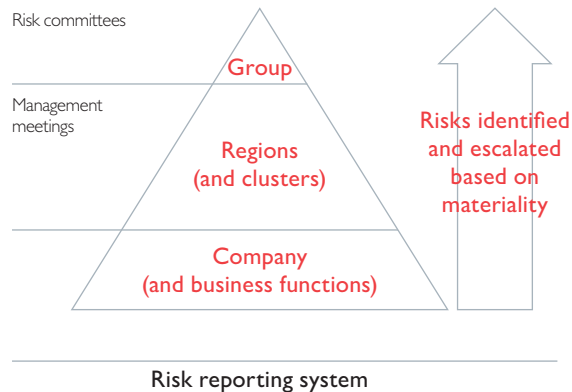
The directors are confident that, after making enquiries and on the basis of current financial projections and available facilities, they have a reasonable expectation that the group has adequate resources to continue in operational existence for the foreseeable future. For this reason they continue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

Trevor Dighton

Chief financial officer

Our risk assessment and management process

The group operates around 160 businesses spread over more than 125 countries and across a range of product areas. Most of the risks identified below are market specific and so the diversity of the group's operations means any particular issue should have a limited impact.



Price competition

Risk and potential impact to KPI

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.

Mitigation

Group management continually monitors competitor activity to ensure that the group can react quickly to any competitor actions which would directly affect the group's results.

All business plans and strategic planning includes competitor and SWOT analysis and the pricing strategy for contracts is managed through business unit and regional price approval levels. Significant price reductions require group capex committee approval.

Poor operational service delivery and crisis management

Risk and potential impact to KPI

Failure to meet the operational requirements of its customers and/or failure to respond to a crisis could significantly impact the group's reputation, contract retention and growth.

Mitigation

Group-wide operational procedures and standards for crisis management and communication are in place and adherence to them is tested in all business units. There is also a robust supervision structure which allows management to monitor the progress and delivery of the group's contracts and customer relationships.

The group crisis communications process is reviewed regularly.

Inappropriate sourcing of staff

Risk and potential impact to KPI

Poor selection processes when recruiting staff could have material implications given the critical nature of the services undertaken by the group. There could also be risks associated with any failure to carry out periodic re-screening of existing employees.

Mitigation

Minimum group staff vetting standards maintained and regularly reviewed and updated.

Major changes in market dynamics

Risk and potential impact to KPI

Such changes in dynamics could include new technologies, government legislation, political or economic volatility or customer consolidation and could, particularly if rapid or unpredictable, impact the group's revenues and profitability. 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, with a recent development being an increase of restriction of foreign ownership in some countries. Failure, or an inability, to comply with such regulations may adversely affect the group's revenues and profitability.

Mitigation

The group performs strategic and business planning at group, region and business unit level to ensure that specific local regulation requirements are met. Monthly business unit trading reviews ensure that market changes are identified quickly and actions taken to maintain performance and ensure that business objectives continue to be achieved.

The group also monitors local markets and engages with governments around the world to ensure adherence to regulatory requirements, to identify any restrictions that could adversely impact the group's activities and take appropriate actions.

Cash losses

Risk and potential impact to KPI

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 surrounding customer cash, these could also adversely affect the group's profitability.

Mitigation

The group has formal systems and policies in place documenting physical security procedures and directives and adheres to a security framework to help reduce the risk of cash losses.

The group also operates a captive insurance business unit to mitigate against the financial risk of losses and attacks.

All transactions are subject to strict authorisation limits and regular reconciliations of cash balances are performed for both cash in ATMs and cash held on customers' behalf. In addition there is regular reporting of any cash losses/attacks and audits of security are performed in branches.

The group has in place regional cash reconciliation managers to increase the focus on cash reconciliations globally.

Financing

Risk and potential impact to KPI

If, due to adverse financial market conditions, insufficient or only very costly financial funding were available, the group might not be in a position to implement its strategy or invest in acquisitions or capital expenditure. This includes possible bank insolvency loss of headroom particularly from movement of exchange rates, unavailability of bank, bond or other sources of financing and downgrading of the G4S credit rating. These could adversely impact G4S revenue growth and profitability.

Mitigation

The group treasury department monitors and follows policies to mitigate against liquidity, refinancing and currency/exchange rate risks. Refer to note 33 to the group accounts for more details.

The group's historical main source of funding has been a revolving bank facility of £1.1bn which was renewed in March 2011 until 2016. The group has sought to diversify its sources of finance by issuing a number of private placement bonds in the US and public bonds in the UK and Europe.

These have spread out the refinancing requirements over the next ten years to ensure the group has access to sufficient funds to meet its business and strategic plans.

IT

Risk and potential impact to KPI

Cyber attacks and incidents on G4S and client systems and services, especially around critical national infrastructure could result in financial loss, breach of contract, legal action and reputational damage.

Mitigation

The group employs IT specialists at all levels and has in place mandatory minimum security controls (relating to 35 specific controls). In addition penetration testing of networks and systems is performed regularly to ensure that key systems are robust.

Onerous contractual obligations

Risk and potential impact to KPI

The group could commit to sales contracts specifying disadvantageous pricing mechanisms, unachievable service levels, unacceptable operational feasibility or delivery risk or excessive liability. This could impact its margins and profitability.

Mitigation

Any new contracts entered into are subject to a defined approval process. Standard contracts are used where practicable. Non-standard contracts which expose the group to material risk are subject to risk assessment and depending on the level of risk exposure are referred for regional or group legal department review.

Corporate Social Responsibility

G4S plays an important role in society. We make a difference by helping people to operate in safe and secure environments where they can thrive and prosper and we believe this is a role that can only grow in importance.

CSR performance in 2012

Strategic developments

- Increased membership of the CSR Committee
- Development of a new human rights policy and guidance framework for all G4S businesses and employees, based upon the UN Guiding Principles on Business & Human Rights
- Active commitment to the Principles of the UN Global Compact and alignment of our CSR and UN Global Compact "Communication on Progress" reporting requirements
- Continued participation in the development of the International Code of Conduct for Private Security Providers

Safeguarding our integrity

- Performed 150 business-completed risk audits and a further 146 on-site internal risk control audits
- Following implementation of anti-bribery controls, we have completed 37 business ethics compliance audits
- Completed implementation of "Safe2Say" the group's global 24 hour freephone whistle-blowing hotline

Securing our people

- Reduced work-related fatalities by 22% from 76 to 59
- Made good progress in the implementation of action plans from Critical Country Reviews of health and safety
- Formation of a road safety steering group and development of an action plan to reduce accidents
- Representation of women in management increased from 21% to 22.5% and in front line roles from 10.7% to 12.5%
- Development of new induction, training and appraisal tools to improve engagement with employees and provide better feedback to managers

Securing our environment

- The total carbon footprint of G4S in 2012 was 612,000 t/CO₂e
- Achieved overall reduction in carbon intensity of 4.3% in 2012
- Achieved a 16% reduction in carbon intensity between 2009 and 2012 against a target of 13%

Securing our communities

- Invested over £2 million in charitable community programmes and welfare of employees facing health or financial hardship
- Through the G4S 4teen programme, we successfully helped five young athletes to achieve their ambition of competing at the London 2012 Olympic Games

Why CSR matters to G4S

G4S is one of the world's largest private employers, and the nature of our business and the countries and markets in which we operate mean that we form an important part of many societies and impact the lives of millions of people all over the world – it is our responsibility to make sure that the impact is a positive one.

There are many benefits of having an embedded CSR strategy and operating to high ethical standards. CSR helps to attract and retain staff, helps to win business in a competitive environment where we need to stand out from others, it helps to attract investment to support the growth of the company and, most of all, it helps to generate pride in the company from everyone connected to it. Ultimately CSR enables us to do better business.

“CSR is an important part of the culture of the company and I have been proud to be associated with its development through the CSR Committee.”

Mark Elliott

Non-executive director and chairman of the CSR Committee

Our CSR strategy

We have conducted a CSR materiality exercise to assess the views of senior managers within G4S and those of external stakeholders to ensure that we focus on the most important issues for the group.

Recognising the nature of G4S's business, our large workforce and our geographic diversity, it is understandable that the materiality exercise highlighted **business ethics (including anti-corruption), human rights, employee engagement and health and safety** as priorities for the group, as these are the areas which would have the most material effect on business performance or reputation if they were not managed carefully.

Our CSR strategy includes a much broader range of topics, but these are the areas where management and the CSR Committee focus the majority of their efforts. The CSR Committee will regularly review these issues in light of changing circumstances and stakeholder priorities.

CSR management

Reflecting the value we place on CSR and on our reputation, our CSR Committee has been a full board committee since 2011, comprising a number of experienced non-executive directors who meet regularly to discuss CSR-related matters. The committee is chaired by Mark Elliott, a G4S plc non-executive director with extensive experience of CSR issues from his 40 years in international business. Elements of our CSR strategy are also a regular subject for discussion at group executive and board meetings.

Duties of the CSR Committee include:

- Review, agree and establish the company's CSR strategy to ensure that it remains an integral part of the group's overall strategy
- Develop and recommend for acceptance by the board, policies on all aspects of CSR
- Receive reports and review activities from executives and specialist groups managing CSR matters
- Monitor compliance with the CSR policies and review performance against targets
- Review the integration of CSR processes with risk management programmes and reputation management priorities
- Develop and encourage effective two-way communication concerning CSR issues
- Ensure CSR-related issues are considered during acquisition due-diligence
- Review best practice and benchmark where appropriate

Engaging stakeholders

We continuously work to improve our communication and engagement with key stakeholder groups to ensure that our strategy is aligned to their needs and that, as our CSR programmes develop, we seek input and advice from those around us. In 2012 we:

- Sought input from leading independent human rights experts including NGOs and SRI analysts to advise on the development of our new global human rights policy and guidance framework
- Continued our involvement in the development of the International Code of Conduct for Private Security Providers, which sets out principles for security operations in so-called "complex environments"
- Continued to receive customer feedback through account management, operational reviews and customer surveys

Safeguarding our integrity

Integrity is one of the group's core values – being a responsible business partner, employer, customer or supplier is an important part of our strategy and forms an essential foundation on which we carry out our business.

What we're doing

Business ethics

To ensure that our employees understand how they can play their part in delivering high ethical standards across the group, we continue to enforce a group-wide Ethics Code that sets out how we expect our employees to behave in order to "live" our value of integrity. The code is supplemented with a Business Ethics Policy which provides a more detailed summary of the group's ethical standards of operation. The code and policy are reviewed each year, incorporating evolving legislation and evaluating any risks to the group's integrity. To ensure compliance with the code and policy we also ask businesses, as part of the G4S risk assessment process, to assess their business ethics risks and compliance with the ethics policy.

Human rights

We recognise the growing importance of human rights as a material business issue and we believe that G4S can play a positive role in respecting human rights around the world. Our businesses can contribute positively to the realisation of human rights by the range of services we offer to protect people and enable them to enjoy their rights. We also recognise that we have a duty to ensure that we are not at risk of violating human rights through the services we provide, the customers we work with and the suppliers we use and through the fair and appropriate treatment of our own employees and others who are in our care.

Last year we began a project to evaluate the human rights landscape in relation to the G4S businesses and to develop a policy and guidance for managers which set out clearly the group's expectations of managers and employees in upholding human rights standards.

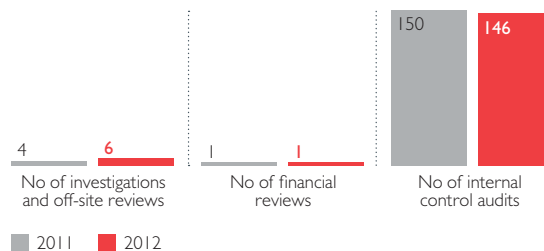
Following extensive internal and external consultation, we completed the new human rights policy and guidance for managers and launched them early in 2013 as part of our annual process of renewing and refreshing our Business Ethics Policy.

Looking forward, our next challenge is to ensure that the policy and guidance are embedded across the organisation at every level. We are approaching that challenge in a number of ways, from the introduction of an awareness programme to make sure everyone is aware of the key human rights issues and their responsibility to uphold standards, to the introduction of a systematic approach to human rights analysis, due-diligence and monitoring.

How we're performing

- Completed 150 business risk assessments and 146 on-site internal risk control audits
- Conducted external extended assurance work on financial controls in six of our UK businesses
- Completed 37 country audits to measure compliance with G4S business ethics controls
- Completed implementation of "Safe2Say", the group's global whistle-blowing hotline
- Implemented a local hotline service in India, serving our 129,300 employees across the country

Internal audit activity



Priorities for 2013

- Critically review risk assessment process to ensure it continues to meet our requirements
- Improve overall co-ordination of corporate audit with other auditors across the Group
- Further enhance reporting of combined audit and assurance activities to management
- Implement any additional audit requirements in relation to new human rights policy and guidelines
- Continue to promote whistle-blowing facilities to all staff through multiple channels
- Introduce grading system for calls received to the whistle-blowing facility and ensure they are investigated appropriately

Securing our people

As a service provider, our customers rely on us to have a motivated and healthy workforce. Keeping our employees safe, looking after their interests and treating them fairly is therefore vital to our ongoing success.

What we're doing

Health and safety

The protection of our people remains a paramount concern. Employees on the front line often face risks to their health and wellbeing which we are constantly seeking to reduce, remove or regulate. The most prevalent risks to the health and safety of our employees continues to be from work-related attacks and road traffic incidents. Although the total number of work-related fatalities has reduced since 2011, our aim is to eliminate them altogether.

Employee engagement

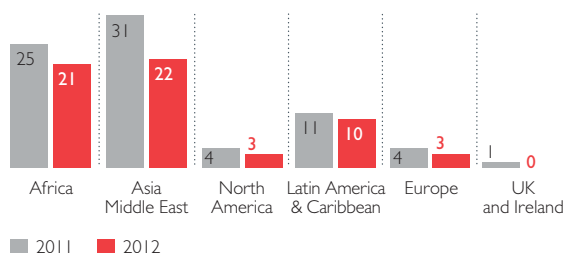
We see the role of our first line managers as critical in increasing levels of employee engagement. During 2012 we introduced new training materials relating to the PRIDE model to develop their skills in this important area. Gathering feedback from employees on the factors impacting their levels of engagement is vital in shaping our plans. Work is ongoing following the global employee engagement survey in 2011 and in 2013 we will conduct our next survey.

- Protect their basic needs
- Respect them as individuals
- Involve them in the business
- Develop their skills and potential
- Engage them fully

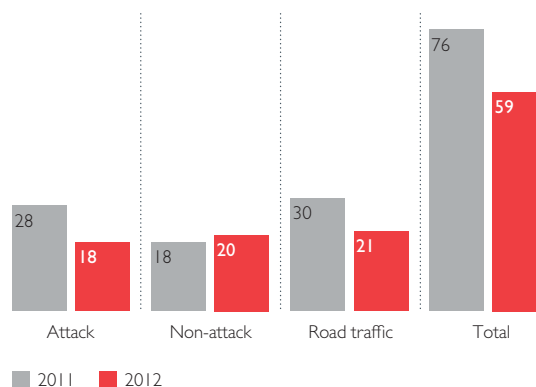
How we're performing

- A 22% reduction in work related fatalities from 76 in 2011 to 59
- Establishment of an online forum for health and safety practitioners to gather knowledge and share best practice
- Good progress with the implementation of the action plans from the Critical Country Reviews of health and safety (CCRs)
- A reduction in work-related fatalities in eight of the 13 countries where CCRs were conducted
- Improvement in the representation of women in management from 21% to 22.5% and in front line roles from 10.7% to 12.5%
- An increase in the number of senior management vacancies filled through internal promotion to over 50%
- Maintenance of an employee stability rate of 72% towards retention of our employees

Work-related fatalities in 2011 and 2012



Work-related fatalities by category



Priorities for 2013

- Gathering of lost time incident data to identify and respond more proactively to potential health and safety risks
- Further health and safety Critical Country Reviews and monitoring of action plans to ensure continued reduction of work-related fatalities
- Implementation of the road safety action plan in priority countries
- Review of training content and methodology for middle managers
- Work with specific businesses to improve representation of women in supervisory positions in the talent pipeline
- Conduct our third global employment engagement survey
- Continue to develop constructive union relationships across our business

➤ For further KPIs on our people, see the "resources and relationships" section on page 30

Securing our environment

Our customers and employees demonstrate increasing concern for environmental issues. Whilst our environmental impacts are not significant relative to other businesses of comparable size, it remains important to us to be efficient in our use of resources such as energy and, in doing so, curtailing our greenhouse gas emissions.

What we're doing

Carbon and energy

Since we launched our Climate Action Strategy in 2009, our carbon intensity has decreased by 16% per £1m of revenue. This reduction in carbon intensity translates to a real reduction of 1.5% in carbon emissions against a 13% growth in the business during the same period, much of which includes carbon emissions from services which our customers have outsourced to G4S. This is a positive achievement which recognises the efforts made to introduce energy efficiency measures across the business.

The most significant contributory factor to our carbon footprint is our fleet of more than 30,000 vehicles. To help mitigate this impact, we have since 2009 introduced a range of fuel efficiency measures into our fleet management. These range from eco-driver training and real-time satellite tracking and monitoring of driver behaviour, to investment in new technologies such as solar cells to power ancillary vehicle systems and the introduction of new and more efficient vehicle types into our fleet.

How we're performing

- The G4S 2012 total carbon footprint equates to some 612,000 t/CO₂e
- Achieved an overall reduction in carbon intensity of 4.3% in 2012
- Exceeded our target for reduction of carbon intensity, with a 16% reduction from 2009 to 2012

Carbon intensity

	2009	2010	2011	2012
Carbon intensity (tonnes CO ₂ e per £m) turnover	88.3	82.3	77.5	74.2

Priorities for 2013

- Continue to implement energy efficiency strategies to reduce carbon intensity by 20% between 2009 to 2014
- Continue to develop our measurement of waste and water consumption and introduce targets for reduction

Securing our communities

We recognise that our ability to provide a safe and secure environment around the world depends on the relationships we have with the communities and people with whom we work. We are therefore committed to working with charity and community partners to tackle issues which affect local communities, especially relating to health, education and welfare of children and young people. We have a long history of investing in the communities in which we live and work and to which we provide services, and we recognise the importance of this role.

What we're doing

We seek to make a positive impact on the local communities in which our employees, customers and suppliers live and work. The social and economic impact reaches well beyond our working environment and touches the lives of millions around the world.

How we're performing

Building on the partnerships and investment that we have made in previous years, in 2012 we:

- Through the G4S 4teen programme, G4S successfully helped five young athletes to achieve their ambition of competing at the London 2012 Olympics
- Invested over £2m in charitable community programmes and welfare of staff facing health difficulties or financial hardships in developing countries.
 - Comprised of:
 - Provision of goods, services and financial investment in to more than 360 community programmes across 60 countries, with a combined value of almost £1,381,000
 - Increased investment of £641,000 into projects to support the long-term welfare and development of employees in developing countries
- In addition we also donated £2.5m to military charities in the UK as a gesture of thanks for the support of the military in delivering the security of the London 2012 Olympic Games

2012

Corporate

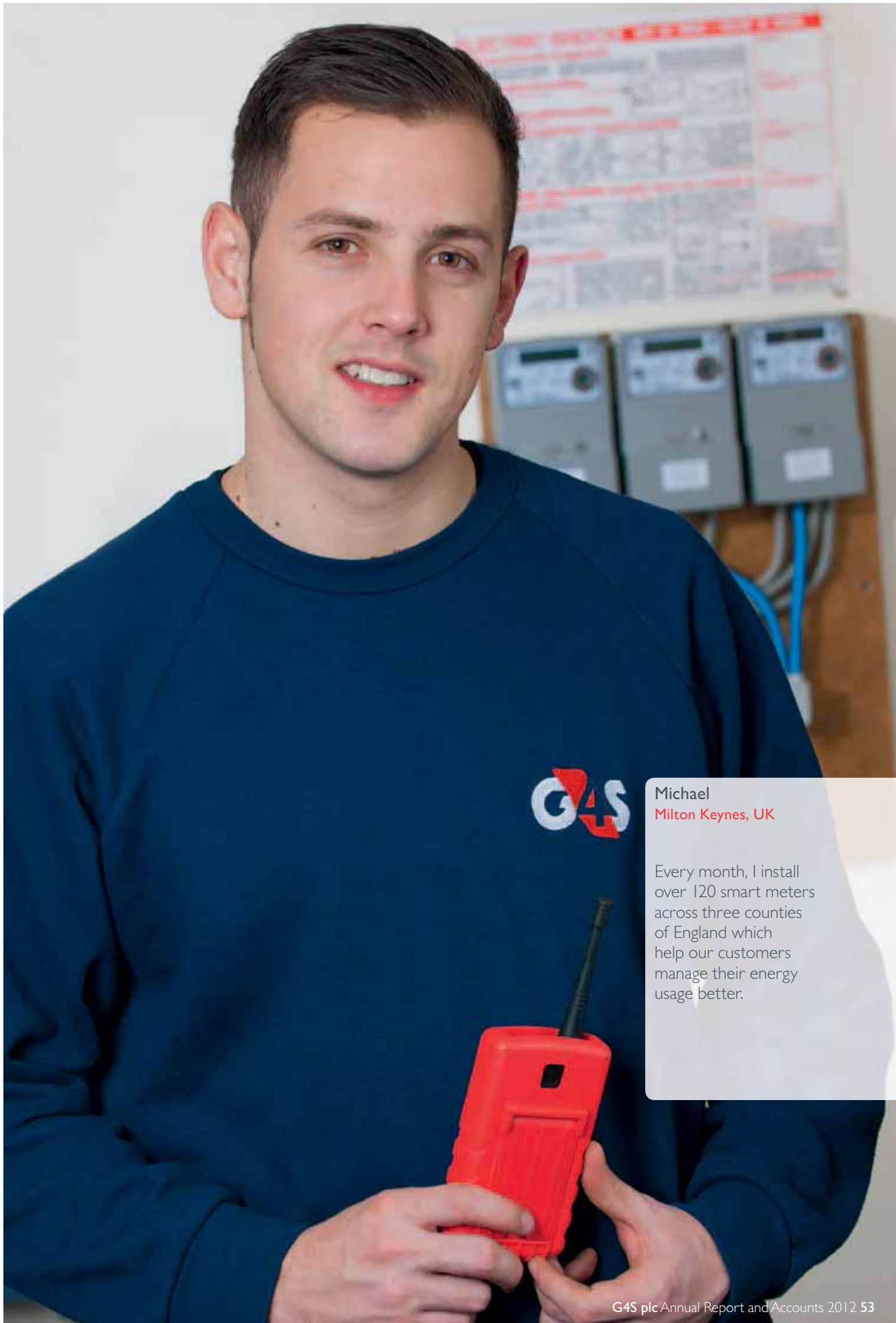
Corporate donations of money	£921,700
Corporate donations of goods and services	£459,500

Employee

Employee and third party donations facilitated by G4S	£72,000
Employee welfare and development	£641,000

Priorities for 2013

- Evaluate a new community-based programme for 2013 to be launched in the second half of the year
- Build on our wider community investment to demonstrate greater impact on the people we strive to support
- Participate in an academic study of the direct and indirect social and economic impacts of G4S within a number of key markets, starting with the UK



Michael
Milton Keynes, UK

Every month, I install over 120 smart meters across three counties of England which help our customers manage their energy usage better.

Overview

Strategic review

Performance

Governance

Financial statements

Shareholder information

Board of directors



Nick Buckles

Executive director

Chief executive

Member – Risk Committee

Key strengths: Long experience of the group and its predecessor companies with a background as a commercial manager before taking on line management roles and then divisional and group executive responsibilities. In addition to his board role, participates regularly in Nomination and Remuneration Committee meetings, chairs the Executive Committee.

Joined G4S board: May 2004

Previous experience: Joined Securicor in 1985. Became managing director of its UK cash solutions business in 1996, chief executive of its security division in 1999 and was appointed to the board of Securicor plc in 2000 before becoming its chief executive in 2002. He was the company's deputy chief executive and chief operating officer from its formation in 2004 and was appointed chief executive in 2005. He also served as a non-executive director at Arriva Group plc from 2005 until 2010.

Current external commitments:

Chairman of the Ligue Internationale des Sociétés de Surveillance, the international association of leading security companies.



John Connolly

Non-executive director

Chairman of the board

Chairman – Nomination and Risk Committees

Key strengths: Extensive experience of working in a global business environment and in sectors of strategic importance to the group.

Strong relationships with major investors and wide involvement within G4S at group and regional meetings.

Developing the board and its governance of the group.

Joined G4S board: June 2012

Previous experience: A chartered accountant, John spent his career until May 2011 with global professional services firm Deloitte, was Global Chairman between 2007 and 2011, and prior to that, Global Managing Director between 2003 and 2007. He was Senior Partner and CEO of the UK partnership from 1999 until his retirement from the partnership.

Current external commitments:

Chairman of AMEC plc and of a number of private companies; beyond commercial business roles, he is also on the Board of Governors of London Business School; a member of the CBI President's Advisory Council and of the British American Business International Advisory Board. He is also chairman of the appeal board for The Centre for Children's Rare Disease Research at Great Ormond Street Hospital.



Mark Seligman

Non-executive director

Deputy chairman

Chairman – Audit Committee

Member – Remuneration Committee

Key strengths: Extensive financial and management experience having worked in the financial services sector, with a particular focus on investment banking. Takes particular interest in the financial performance of the company, including its financing and transactional activity.

Joined G4S board: January 2006

Previous experience: Qualified as a chartered accountant with Price Waterhouse. Senior roles at SG Warburg & Co Ltd and Barclays de Zoete Wedd; Head of UK Investment Banking at CSFB; Chairman of UK Investment Banking at Credit Suisse; member of the Credit Suisse Global Investment Banking Executive Board and senior advisor to Credit Suisse Europe.

Current external commitments:

Alternate member of the Panel on Takeovers and Mergers; member of the Regional Growth Fund Advisory Panel; non-executive director of BG Group plc and senior independent director of Kingfisher plc.



Trevor Dighton

Executive director

Chief financial officer

Member – Risk Committee

Key strengths: Wide knowledge of both the group and other service businesses as well as the accountancy profession. In addition to his board role, participates regularly in Audit Committee meetings as well as sitting on the Executive Committee.

Joined G4S board: May 2004

Previous experience: An accountant, he joined Securicor in 1995 having previously worked in the accountancy profession and in industry, including five years in Papua New Guinea, three years in Zambia and seven years with BET plc. After joining 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. Appointed to the board of Securicor plc as group finance director in 2002, he became the company's CFO when it was formed in 2004.

Current external commitments: None



Lord Condon

Non-executive director

Senior independent director

Chairman – Remuneration Committee

Key strengths: Extensive experience of high profile security issues, the workings of the public sector and law making. Has broad involvement with the UK businesses within the group, particularly those serving public sector customers.

Joined G4S board: May 2004

Previous experience: Senior appointments in the UK police force, including Chief Constable of Kent and Commissioner of the Metropolitan Police, as well as at the British Security Industry Association and the International Cricket Council's anti-corruption unit.

Current external commitments: Cross bench member of the House of Lords; occasional advisor on sports integrity to the International Olympic Committee and Deputy Lord Lieutenant for Kent.



Grahame Gibson

Executive director

Regional CEO – Americas

Key strengths: Extensive knowledge of the group and its predecessor companies in many different markets and in a number of executive functions. In addition to his board role, is also CEO of the Americas region.

Joined G4S board: April 2005

Previous experience: Joined Group 4 in 1983, starting as finance director (UK) followed by a number of senior roles, including deputy managing director (UK), vice president (corporate strategy), vice president (finance and administration), vice president operations (central and south eastern Europe and UK) and chief operating officer of Group 4 Falck A/S. In 2004 he became the company's divisional president for Americas and New Markets and became chief operating officer in 2005.

Current external commitments: Board member of the Ligue Internationale des Sociétés de Surveillance, the international association of leading security companies.

Governance

Board of directors continued



Clare Spottiswoode

Non-executive director

Member – Remuneration and CSR Committees

Key strengths: Considerable experience in the public sector, the energy markets and the financial services sector as well as setting up and managing her own businesses. Has particular involvement with the group's businesses in the UK and Africa region.

Joined G4S board: June 2010

Previous experience: A mathematician and economist by training, worked for the UK Treasury, director general of Ofgas, the UK gas regulator; policyholder advocate for Norwich Union's with-profits policyholders at Aviva; non-executive director of Tullow Oil plc; and a member of the Independent Commission on Banking and the Future of Banking Commission.

Current external commitments:

Chairman of Gas Strategies Group, Energetix Group and Magnox Limited; non-executive director of EnergySolutions Inc., Ilika plc, Enquest plc and RBC Europe Limited; and independent director of the Payments Council.



Adam Crozier

Non-executive director

Member – Audit and Nomination Committees

Key strengths: Wide-ranging experience of business transformation in a number of public and private sector organisations in the media, logistics and retail sectors.

Joined G4S board: January 2013

Previous experience: Started his career with Mars before joining the Daily Telegraph followed by Saatchi and Saatchi, where he became joint chief executive. He then became chief executive of the Football Association and was subsequently appointed chief executive of the Royal Mail Group where he oversaw an extensive programme of modernisation and change to enable the business to compete in the UK and international marketplaces. Since April 2010 he has been chief executive of ITV plc and was a non-executive director of Debenhams plc until 2012.

Current external commitments: Chief executive of ITV plc.



Paul Spence

Non-executive director

Member – Audit, CSR and Risk Committees

Key strengths: In-depth knowledge of outsourcing in both the public and private sectors and extensive international experience in key developing countries such as India, China and Brazil.

Joined G4S board: January 2013

Previous experience: A graduate of the Wharton School at the University of Pennsylvania with a degree in economics and decision sciences; served a 30-year career with Capgemini and its predecessors. Having started in the US and become managing partner of mid-Atlantic information and technology for Ernst & Young, he went on to gain significant international experience for 16 years as managing partner of Ernst & Young Consulting Australia, CEO of Capgemini Ernst & Young in Asia and CEO Capgemini Ernst & Young UK. He then spent eight years serving on Capgemini's executive management committee during which time his roles included deputy group CEO and CEO of Capgemini Global Outsourcing Services.

Current external commitments: None.



Bo Lerenius

Non-executive director

Member – Audit and CSR Committees

Key strengths: Extensive international board and executive management experience. Has a great deal of knowledge of the ports sector and of many European markets.

Has particular involvement with the group's businesses in Europe.

Joined G4S board: May 2004

Previous experience: Chief executive of Ernststromgruppen AB, a Swedish building materials company; chief executive and chairman of Stena Line AB; group chief executive of Associated British Ports Holdings plc; non-executive director of Land Securities Group plc; non-executive director and chairman of Mouchel Group plc; non-executive director of Thomas Cook Group plc.

Current external commitments:

Non-executive chairman of Knight Infrastructure II, holding company of Koole Tanktransport B.V.; non-executive chairman of Brunswick Rail Limited; and senior advisor to the infrastructure fund of Swedish venture capital group EQT; member of the board of the Swedish Chamber of Commerce for the UK; non-executive director of Bishop Infrastructure II, holding company of Westway Group LLC.



Winnie Kin Wah Fok

Non-executive director

Member – CSR and Remuneration Committees

Key strengths: International board and senior management experience with extensive knowledge of Asian markets and strong involvement in Scandinavia.

Has particular involvement in the group's businesses in Asia.

Joined G4S board: October 2010

Previous experience: An auditor by training, was involved in management positions in finance, audit and corporate advisory work and a wide range of roles in asset management firms investing with a focus in Asia. Senior partner of EQT and CEO of EQT Partners Asia Limited; managing director of CEF New Asia Partners Limited.

Current external commitments: Senior advisor to Foundation Administration Management Sweden AB; non-executive director of Volvo Car Corporation; non-executive director of AB SKF, Kemira Oyj and HOPU Investments Co Ltd.



Mark Elliott

Non-executive director

Chairman – CSR Committee

Member – Nomination and Remuneration Committees

Key strengths: Extensive international board and executive experience having held a number of senior management positions in IBM, including leadership of IBM's operations in Europe, the Middle East and Africa with responsibility for operations in more than 110 countries.

Has particular involvement with the group's businesses in the Americas region.

Joined G4S board: September 2006

Previous experience: General Manager IBM Global Solutions; Managing Director of IBM Europe, Middle East and Africa; member of the board of IBAX, a hospital software company jointly owned by IBM and Baxter Healthcare; chairman of the Dean's Advisory council of the Kelly School of Business, Indiana University.

Current external commitments:

Non-executive chairman of QinetiQ Group plc; non-executive director of Reed Elsevier PLC and chairman of Reed Elsevier's remuneration committee.

Executive management team



Nick Buckles

Chief executive

Nick has worked in the security industry for 28 years, focusing throughout this time on the commercial and strategic aspects of all areas of security services.

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

Nick is chairman of the Ligue Internationale des Sociétés de Surveillance, the international association of leading security companies.



Trevor Dighton

Chief financial officer

Trevor has worked in the security industry for 27 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 its security and communications division.

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

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



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 Group 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 Group 4 Falck merger with Securicor.

Søren 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 member of the advisory board of the Danish UK Chamber of Commerce and author of the book "Executive Management Contracts", published in Denmark.



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 35 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 Fellow of the Chartered Institute of Personnel and Development (FCIPD).



Debbie Walker

Group communications director

Debbie is group communications director, heading the corporate communications team which focuses on the group's key audiences – investors, media, government, employees and customers. Debbie is also responsible for the group's CSR and human rights strategies.

Debbie has a broad range of experience in marketing, corporate communications, brand development and implementation, and crisis communications. Prior to the merger between Group 4 Falck and Securicor, Debbie was employed in a number of senior marketing and communications roles within the Securicor group from 1993 to 2004.

Debbie is also vice chairman of the CBI South East Regional Council (the representative body for all CBI member companies based in the South East of England and the Thames Valley), having previously served as chairman for two years.

Governance

Executive management team continued



Graham Levinsohn

Group strategy & development director

Graham has more than 19 years' experience in the security industry, having joined Securicor Cash Services in 1994 as general manager – marketing.

Since then, Graham has held a number of commercial and line management positions in both the cash and security lines of business. Graham was responsible for the creation of the UK cash centres outsourcing business in 2001 as managing director, before moving on to become divisional managing director for G4S Cash Services UK, and then regional president – Nordics.

He became group strategy and development director in 2008 and joined the Executive Committee in 2010.



Grahame Gibson

Regional CEO – Americas

Grahame has been involved in the security industry for 30 years, having joined Group 4's UK operating company in 1983 as finance director.

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

His broad experience of the security industry and management of businesses across a diverse range of cultures has been invaluable to the group throughout its development.

Grahame joined the board of G4S plc in April 2005.

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



Richard Morris

Regional CEO – UK and Ireland

Richard joined Securicor in 2003 as a commercial director, after spending the early part of his career in a variety of accountancy roles within Royal Mail and subsequently the facilities management industry. He was appointed as a business unit managing director in 2007 and was responsible for driving significant growth and profit improvement.

In early 2011 Richard became group managing director for G4S Care and Justice Services. In October 2012 Richard was appointed regional CEO – UK and Ireland.

Richard is an Associate of the Chartered Institute of Management Accountants.



Willem van de Ven

Regional CEO – Europe

Willem has served G4S and its corporate predecessors in Holland for 20 years.

He started out in the former Randstad group where he became regional director. Willem then served as HR director and managing director of the Netherlands security company Randon which was subsequently acquired by Securicor.

In April 2003, Willem was appointed as Securicor's regional managing director (Africa), becoming the regional president for G4S Africa (Sub-Saharan) in 2004.

In July 2010, Willem was appointed Regional CEO – Europe.



Dan Ryan

Regional CEO - Asia Middle East

Dan joined G4S in August 2010, from global logistics and transportation company Neptune Orient Lines (NOL) where he held a number of senior management positions including regional president for Greater China for NOL's APL and APLL divisions, regional president for the Middle East for the APL division and regional president for Europe for the group's APL Logistics division. He was a member of the NOL group executive team.

He also held various managing director positions for NOL including Middle East, Hong Kong/South China and Indonesia and was a regional head for the Middle East a during his 20-year career with the group.

Dan is a charter member of the Middle East Logistics/Supply Chain Management Forum, Hong Kong Liner Shipping Association and the American Chamber of Commerce – Shanghai.

Report of the directors

For the year ended 31 December 2012

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 2012.

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

1 Principal activities of the group

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

The principal activities of the group comprise the provision of secure solutions (including manned security services, care and justice services and security systems) and cash solutions (including the management and transportation of cash and valuables) as well as the undertaking of other outsourced business processes in sectors where security and safety risks are considered a strategic threat.

2 Group results

The consolidated result for the year is shown in the consolidated income statement on page 84.

Details of the development and performance of the group's business during the year, its position at the year end, future developments, principal risks and uncertainties and prospects of the group and other information which fulfils the requirements of a management report for the purpose of DTR 4.1.8R are contained on pages 8 to 47 and are incorporated in this report by reference. The Corporate Governance Statement set out on pages 65 to 71 is also 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 116 to 119.

3 Dividends

The directors propose the following net dividend for the year:

- Interim dividend of 3.42p (DKK 0.3220) per share paid on 19 October 2012
- Final dividend of 5.54p (DKK 0.4730) per share payable on 14 June 2013

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 15 May 2013.

4 Significant business acquisitions, disposals and developments

In February 2012, G4S Cash Solutions (Sverige) AB was disposed of in Sweden.

In April 2012, the pedestrian meter reading business and assets of Utility Metering Services Ltd were acquired in the UK.

In April 2012, the automated meter reading business of Utility Metering Services Ltd was acquired in the UK.

In April 2012, DML Fire Systems Limited was acquired in Ireland.

In April 2012, G4S Justice Services LLC and certain intellectual property assets and other personal property assets from G4S Justice Services (Canada) Ltd were disposed of in North America.

In May 2012, a €600million, 2.875% bond maturing in May 2017 was issued by G4S International Finance plc.

In June 2012, The Facilities Management Group (Pty) Limited (FMG) was acquired in Botswana.

In June 2012, Inzetbaar B.V. was acquired in the Netherlands.

In September 2012, Vanguarda Segurança e Vigilância Ltda was acquired in Brazil.

In September 2012, the group's businesses in Poland were disposed of.

In October 2012, Wackenhut Pakistan (Pvt) Limited was disposed of in Pakistan.

In October 2012, Antwerp Safety Centre NV and ASC Safety Services BVBA were acquired in Belgium.

In December 2012, a €500million, 2.625% bond maturing in December 2018 was issued by G4S International Finance plc.

In January 2013, Deposita Systems (Pty) was acquired in South Africa.

In February 2013, a settlement agreement was entered into with LOCOG in the UK in relation to the Olympics contract.

5 Capital

The authorised and issued share capital of G4S plc at 31 December 2012 is set out on page 126 (note 37 to the consolidated financial statements). There were 1,410,668,639 shares in issue as at 12 March 2013.

Resolutions granting the directors power, subject to certain conditions, to allot and make market purchases of the company's shares will be proposed at the company's annual general meeting. The resolutions are set out in the Notice of Meeting on pages 142 to 145 and further explanation is provided on pages 146 and 147. At 31 December 2012 the directors had authority in accordance with a resolution passed at the company's annual general meeting held on 7 June 2012 to make market purchases of up to 141,066,000 of the company's shares.

The company does not hold any treasury shares as such. However the 7,589,853 shares held within the G4S Employee Benefit Trust ("the Trust") and referred to on page 127 (note 38 to the consolidated financial statement) are accounted for as treasury shares. The Trust has waived its right to receive dividends in respect of the company's shares which it held during the period under review.

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 £5m (2011: £6m).

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.

Transactions with trade creditors are processed through the company's wholly-owned subsidiary, G4S Corporate Services Limited. Therefore, at 31 December 2012 the trade creditors of the company represented nil days (2011: nil days) of annual purchases.

At 31 December 2012 the consolidated trade creditors of the group represented 42 days (2011: 39 days) of annual purchases.

8 Employees

With over 620,000 employees worldwide, employee engagement is a crucial driver of business success which helps improve employee stability and increase employee motivation to deliver excellent service to customers, leading in turn to better business performance.

To ensure that levels of employee engagement are a constant focus for managers, key performance indicators like employee turnover, stability and health and safety are measured and monitored on a monthly basis. In 2012, first line management training and development materials were aligned to the group's employee engagement model, PRIDE (Protect, Respect, Involve, Develop and Engage). These materials provide managers with the tools and knowledge to put the PRIDE model into practice.

In support of the group's engagement strategy, the involvement of employees is sought in a number of ways. In 2013 the third global employee engagement survey will be completed and all employees will be invited to participate, share their views on the group's performance against the PRIDE model, and provide suggestions on how the business can improve further.

About a third of employees are covered by the terms of a collective agreement. Bespoke partnership agreements such as the Ethical Employment Partnership help to create a stable operating environment and provide another important avenue for employee involvement, consultation and feedback.

Bringing new talent into the organisation is vital for the group's future growth and success. To attract, recruit and retain the best people from the widest pool of applicants, the group's employment policies do not discriminate. Instead they are intended to promote an inclusive working environment where people from all backgrounds can share their perspectives, new ideas and help foster stronger relationships with customers.

The group employs disabled people and offers the same opportunities for training, development and promotion, making reasonable adjustments where necessary to support new employees or those who have become disabled during the course of their employment with G4S.

Further information on the group's employment policies and practices can be found in the group's 2012 CSR report.

9 Political and charitable contributions

The group remains committed to the support of charities, the community, job creation and training. Charitable contributions by the group during the year amounted to £2,887,000 (2011: £344,000).

Charitable contributions made by the group in the UK amounted to £2,624,000. The purposes for which such contributions were made and the amount donated to each purpose were: child welfare: £8,000; health and medical: £21,000; local communities: £51,000; poverty relief: £4,000; environment: £1,000; prisoner welfare: £9,000; sports: £30,000; and army welfare: £2,500,000.

In addition, businesses throughout the group are encouraged to play their part in engaging with and helping to improve their local communities. In 2012, the group completed its second annual measurement of its regional and country managed community investment activity around the world. These reviews have helped understand the true level of G4S community investment, identifying more than 360 community programmes across 60 countries supporting health, education, welfare and development of children and young people in those communities. Further details regarding community programmes can be found in the group's 2012 CSR report.

The company and its subsidiaries have made no contributions during the year to political parties carrying on activities, or to candidates seeking election within the EU, nor anywhere else in the world.

10 Substantial holdings

The company had been notified under DTR 5 of the following interests in the ordinary capital of G4S plc:

As at 31.12.2012

Invesco	198,966,277 (14.10%)
Prudential plc group of companies	89,325,538 (6.33%)
BlackRock, Inc	70,812,109 (5.02%)
Harris Associates LP	69,584,044 (4.93%)
Legal & General Group plc	42,320,310 (3%)

Between 1.1.2013 and 12.3.2013

Invesco	212,071,075 (15.03%)
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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 54 to 57, held office throughout the year with the exception of John Connolly, who was appointed to the board on 8 June 2012, and Adam Crozier and Paul Spence who were both appointed to the board on 1 January 2013. Alf Duch-Pedersen retired from the board on 7 June 2012.

Governance

Report of the directors continued

Mr Lerenius and Lord Condon have announced their intention to retire from the board after the Annual General Meeting due to take place on 6 June 2013.

Tim Weller will join the board on 1 April 2013. An accountant by training, Mr Weller joined KPMG in 1985 where he gained significant experience of the energy sector before joining Granada plc as director of financial control in 1997. Between 2002 and 2010, Mr Weller held chief financial officer (CFO) positions with Innogy (one of the UK's leading integrated energy companies at the time), RWE Thames Water (the world's third largest water and wastewater service company) and United Utilities Group PLC, a UK-based water and wastewater service company. He was CFO of Cable & Wireless Worldwide plc between 2010 and 2011 and is currently CFO of Petrofac Limited, the FTSE100 international oil and gas service provider and a non-executive director of BBC Worldwide and the Carbon Trust.

In accordance with the code provisions on re-election of directors in the UK Corporate Governance Code 2010, each of the directors continuing in office will offer themselves for re-election (or, in the case of John Connolly, Adam Crozier, Paul Spence and Tim Weller, election). The board believes that the directors standing for re-election 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.

Messrs Connolly, Crozier, Spence and Weller have or will have been appointed to the board since the last Annual General Meeting and so they would, in any event, be required to retire in accordance with the company's articles of association. Being eligible, they offer or will offer themselves for election. The board believes that Mr Connolly's extensive experience of working in a global business environment and in sectors of strategic importance to group; Mr Crozier's wide-ranging experience of business transformation in a number of public and private sector organisations in the media, logistics and retail sectors; Mr Spence's in-depth knowledge of outsourcing in both the public and private sectors and extensive international experience in key developing countries such as India, China and Brazil; and Mr Weller's broad knowledge of the energy and utilities sectors together with his experience of leading complex projects in strong international businesses, will add significant value to the board and therefore recommends that each of them is elected at the Annual General Meeting.

The contracts of service of the executive directors have no unexpired term since they are not for a fixed term. They 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 section 234 of the Companies Act 2006 and have been in effect since 3 November 2006 for each of the directors other than Ms Spottiswoode and Ms Fok (whose indemnities have been in effect since 14 June 2010 and 1 October 2010 respectively), Mr Connolly (whose indemnity has been in effect since 8 June 2012) and Messrs Spence and Crozier (whose indemnities have been in effect since 1 January 2013). A deed of indemnity will be entered into with Mr Weller with effect from his appointment as a director on 1 April 2013. Copies of the forms of indemnity are available on the company's website. In addition, indemnities have been granted by the company in favour of certain of the directors of certain of the group's subsidiaries in Germany and the Netherlands. The company has maintained a directors' and officers' liability insurance policy throughout the year under review.

Details of directors' interests (including their family's interests) in the share capital of G4S plc and of the directors' remuneration are set out on pages 72 to 81.

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 or she ought to have taken as a director to make him or herself 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
12 March 2013

The Manor
Manor Royal
Crawley
West Sussex RH10 9UN

Corporate governance statement

“Ensuring that our businesses are governed effectively, with strong controls, but without being constrained unnecessarily, is the challenge we set ourselves. It is vital that we ensure this philosophy operates throughout the group. Creating an effective board is part of that process and if the board is to do its job well it needs to reflect the diversity of the organisation it governs, it must continually refresh and renew itself through planned succession and it must measure its own performance as well as monitoring the performance of the group. In line with these principles, a number of steps have been taken. Two non-executive directors are due to retire after the company’s Annual General Meeting on 6 June 2013 and the board has welcomed new members. The committees and their memberships have been reviewed and changes made. In addition, the Risk Committee has been made a full board committee. This report explains how the principles of the UK Corporate Governance Code are applied as part of the way in which we seek to achieve these aims.”

John Connolly, Chairman

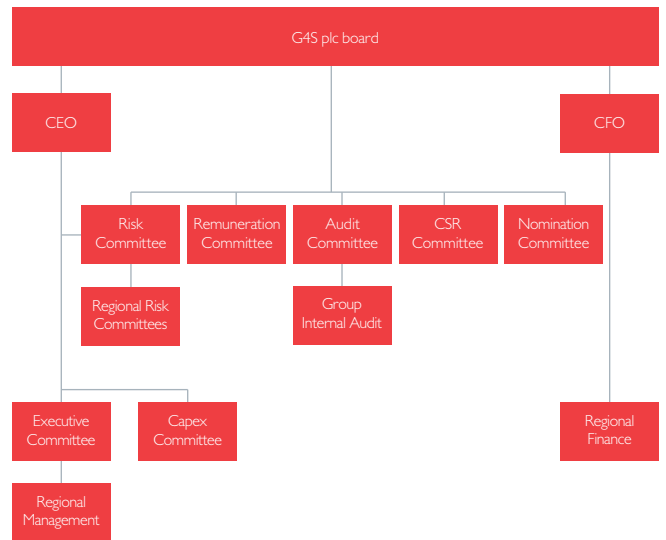
Compliance with the UK Corporate Governance Code

The board’s statement on the company’s corporate governance performance is based on the UK Corporate Governance Code published in June 2010 (“the Code”) which is available on the Financial Reporting Council’s website (<https://www.frc.org.uk/our-work/publications/corporate-governance/the-uk-corporate-governance-code.aspx>).

The Listing Rules require companies to disclose how they apply the Code’s main principles and report how they have done so. The Code recognises that alternatives to following its provisions may be justified in particular circumstances if good governance can be achieved by other means, provided the reasons are explained clearly and carefully. In such cases, companies must also illustrate how their actual practices are consistent with the principle in question and contribute to good governance.

The company complied throughout the year under review with the provisions of the Code. This section of the report sets out how the company has applied these provisions.

Our governance framework



The board sits at the top of the company’s governance framework, setting broad strategic targets, monitoring progress, approving proposed actions and ensuring appropriate controls are in place and effective.

Management decisions, development of strategies and policies and implementation of board decisions fall to the executive committee.

Regional management teams have responsibility for businesses within their regions and are tasked with implementing policies and controls at business levels, as well as ensuring they meet agreed financial goals.

The presence of a majority of independent non-executive directors on the board ensures objectivity, challenge and debate. It is the primary responsibility of the board to provide effective leadership for the group and this is done by, amongst other things, ensuring that decision making is conducted throughout the group within a strong internal control framework – and by setting values and standards.

There is a detailed schedule of matters reserved to the board which is set out under 12 separate categories: strategy and management; structure and capital; financial reporting and controls; internal controls; contracts; communication; board membership and other appointments; remuneration; delegation of authority; corporate governance matters; policies; and other. By way of example, board approval is required for: major investments, including the acquisition or disposal of any business worth more than £5m; entering into a sales contract where annual revenue is to be more than £50m; any changes to the group’s long-term objectives and commercial strategy; and the annual operating and capital expenditure budgets.

The board fulfils a number of its most important functions through its committees. Descriptions of the work of four of these committees are set out elsewhere in this report.

Governance

Corporate governance statement continued

In addition, the board has constituted a new Risk Committee, which reports to both the chief executive and to the board, has non-executive director representation and is chaired by the chairman of the board. Its activities will be reported on in greater detail in the company's 2013 annual report.

The terms of reference of the above committees are available on the company's website. www.g4s.com

Board balance

Board composition

The board comprises the non-executive chairman (John Connolly), eight other non-executive directors, the chief executive (Nick Buckles), the chief financial officer (Trevor Dighton) and the chief executive for the Americas region (Grahame Gibson). The board considers all the non-executive directors to be independent. The senior independent director is Lord Condon.

The directors bring a wide range of skills and experience to the board. This experience and their roles on the board is described in more detail on pages 54 to 57.

Succession

John Connolly succeeded Alf Duch-Pedersen as chairman on 8 June 2012. Adam Crozier and Paul Spence were appointed to the board as non-executive directors with effect from 1 January 2013. Tim Weller, who has a broad knowledge of the energy and utilities sectors together with his experience of leading complex projects in strong international businesses, will join the board, also as a non-executive director, with effect from 1 April 2013. Tim is an accountant by training and was a partner at KPMG before joining Granada plc as director of financial control. Thereafter, he held CFO positions with Innogy, RWE Thames Water, United Utilities Group PLC and Cable & Wireless Worldwide plc. He is currently CFO of Petrofac Limited, the FTSE 100 international oil and gas service provider.

Having completed nine years' service as non-executive directors, Lord Condon and Bo Lerenius will retire from the board at the conclusion of the company's AGM in 2013, at which time Mark Elliott will take on the role of senior independent director. The board will then comprise three executive directors, the non-executive chairman and six other independent non-executive directors.

The process for selecting the new chairman was conducted by the Nomination Committee led by Lord Condon and assisted by an external recruitment consultant (Zygos). Mr Duch-Pedersen was not involved directly in the selection process for his successor. The process for selecting the three other new non-executive directors was also conducted by the Nomination Committee assisted by a different external recruitment consultant (Spencer Stuart). Mark Seligman, as deputy chairman, was co-opted onto the committee for the purposes of both exercises.

Director re-election

The company's articles of association require that all continuing directors are subject to election by shareholders at the next Annual General Meeting following their appointment and that they submit themselves for re-election at least every three years and that at least one-third of the directors not standing for election for the first time stand for re-election at each Annual General Meeting. However, in accordance with the Code provision on re-election of directors, all the continuing directors will stand for re-election at that meeting.

Conflicts of interest

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

Board meetings, information flow, development and induction

Meeting attendance in 2012

	Scheduled meetings	Unscheduled meetings
Executive directors		
Nick Buckles (CEO)	7/7	5/5
Trevor Dighton (CFO)	7/7	5/5
Grahame Gibson (COO)	7/7	3/5
Non-executive directors		
Alf Duch-Pedersen (chairman)	4/4	1/1
John Connolly (chairman)	3/3	4/4
Mark Seligman (deputy chairman)	7/7	5/5
Lord Condon (senior independent director)	7/7	5/5
Mark Elliott	7/7	5/5
Winnie Fok	7/7	4/5
Bo Lerenius	7/7	4/5
Clare Spottiswoode	7/7	5/5

Board meetings and information flow

Seven scheduled board meetings were held during the year ended 31 December 2012 and there were a further five additional full board meetings. These additional meetings were mostly called at short notice and it was not always possible for all directors to attend. Because of the circumstances surrounding the Olympic Games contract, a number of other conference calls and meetings were attended by many of the directors, albeit such meetings did not constitute full board meetings.

One of the scheduled board meetings was an extended strategy review session at which presentations on development and implementation of the company's strategy were made to the board by senior executives and the board debated the company's strategy and business plans. To further their understanding of the group and their relationship with the operating businesses, some non-executive directors were able to attend meetings and conferences held by various regions and business units, following which they reported back to the board on matters of interest.

Prior to each meeting, comprehensive board papers are circulated to the directors addressing not only the regular agenda items on which the executives will report, but also details of any areas requiring approval or decisions such as significant acquisitions or important market issues.

At each meeting, the board then receives reports from the chairman, the chief executive, the chief financial officer and the company secretary, an HR report which includes summaries of developments on HR and health and safety 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, each month the board receives management accounts, trading and financial updates, investor relations and HR reports.

There are seven board meetings scheduled for the current year, including a two-day board and strategy meeting.

Induction and professional development

When new non-executive directors are recruited, they have the opportunity to spend time with the executive directors and other senior executives to understand the business, its structure and people as well as the company's strategy and financial performance. In March 2013, Messrs Crozier, Spence and Weller met the Regional CEOs who each presented an overview of their region. This was followed by a question and answer session also attended by the chief executive officer and the chief financial officer.

In addition, the new directors are given the opportunity to visit businesses, usually within a number of countries so they can begin to understand the group's operations. In January 2013, John Connolly and Nick Buckles, visited the regional management team in the Asia and Middle East Region in Hong Kong and Delhi before attending the regional conference of the Middle East in Dubai, at which they met the regional and country management teams. In February 2013, John Connolly, Mark Elliott and Paul Spence attended the North American regional management conference in Miami. Prior to the conference, as part of his induction, Mr Spence attended a session with the Americas regional management team, who provided an overview of the businesses in region, as well as opportunities and challenges there.

Meeting regional and country staff continues throughout a director's time on the board, as does continuing professional development, usually in areas where the director has specific committee responsibility.

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 assesses the group's risk appetite/tolerance, considers major risks and evaluates their impact on the group. Policies and procedures, which are reviewed and monitored by the head of group 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, which was in place throughout the year under review and, subject to the changes to the Risk Committee described elsewhere in this report, since, 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. Risk appetite/tolerance is considered in the context of the net (after controls and mitigation) risk with a particular focus on "High" net risks. To be categorised as "High" a risk must meet at least one of the following criteria:
 - major impact on the achievement of the business strategy;
 - serious damage to business reputation;
 - severe business disruption;
 - impact of > 5% (£25m) on operating profit or assets.
- 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 and group level. The regional committees meet at least annually and the group committee met 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 risk management committees*

The process, which is reviewed regularly by the board in accordance with the internal control guidance for directors in the UK Corporate Governance Code, is carried out under the overall supervision of the group risk committee. This committee includes all the members of the group executive. In 2013, a new Risk Committee, which reports to the board and the chief executive has been constituted.

Both the divisional risk management committees and the group risk 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, fraud reports and risk and control self-evaluations.

The group has in place robust internal control and risk management systems for financial reporting. The group has a single global consolidation system which is used for both internal management reporting, budgeting and planning as well as external reporting. The group has a comprehensive budgeting process with the budget being approved by the board. Forecasts for the year are reported at least quarterly. Actual results at business unit, region and group level are reported monthly and variances are reviewed. A programme of business internal financial reviews is performed by a finance team from either region or group to check the accuracy of financial reporting and compliance with the group finance manual.

*Because G4S Government Solutions, Inc. ("GSI") 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 GSI which include a risk review by an external advisor.

Governance

Corporate governance statement continued

The Audit Committee undertakes a high level review of risk management and internal control each year. As well as the above processes and sources of assurance the Audit Committee also considers the following year end reporting in conducting this review:

- Summary of 2012 internal audit work including update on all open audits with a deficient rating, analysis of results by region, common audit findings and areas identified for improvement in internal controls
- Summary of 2012 Internal Financial Reviews including significant accounting or financial control issues and common concerns identified
- Overview of year end financial control status reports completed by all businesses confirming adherence to group standards with any exceptions reported
- A broad overview of the general risk management and internal control systems in place during the year.
- Year end group risk profile
- External audit year end reporting on financial controls and accounting

The Audit Committee has confirmed that it is satisfied that the group's risk management and internal control processes and procedures are appropriate.

The board has reviewed the group's risk management and internal control system for the year to 31 December 2012 by considering reports from the Audit Committee and has taken account of events since 31 December 2012.

Board performance review

In 2012, the performance of the board and its committees was evaluated using a questionnaire-based self assessment process which was then interpreted and reported on by the external consultancy (Lintstock) which conducted an externally facilitated evaluation of the board and its committees' performance in 2011. Reports generated by this process were considered by the board, the chairman and by each of the Audit, Remuneration, Nomination and CSR committees.

Following consideration of the reports, the board has agreed a set of primary objectives for its work in 2013 which will include:

- effectively transitioning to the revised board membership;
- articulating clearly the company's strategy;
- reviewing senior executive succession planning;
- building closer relationships with shareholders;
- spending more time understanding the operations undertaken by the group; and
- reviewing the approach to providing information to the board.

In addition, the reports considered the performance of the chairman and each board member and were used to inform the discussion about the chairman's performance, which was conducted by the senior independent director without the chairman being present. The chairman has also conducted discussions with individual directors which, amongst other things, allowed the chairman to review directors' training and development needs.

The chairman also held meetings with the non-executive directors without the executives being present.

Relations with shareholders

The company actively seeks to engage with shareholders and, during 2012, senior management had extensive contact with shareholders representing more than 60% of the share register via more than 200 individual meetings and 100 telephone conversations. If index/passive fund shareholders are excluded, senior management had contact with more than 80% of the share register in 2012. In May, the chief executive, chief financial officer and regional CEOs presented to institutional investors at the group's annual Capital Markets Day which is video webcast and available on the group website. Additional results meetings are held twice a year for the preliminary and half-yearly results announcements and conference calls are arranged for the Interim Management Statements.

Upon taking up his position as chairman in June, John Connolly met with most of the company's major shareholders. Subsequently, Mr Connolly maintained contact with those shareholders during the Olympics contract issues and following the board review into the Olympics contract.

It is intended that all the directors will attend, and 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. At the Annual General Meeting, the meeting is informed of the numbers of proxy votes cast and the same information is published subsequently on the company's website.

Board committees

The Nomination Committee

“This year proved to be a busy one for the Nomination Committee and there have been several changes to the board. I joined the board when I took over the role as chairman after the AGM in June 2012. In light of the forthcoming retirements of Lord Condon and Bo Lerenius after the AGM in 2013, the committee initiated an extensive selection process to identify suitable candidates to both replace them and to ensure that board membership represents the wide range of skills and experience it needs.”

John Connolly

Membership and meeting attendance in 2012

Director	Meetings attended
Alf Duch-Pedersen (former chairman)	4/4
John Connolly (chairman)	3/3
Lord Condon	7/7
Mark Elliott	7/7

Mr Duch-Pedersen left the committee and Mr Connolly took over as its chairman upon Mr Duch-Pedersen's retirement and Mr Connolly's appointment following the company's 2012 AGM. Since 24 January 2013, the membership of the committee has changed and Adam Crozier has joined and Lord Condon has left.

Role

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. Succession planning for the board is a matter which is devolved primarily to the Nomination Committee, although the committee's deliberations are reported to and debated by the full board. The board itself also regularly reviews more general succession planning for the senior management of the group.

Key activities during 2012

The committee led the process by which the new chairman was appointed by the board. It has also been responsible for the process whereby three new non-executive directors have been recruited in order to refresh the board in readiness for the retirement of Lord Condon and Bo Lerenius and to strengthen the board generally in light of the findings of the Olympics contract review conducted by the board.

The board committee memberships of the non-executive directors were evaluated and proposals for changes in 2013 were proposed. The changes have now been implemented and further details of these changes can be found in the relevant section relating to each committee.

The Audit Committee

“The Audit Committee oversees financial reporting and the effectiveness of financial and regulatory compliance, controls and systems. It also manages the board's relationship with the group's external auditor, which includes agreeing its fee and assessing its independence and effectiveness, as well as discussing the nature and scope of the audit and reviewing the external auditor's quality control procedures and steps taken to respond to changes in regulatory and other requirements. The work of the committee supports key events in the group's financial calendar and financial reporting cycle. In addition, the committee monitors the effectiveness of the group's internal audit function and reviews its material findings.”

Mark Seligman

Membership and meeting attendance in 2012

Director	Meetings attended
Mark Seligman (chairman)	4/4
Lord Condon	4/4
Winnie Fok	4/4
Bo Lerenius	3/4

Mr Seligman is the member of the Audit Committee with recent and relevant financial experience. Since 24 January 2013, Adam Crozier and Paul Spence have been members of the committee and Lord Condon and Ms Fok have left. Tim Weller will join the committee when he is appointed to the board on 1 April and Mr Lerenius will leave upon his retirement following the company's 2013 Annual General Meeting.

Audit Committee meetings are attended by representatives of the group auditor, the chief financial officer, the group financial controller, the head of group internal audit and the company secretary. The chairman of the board will in future attend meetings from time to time in agreement with the chairman of the committee.

Role

The committee considers the group's annual and half-yearly financial statements as well as interim management statements in certain circumstances and any questions raised by the auditor on the financial statements and financial systems. It also reviews, amongst other matters, the group's financial reporting and internal auditing processes, whistle-blowing arrangements, risk management procedures and internal controls.

Governance

Corporate governance statement continued

External auditor

The Audit Committee recommended that the board should re-appoint the existing external auditor having reviewed its performance of audit services for the company, reports on the performance of the firm as a whole, its independence given the non-audit services it provides to the group and its policy and practice on audit partner rotation, as well as the cost of its services. In accordance with that policy, the lead audit partner changed during the year. On 31 December 2011, Tony Cates completed two years as audit lead partner and five years before that as a key partner; and so was succeeded by John Luke as lead partner. The committee will continue to keep the matter of the choice of external auditor under review at regular intervals.

So as to ensure that the independence of the audit is not compromised, the Audit Committee maintains a policy on the provision by the external auditor of non-audit services. Besides its 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 and general advice on financial reporting standards. Where the fees for such services are significant, prior approval of the committee is required. The auditor is also prohibited from providing other services without specific permission from the Audit Committee. The provision of any non-audit services by the audit firm must in any event comply with the requirements in that regard of the Auditing Practices Board.

Particular areas of focus

- consideration of the financial impact and disclosure of issues relating to delivery of the Olympics contract
- review of the treatment of other exceptional items
- consideration of the decisions to treat certain businesses as discontinued, and their presentation in the financial statements
- agreeing the scope of the work for both the external auditor and the group internal audit function, including the linkage to the principal risks identified for the group and materiality limits to be applied
- review of the company's status as a going concern
- monitoring of the implementation of enhanced business ethics policies intended to ensure compliance with the UK Bribery Act and other relevant legislation
- consideration of and decision on how best to use the group's external auditor to supplement the group's internal audit team in testing key financial controls
- receiving presentations on financial controls and significant issues from the finance directors for each of the group's regions
- receiving a presentation from the group's director of reconciliations, dealing with the operational integrity of the cash solutions businesses
- receiving a presentation from the group's head of IT security

The auditor has written to the Audit Committee confirming that, in its opinion, it is independent.

The CSR Committee

"The CSR Committee, established in January 2011, aims to ensure that corporate social responsibility is an integral part of the group's strategy and that the group continues to have a positive impact on people and communities, whilst contributing to a sustainable future for the business and everyone connected to it. 2012 was a busy year for the committee, which oversaw the preparation and roll-out of several initiatives ranging from human rights to road safety. Committee members also engaged with investors on CSR issues and hosted a meeting with socially responsible investors to update them on the group's corporate responsibility programme."

Mark Elliott

Membership and meeting attendance in 2012

Director	Meeting attendance
Mark Elliott (chairman)	5/5
Winnie Fok	3/5
Bo Lerenius	4/5
Clare Spottiswoode	5/5

Paul Spence joined the committee on 24 January 2013. Following the company's 2013 AGM, Mr Lerenius will leave the committee when he retires from the board and Mr Elliott will also leave the committee. Ms Spottiswoode will then become its chair.

Role

The CSR Committee's duties include reviewing and agreeing the group's CSR strategy, developing policies on various CSR related matters for consideration by the board, reviewing the activities of the executives who are responsible for matters which are CSR related and monitoring performance of the group against its policies and any associated targets. It also takes responsibility for the company's CSR report. The company's separate CSR report for 2012 provides more detail on the group's CSR strategy and the progress it has made during the year. A brief summary of some of the issues which that report addresses are set out on pages 48 to 52.

Key activities during 2012

The CSR Committee's first meeting as a full board committee was held in January 2012. It has agreed with the board its terms of reference and influenced the tone and content of the company's 2011 CSR Report. It has also similarly reviewed the content of the company's 2012 CSR Report. In addition, during the year the committee has overseen the group's implementation of its revised business ethics policy, approved a human rights policy and guidelines and examined the way the group operates whistle-blowing hotlines and is working to improve health and safety for its employees, and particularly in relation to road safety. With regard to road safety, a number of initiatives have taken place around the group. The CSR Committee reviewed the work of a new road safety steering group, which was set up in 2012. Its aim is to produce and disseminate basic road safety guidance to employees who operate in those countries with the highest road incident records. The scheme is currently being piloted in a number of countries. Other initiatives include speed limiters and monitoring equipment being fitted on company vehicles.

Remuneration Committee

Membership and meeting attendance in 2012

Director	Meeting attendance
Lord Condon (chairman)	5/5
Mark Elliott	5/5
Mark Seligman	5/5
Clare Spottiswoode	5/5

The role and work of the Remuneration Committee is more fully described in the Directors' remuneration report which appears on pages 72 to 81.

Risk Committee

Membership

Director
John Connolly (chairman)
Nick Buckles
Trevor Dighton
Paul Spence

Tim Weller will become a member of the Risk Committee when he joins the board on 1 April 2013.

Role

The Risk Committee will advise the board on the group's overall risk appetite, develop the group's risk management strategy, advise the board on risk exposures, review the level of risk within the group and assess the effectiveness of the group's risk management systems.

Key activities

Since the Risk Committee did not exist as a board committee until 2013, its activities will be reported on in the company's 2013 report.

By order of the board

Peter David

Secretary
12 March 2013

Directors' remuneration report

at 31 December 2012

“The Remuneration Committee needs to ensure that the remuneration offered to the directors provides an adequate incentive to retain and motivate them, particularly in the context of the challenges posed by the macro-economic conditions affecting many of the markets in which the group operates, and that any payments which are made withstand reasonable and appropriate scrutiny by the company's stakeholders.

The Remuneration Committee is increasing its focus on linking incentives to strategic objectives to ensure that directors are incentivised to deliver on business strategy. This increased focus resulted in an amendment to the annual bonus scheme rules for 2013 to include non-financial strategic objectives.

For the second consecutive year (and for the fourth time in five years), the executive directors' base salaries will be frozen for 2013. The board has also agreed that the fees for the non-executive directors will not be increased when they are next reviewed in July 2013. In addition, the committee has decided that no bonus would be payable in respect of 2012. However, in order to ensure that the directors continue to be appropriately incentivised and motivated, the committee has increased the potential maximum value of LTIP awards for 2013.

Although, the remuneration policy for the executive directors and the senior management team remains broadly in line with previous years, in the coming year, the committee will continue to review the company's remuneration policy to ensure that it continues to help attract, retain and motivate the best people.

This report provides details of the company's remuneration arrangements and outcomes for 2012. The report will be put to the shareholders at the company's Annual General Meeting on 6 June 2013 and we look forward to receiving your support.”

Lord Condon

Chair of the Remuneration Committee

This report is prepared on behalf of and approved by the board. It:

- sets out the activities of the Remuneration Committee in the year under review
- sets out the company's remuneration policies for the current financial year and, subject to ongoing review, for subsequent financial years; and
- details the remuneration of each of the directors

The report will be put to the company's Annual General Meeting for approval by the shareholders.

Remuneration Committee

The committee is responsible for setting all aspects of the remuneration of the chairman, the executive directors and the company secretary and for monitoring the level and structure of remuneration for other senior management of the group. It is also responsible for the operation of the company's share plans. Its terms of reference are available on the company's website: www.g4s.com

The 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, Mark Seligman, Clare Spottiswoode and Winnie Fok. Ms Fok was appointed to the committee on 24 January 2013. Lord Condon will retire from the board at the conclusion of the company's 2013 AGM. At that time Mr Elliott will become chairman of the committee.

How the committee spent its time

- Executive remuneration
- Calibrating incentive levels and performance metrics
- Best practice update
- Oversight of other benefits including pension
- Oversight of remuneration for senior management
- Other

During the year, the committee received advice from Towers Watson Limited as the committee's appointed advisor on executive and senior management remuneration matters. Towers Watson has also provided management remuneration information and pension advisory services to the group during the period under review. The committee ensures that the nature and extent of these other services does not affect the advisor's independence. Their terms of appointment are available on the company's website. In addition, Alithos Limited has been appointed by the committee to verify the calculation of certain elements of payments due under the company's performance share plan. Alithos has not provided any other services to the company during the period under review.

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

As part of an effectiveness review for the entire board, an evaluation of the committee was also undertaken. The review concluded that the committee has operated efficiently but identified a need to concentrate on linking incentives to strategic objectives.

Remuneration policy

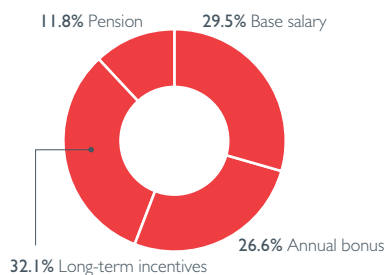
The policy for the remuneration of the executive directors and the executive management team aims to achieve:

- 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 appropriately on both annual and longer-term performance

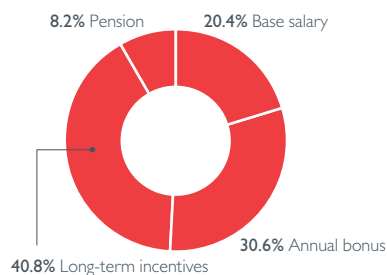
In terms of market positioning, the overall objective is to achieve remuneration levels which provide a market competitive base salary with the opportunity through the company's incentive schemes to achieve earnings commensurate with the delivery of superior performance. A significant proportion of total remuneration is therefore related to performance, through participation in both short-term and long-term incentive schemes.

In 2012 the mix of remuneration available to the executive directors was as follows:

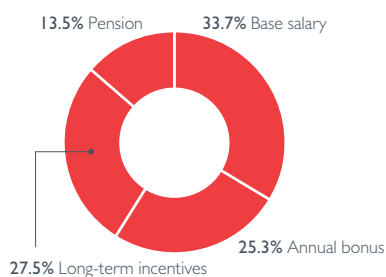
On target performance – CEO %



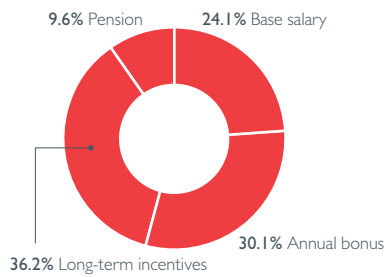
Maximum for stretch target performance – CEO %



On target performance – all other executive directors %



Maximum for stretch target performance – all other executive directors %

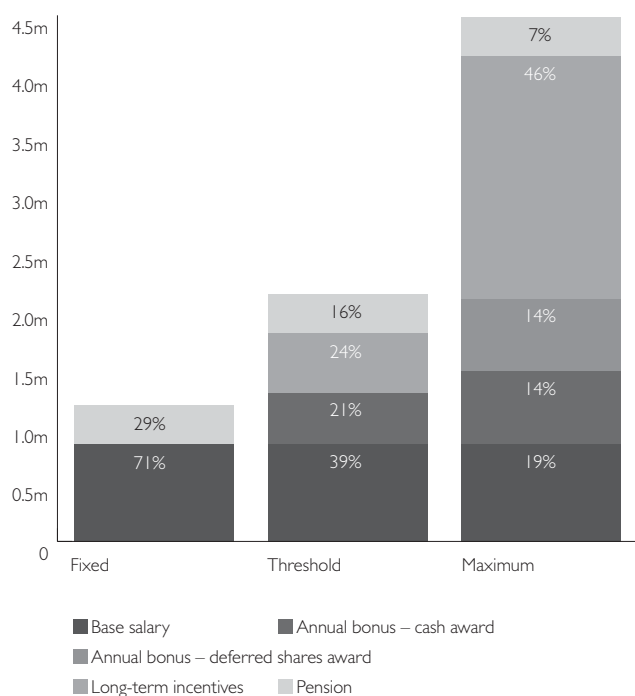


Governance

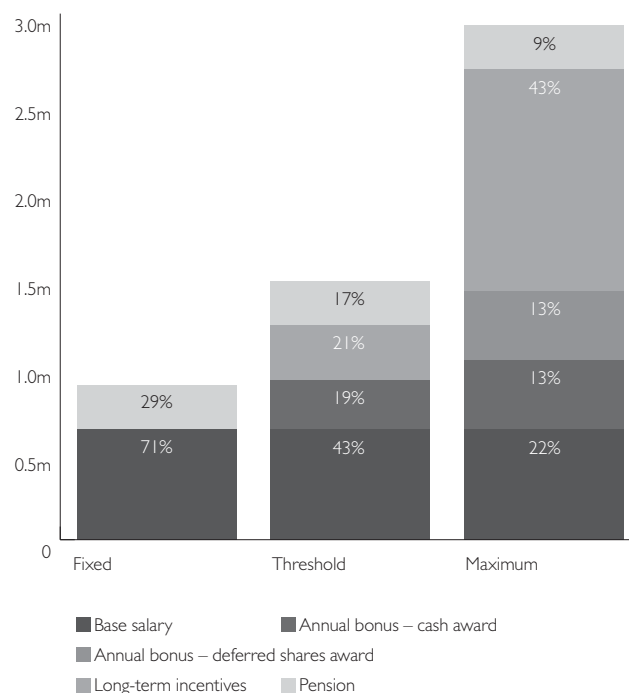
Directors' remuneration report continued

In 2013, the pay-mix at each of fixed, threshold and maximum performance will be as follows:

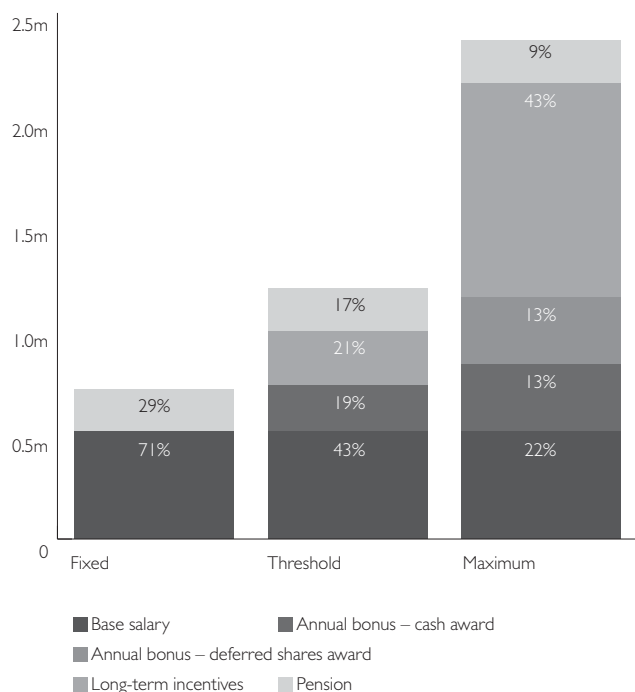
Nick Buckles



Grahame Gibson



Trevor Dighton



The committee believes that the current balance between base pay, annual bonus and long-term incentives is appropriate given its desire to ensure a strong link between performance and remuneration whilst, at the same time, avoiding a system which might incentivise inappropriate risk-taking. The committee is satisfied that the existing long-term incentive scheme, allied to the claw back processes described below and minimum shareholding requirements which were introduced in 2009 and 2010 respectively, provide suitable controls and incentives which are designed to avoid rewarding excessive risk-taking or behaviour aimed at short term, unsustainable gains.

The balance between long- and short-term incentives, and between basic salary and performance-related bonuses, is however kept under close review.

The committee is also 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.

The claw-back mechanism

Any payment under either the annual bonus or the performance share plan ("PSP") may be clawed back from the director concerned if the committee so determines and, in the case of misstatement of accounts, where the Audit Committee concurs. The time period in which the claw back can be made depends on the reason for the overpayment.

	Annual bonus scheme	Performance share plan
Misstatement of financial accounts	up to two years after payment	up to two years after vesting
Fraud or reckless behaviour	up to two years after payment	up to six years after vesting

The amount to be clawed back directly from the executive will be the overpaid amount after netting off taxes and social security deductions.

Link between pay and performance

Payouts made in previous years under the annual bonus scheme and long-term incentive plan have been in accordance with the agreed measures. Where there has been a payout under the annual bonus scheme or long-term incentive plan, the committee has not exercised any discretion to increase payments above that to which the executives were entitled under the applicable rules. The committee reserves the right to exercise discretion to reduce payouts under these schemes if the measures would result in a payout which does not reflect the company's underlying performance.

Pay for group executive committee

Base Pay (£000)	Number in band	
	2012	2011
201 – 250	2	2
251 – 300	3	3
301 – 350	2	1
351 – 400	0	2

The maximum bonus level for the member of the group executive committee is 100% of base salary.

Elements of remuneration

Elements of remuneration		Availability
Fixed	Base salaries	Available to all employees worldwide
	Pensions	Available to most employees in developed markets
Variable	Annual bonus	Available to all senior managers worldwide
	Long-term incentive plan	Available to some senior management worldwide
Benefits	Car or car allowance	Available to all senior managers worldwide
	Protection insurance	Available to most employees in developed markets
	Health care	Available to all senior managers worldwide

(a) Base salary and benefits

The salaries of the executive directors are reviewed with effect from 1 January each year. Although interim salary reviews may be carried out following significant changes in responsibility, no such reviews have taken place. The salaries take account of pay decisions across the rest of the organisation and the results of a bespoke benchmarking exercise based on a robust sample of similarly sized companies by revenue and market capitalisation with a significant part of their business overseas. The exercise also reflects responsibility, individual performance and other market information supplied by Towers Watson. After base salaries for the executive directors were frozen in 2009 and 2010, in 2011 the committee took steps to more closely align basic pay to the company's stated remuneration policy, i.e. competitive mid-market. Notwithstanding the consistently strong underlying performance of the group throughout the period, the committee has decided to freeze base salaries again in 2013 (as it did in 2012), in view of the economic circumstances and the pay and employment conditions across the group.

(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 maximum bonus entitlement for the executive directors is an amount equal to 125% of base salary (150% in the case of the chief executive). For 2012, 60% of maximum bonus entitlement was payable on achievement of the budgeted target and the amount of bonus increased on a straight line basis up to 100% of maximum bonus entitlement for achievement of a stretch profit target. Any bonus due above 50% of the individual's maximum bonus entitlement would be awarded as deferred shares which would not vest for three years. For achievement of a threshold level of profits which is at least 95% of the budgeted profit target, a bonus payment of 35% of maximum bonus entitlement was due, with no bonus payable for performance below threshold.

The PBTA target used for the above scheme is the same as the company's budgeted PBTA for the corresponding period (assuming constant exchange rates). The PBTA target allows for adjustments in respect of any material, non-budgeted changes which take place during the year, such as acquisitions, disposals etc. Thus, for example, should a planned disposal not be completed by the year end, the committee reserves the right to re-insert the operating profit or loss for the business in question in the actual and budgeted PBTA targets.

The Remuneration Committee has decided that no bonus is payable to the executive directors in respect of the group's performance in 2012.

Percentage of maximum bonus entitlement

% of max bonus entitlement	2010	2011	2012
Threshold profit	35%	50%	35%
Targeted PBTA	60%	75%	60%
Stretch profit	100%	100%	100%

Governance

Directors' remuneration report continued

Although the committee believes that PBTA best reflects the various key drivers of business success within the group, it felt it could strengthen the alignment of the annual bonus scheme with the business strategy by introducing a number of changes for 2013. These will be to include two other financial measures (organic growth and cash generation) as well as profit and non-financial strategic objectives linked to the business plan. The maximum bonus entitlement remains unchanged, but the payout is dependent on the achievement of the financial and non-financial objectives, which are weighted 70% of maximum bonus entitlement in favour of financial objectives and the remainder in favour of non-financial objectives. The maximum pay-out for financial targets will only be reached when all stretch targets are achieved.

	Objectives	Target	Maximum score
Financial	Organic growth	Budgeted %	20
	Profit	Budgeted profit	35
	Cash generation	Cash conversion	15
Non-financial	Strategic execution	Agreed milestones from business plan	15
	Organisation	Agreed objectives linked to organisation, people, CSR, risk, values, etc.	15

Each of the measures operates independently from the others.

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

The Performance Share Plan ("PSP") was introduced in July 2004 and modified in 2007. Under the plan, the executive directors and certain other senior executives receive conditional allocations of the company's shares which are released to them only on the achievement of demanding performance targets. The company's current policy is to use market purchased shares to satisfy performance share plan awards.

The maximum annual award of shares payable under the plan is two-and-a-half times base salary. The annual award approved by the committee for the year under review is two times base salary for the chief executive, one-and-a-half times base salary for the other executive directors and one times salary for senior executives below board level. For 2013, the annual award will be two-and-a-half-times base salary for the chief executive, two times base salary for the other executive directors and one-and-a-half times base salary for senior executives below board level.

Targets applicable prior to March 2011

Two-thirds of each award granted	
Average annual growth in EPS period ending on 31 December in the third year	Proportion of allocation vesting
Less than UK RPI + 6% pa	Nil
UK RPI + 6% pa (18% over 3 years)	25%
UK RPI + 6 to 11% pa	Pro-rata between 25% and 100%
Greater than UK RPI + 11% pa (33% over 3 years)	100%
One-third of each award granted	
Ranking 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%

In respect of awards made from March 2011 onwards, the inflation measure applied to EPS will be global CPI weighted according to the group's geographical revenue sources rather than UK RPI, and the lower end of the range will be plus 4% per annum rather than plus 6% per annum.

Targets applicable for awards made in March 2011

Two-thirds of each award granted	
Average annual growth in EPS period ending on 31 December in the third year	Proportion of allocation vesting
Less than global CPI + 4% pa	Nil
Global CPI + 4% pa (12% over 3 years)	25%
Global CPI + 4 to 11% pa	Pro-rata between 25% and 100%
Greater than global CPI + 11% pa (33% over 3 years)	100%
One-third of each award granted	
Ranking 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%

Targets applicable for awards made in March 2012

Half of each award granted	
Average annual growth in EPS period ending on 31 December in the third year	Proportion of allocation vesting
Less than global CPI + 4% pa	Nil
Global CPI + 4% pa (12% over 3 years)	25%
Global CPI + 4 to 11% pa	Pro-rata between 25% and 100%
Greater than global CPI + 11% pa (33% over 3 years)	100%
Half of each award granted	
Ranking 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%

At this time, the Remuneration Committee continues to believe 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. Other measures such as Return On Invested Capital, were considered to be less appropriate for a service company. The committee will however continue to review the operation of the long-term incentive plan and consider whether further improvements can be made during the course of 2013.

In respect of awards made from 2012 onwards, the extent to which allocations of shares under the plan vest will be determined, as to half of the award, by the company's normalised earnings per share growth relative to the global CPI over a single three-year period and half of the award, by the company's ranking by reference to TSR using the bespoke global comparator group, again over a single three-year period. See page 78 for the list of companies that, in addition to G4S, make up the comparator group.

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 future PSP award vesting at the end of the performance period.

There will only be a transfer of shares under the element of the award attributable to TSR if the Remuneration Committee is satisfied that the company's TSR performance is reflective of the company's underlying performance.

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 Watson 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, 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. 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.

Share retention

The committee believes that continued shareholding by executive directors will strengthen the alignment of their interests with shareholders' interests. Accordingly, the current policy requires executive directors to retain 50% of after-tax PSP vestings until a total shareholding equal to 100% of base salary (150% for the chief executive) is achieved. This policy has been extended to senior management, but the minimum shareholding is set at a lower level.

	Minimum shareholding	Value of shares held*	Shareholding as at 31 December 2012	Retention policy met?
Nick Buckles	150% of salary	£4,699,208	566% of salary	Yes
Trevor Dighton	100% of salary	£3,219,306	631% of salary	Yes
Grahame Gibson	100% of salary	£1,807,517	287% of salary	Yes

*Based on shareholding (excluding deferred shares) as at 31 December 2012 and share price of £2.565, as at that date.

Governance

Directors' remuneration report continued

Fees, service contracts and letters of appointment

The fees of the non-executive directors, which are set by the chairman and the executive directors, are subject to periodic review which takes into account comparative fee levels in other groups of a similar size and the anticipated time commitment. Their fees were not increased in 2012; the previous increase having been made in July 2011 (5%). Mr Connolly was appointed as non-executive chairman on 8 June 2012 and his fee was agreed with effect from that date.

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 service contracts are terminable on 12 months' notice by either the company or by the executive directors. 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. The directors' contracts do not provide for the payment of a guaranteed bonus in the event of termination. 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 would consider the application of mitigation obligations in relation to any termination payments. The committee is satisfied that the current arrangements are appropriate and were in line with best practice at the time the executive directors were appointed.

The chairman and the other non-executive directors do not have service contracts but letters of appointment.

	Date of appointment	Extended until	Period of appointment as at 31 December 2012
John Connolly	8 June 2012 for 2 years		6 months
Lord Condon	19 May 2004	AGM 2013	8 years 7 months
Adam Crozier	1 January 2013 for 2 years		–
Mark Elliott	1 September 2006	31 August 2013	6 years 4 months
Winnie Fok	1 October 2010	1 October 2014	2 years 3 months
Bo Lerenius	19 May 2004	AGM 2013	8 years 7 months
Mark Seligman	1 January 2006	31 December 2012	7 years
Paul Spence	1 January 2013 for 2 years		–
Clare Spottiswoode	14 June 2010	13 June 2014	2 years 6 months

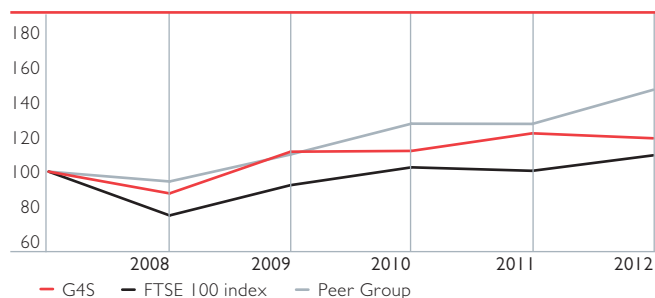
All continuing directors are required to stand for re-election by the shareholders at least once every three years, although they have agreed to submit themselves for re-election annually in accordance with the UK Corporate Governance Code.

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. None of the executive directors currently holds an external non-executive appointment.

Performance graph

The performance graph below shows the total cumulative shareholder return of the company over the five years to the end of December 2012, based on a hypothetical shareholding worth £100, compared with the return achieved by the FTSE-100 constituent companies over the same period. The directors believe this to be an appropriate form of broad equity market index against which to base a comparison given the size and geographic coverage of the company and the fact that the company is itself a member of the FTSE 100. The graph also compares the company's performance over the same period with the bespoke group of companies which is used now for comparative total shareholder return purposes in the company's performance share plan. The values attributable to the bespoke comparator group companies have been weighted in accordance with the market capitalisation of the companies calculated at spot exchange rates as at each year end.

2008–2012 total shareholder return performance Value (p)



The peer group currently** includes G4S and the following companies:

Atkins (WS)	Brambles Ind	Brink's	Bunzl	Capita
Compass	Rexam	Hays	MITIE	Prosegur
Rentokil Initial	Loomis*	Securitas AB	Serco	Sodexo

* Loomis added in respect of awards made from March 2011 onwards

** Garda included in the comparators until 2012

The following information has been audited

Base salaries and bonuses

Executive Directors	Salary and fees £	Value of benefits (excl pensions) £	Payment in lieu of pension £	Performance related bonus £	2012 Total £	2011 Total ¹ £
Nick Buckles	830,000	23,551	332,000	–	1,185,551	1,023,920
Trevor Dighton	510,000	31,749	204,000	–	745,749	697,695
Grahame Gibson (see notes 2 & 3 below)	630,286	37,223	252,114	–	919,623	918,789

Non-executive directors	Base fee £	Senior Independent Director £	Chair of Committee £	Deputy Chair £	2012 Total £	2011 Total ¹ £
Alf Duch-Pedersen	126,409				126,409	280,000
John Connolly	195,412				195,412	–
Lord Condon	56,800	10,500	17,550		84,850	124,600
Mark Elliott	56,800		17,550		74,350	64,225
Winnie Fok	56,800				56,800	55,450
Thorleif Krarup (retired January 2011)	–				–	4,508
Bo Lerenius	56,800				56,800	55,450
Mark Seligman	56,800		17,550	46,800	121,150	82,355
Clare Spottiswoode	56,800				56,800	55,450
Total					3,623,494	3,362,442

Notes:

- The 2011 totals in the above table have been restated to include the payment in lieu of pension received by Nick Buckles from July 2011, by Trevor Dighton from April 2011 and by Grahame Gibson throughout the year.
- The company paid air fares amounting to US\$40,608 for flights between the UK and the USA for Mr Gibson's wife and children. This sum is taxable in the USA and not included in the figures above.
- Mr Gibson receives part of his salary in sterling and part in US\$. The US\$ element has been translated into sterling for the purposes of his salary at the exchange rates prevailing in each month in which Mr Gibson was paid.

The annual base salaries of the executive directors and the annual fees of the non-executive directors at 31 December 2012 were:

Executive directors

Nick Buckles	£830,000
Trevor Dighton	£510,000
Grahame Gibson	£53,444 and US\$917,112

Non-executive directors

John Connolly (chairman)	£348,000
Lord Condon	£84,850
Mark Elliott	£74,350
Winnie Fok	£56,800
Bo Lerenius	£56,800
Mark Seligman	£121,150
Clare Spottiswoode	£56,800

Governance

Directors' remuneration report continued

Directors' interests in Performance Share Plan

Executive directors	Conditional shares held at 31.12.11	Shares awarded conditionally on 19.03.12	Face value of 2012 awards*	2009 awards	Conditional shares held at 31.12.12
Nick Buckles	2,059,132	598,996	2 times salary	(820,032)	1,838,096
Trevor Dighton	958,978	276,043	1.5 times salary	(383,877)	851,144
Grahame Gibson	1,036,756	290,084	1.5 times salary	(420,298)	906,542

*Market price at date of award was 277.13p

The conditions subject to which allocations of conditional shares vest under this plan are described under (c) Performance Share Plan on pages 76 and 77.

During the year under review the performance share plan awarded in March 2009 vested in March 2012. The vesting percentage is 14.403%, split as follows.

Criteria	Split	Actual performance	Vesting level
Earnings per share	2/3	25.3%	0%
Total shareholder return	1/3	Between 7th and 8th in a group of 15 other companies	43.21%

The number of shares from the performance share plan that vested in March 2012

	Conditional shares awarded in March 2009	Number of shares vested	Additional shares arising from dividends	Shares released before PAYE deductions
Nick Buckles	820,032	118,112	n/a*	n/a
Trevor Dighton	383,877	55,291	n/a*	n/a
Grahame Gibson	420,298	60,538	4,858	65,396

Market price at date of vesting (16.3.2012) was 276.3p.

*Additional shares arising from dividends since the date of the award will be added when the shares are released.

Directors' interests in shares of G4S plc (unaudited)

Interests shown below exclude shares awarded conditionally under the performance share plan as shown above.

Executive directors		As at 31.12.2012	As at 31.12.2011
Nick Buckles	Deferred shares*	370,568	252,455
	Shares	1,832,050	1,832,050
	Total	2,202,618	2,084,505
Trevor Dighton	Deferred shares*	200,452	145,161
	Shares	1,255,090	1,255,090
	Total	1,455,542	1,400,251
Grahame Gibson	Deferred shares*	67,869	150,527
	Shares	704,685	706,509
	Total	772,554	857,036
John Connolly		100,000	–
Paul Condon		2,029	2,029
Mark Elliott		25,000	25,000
Winnie Fok		20,000	20,000
Bo Lerenius		16,000	16,000
Mark Seligman		75,496	75,496
Clare Spottiswoode		–	–

*The deferred shares are those granted and held in trust, including those that have vested but have not yet been released, but do not include the further shares with a value equivalent to the dividends which would have been paid.

There have been no changes in the executive directors' holdings since 31 December 2012.

As at 31 December 2012, each of Nick Buckles, Trevor Dighton and Grahame Gibson also had a deemed interest in 7,589,853 ordinary shares held in the G4S Employee Benefit Trust.

Directors' pension entitlements

The executive directors have ceased accruing pensions under the defined benefit scheme. A salary supplement in lieu of pension at the rate of 40% of basic salary is paid instead. The dates from which the cessation of pensionable service took place are set out below.

	Date
Nick Buckles	5 July 2011
Trevor Dighton	6 April 2011
Grahame Gibson	6 April 2006

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 accrued pension 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.

Pension entitlements and corresponding transfer values during the 12 months ended 31 December 2012 (all figures are in £'000s) are shown below:

Executive directors	Gross increase in accrued pension	Increase in accrued pension net of inflation (CPI)	Total accrued pension at 31/12/12	Value of net increase in accrual over period	Total change in transfer value during period	Transfer value of accrued pension at 31/12/12	Transfer value of accrued pension at 31/12/11
Nick Buckles	9	–	412	–	818	9,523	8,705
Trevor Dighton	–	–	128	–	158	3,408	3,250
Grahame Gibson	–	–	20	–	23	338	315

Notes

- (i) Mr Buckles' accrued pension is still linked to salary but as the pensionable salary did not increase during the year, his accrued pension is based on the deferred pension at the date he ceased accrual (5 July 2011) increased to the year end in line with an inflation index.
- (ii) In 2011, Mr Gibson transferred the majority of his benefits to a private pension arrangement leaving a residual preserved benefit of £20k pa payable from age 60.
- (iii) Mr Dighton is over the normal retirement age of 60 and hence, consistent with last year's disclosure, the transfer value is calculated on the assumption that he retired at the end of the year.
- (iv) Mr Dighton's accrued pension represents that amount accrued to 6 April 2011 before the application of any later retirement factor.
- (v) Pension accruals shown are the amounts which would be paid annually on retirement.
- (vi) Transfer values have been calculated in accordance with the current transfer value basis adopted by the trustees of the G4S Pension Scheme in May 2011.

Lord Condon

Chairman of the Remuneration Committee

12 March 2013

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).

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and parent company and of their profit or loss for that period. 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 judgements 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 adequate accounting records that are sufficient to show and explain the parent company's transactions and 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 2006. 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 directors' report, directors' remuneration report and corporate governance statement that comply with that law and those regulations.

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

Directors' Responsibility Statement

Each of the directors, the names of whom are set out on pages 54 to 57 of this annual report confirm that, to the best of his or her knowledge: the financial statements in this annual report have been prepared in accordance with the applicable accounting standards and give a true and fair view of the assets, liabilities, financial position and profit of the company and the group taken as a whole; and the directors' report, including the Business Review on pages 8 to 47, includes a fair review of the development and performance of the business and the position of the company and the group taken as a whole, together with a description of the principal risks and uncertainties they face.

The statement of directors' responsibilities was approved by a duly authorised committee of the board of directors on 12 March 2013 and signed on its behalf by Trevor Dighton, chief financial officer.

Trevor Dighton

Chief financial officer
12 March 2013

Independent auditor's report to the members of G4S plc

We have audited the financial statements of G4S plc for the year ended 31 December 2012 set out on pages 84 to 141. The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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 auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 82, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2012 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU;
- the parent company financial statements have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006; and, as regards the group financial statements, Article 4 of the IAS Regulation.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- the directors' statement, set out on page 89, in relation to going concern;
- the part of the Corporate Governance Statement on pages 65 to 71 relating to the company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review; and
- certain elements of the report to shareholders by the board on directors' remuneration.

John Luke (Senior Statutory Auditor)

for and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants
15 Canada Square
Canary Wharf
E14 5GL
12 March 2013

Consolidated income statement

For the year ended 31 December 2012

	Notes	2012 Ex. Olympics £m	2012 Olympics £m	2012 Total £m	2011 Total £m
Continuing operations					
Revenue	5, 6	7,297	204	7,501	6,966
Profit from operations before amortisation and impairment of acquisition-related intangible assets and exceptional items (PBITA)	6	516	–	516	502
Amortisation and impairment of acquisition-related intangible assets		(86)	–	(86)	(96)
Acquisition-related expenses		(7)	–	(7)	(2)
Exceptional items:					
– Net loss on Olympics contract		–	(70)	(70)	–
– Other costs on Olympics		–	(11)	(11)	–
– Sponsorship costs on Olympics		–	(7)	(7)	–
– Restructuring costs		(45)	–	(45)	–
– Aborted acquisition and legal settlement costs		–	–	–	(55)
		(45)	(88)	(133)	(55)
Profit/(loss) from operations before interest and taxation (PBIT)	6, 8	378	(88)	290	349
Finance income	12	94	–	94	111
Finance costs	13	(206)	(3)	(209)	(203)
Profit/(loss) before taxation (PBT)		266	(91)	175	257
Taxation:					
– Before amortisation and impairment of acquisition-related intangible assets and exceptional items				(90)	(92)
– On amortisation of acquisition-related intangible assets				25	25
– On acquisition-related expenses				2	1
– On exceptional items				21	13
	14			(42)	(53)
Profit after taxation				133	204
Loss from discontinued operations	7			(63)	(6)
Profit for the year				70	198
Attributable to:					
Equity holders of the parent				48	181
Non-controlling interests				22	17
Profit for the year				70	198
Earnings per share attributable to equity shareholders of the parent	16				
For profit from continuing operations:					
Basic and diluted				7.9p	13.3p
For profit from continuing and discontinued operations:					
Basic and diluted				3.4p	12.9p

Consolidated statement of comprehensive income

For the year ended 31 December 2012

	Note	2012 £m	2011 £m
Profit for the year		70	198
Other comprehensive income			
Exchange differences on translation of foreign operations		(95)	(65)
Change in fair value of net investment hedging financial instruments		(4)	–
Change in fair value of cash flow hedging financial instruments		(6)	8
Actuarial losses on defined retirement benefit schemes		(177)	(73)
Tax on items taken directly to equity	14	37	9
Other comprehensive income, net of tax		(245)	(121)
Total comprehensive income for the year		(175)	77
Attributable to:			
Equity holders of the parent		(194)	62
Non-controlling interests		19	15
Total comprehensive income for the year		(175)	77

Overview

Strategic review

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Consolidated statement of changes in equity

For the year ended 31 December 2012

	Attributable to equity holders of the parent				Total £m	NCI reserve £m	Total reserves £m
	Share capital £m	Share premium £m	Retained earnings £m	Other reserves* £m			
At 1 January 2011	353	258	420	546	1,577	46	1,623
Total comprehensive income	–	–	110	(48)	62	15	77
Dividends declared	–	–	(114)	–	(114)	(10)	(124)
Own shares purchased	–	–	–	(13)	(13)	–	(13)
Own shares awarded	–	–	(9)	9	–	–	–
Transactions with non-controlling interests	–	–	(19)	–	(19)	(1)	(20)
Equity-settled transactions	–	–	1	–	1	–	1
At 31 December 2011	353	258	389	494	1,494	50	1,544
At 1 January 2012	353	258	389	494	1,494	50	1,544
Total comprehensive income	–	–	(126)	(68)	(194)	19	(175)
Dividends declared	–	–	(120)	–	(120)	(18)	(138)
Own shares purchased	–	–	–	(6)	(6)	–	(6)
Own shares awarded	–	–	(2)	2	–	–	–
Transactions with non-controlling interests	–	–	2	–	2	4	6
At 31 December 2012	353	258	143	422	1,176	55	1,231

*See Note 38

Consolidated statement of financial position

As at 31 December 2012

	Notes	2012 £m	2011 £m
ASSETS			
Non-current assets			
Goodwill	19	2,123	2,205
Other acquisition-related intangible assets	19	204	269
Other intangible assets	19	87	87
Property, plant and equipment	20	512	531
Investment in associates	22	3	9
Trade and other receivables	25	129	162
Deferred tax assets	36	179	157
	6	3,237	3,420
Current assets			
Inventories	23	128	123
Investments	24	56	70
Trade and other receivables	25	1,497	1,546
Cash and cash equivalents	28	469	433
Assets classified as held for sale	27	229	35
		2,379	2,207
Total assets	6	5,616	5,627
LIABILITIES			
Current liabilities			
Bank overdrafts	28, 29	(17)	(53)
Bank loans	29	(18)	(47)
Loan notes	29	(40)	–
Obligations under finance leases	30	(18)	(16)
Trade and other payables	31	(1,196)	(1,251)
Current tax liabilities		(41)	(48)
Provisions	35	(32)	(30)
Liabilities associated with assets classified as held for sale	27	(52)	(29)
		(1,414)	(1,474)
Non-current liabilities			
Bank loans	29	(327)	(885)
Loan notes	29	(1,999)	(1,180)
Obligations under finance leases	30	(43)	(48)
Trade and other payables	31	(18)	(19)
Retirement benefit obligations	34	(471)	(344)
Provisions	35	(45)	(41)
Deferred tax liabilities	36	(68)	(92)
		(2,971)	(2,609)
Total liabilities	6	(4,385)	(4,083)
Net assets		1,231	1,544
EQUITY			
Share capital	37	353	353
Share premium and reserves	38	823	1,141
Equity attributable to equity holders of the parent		1,176	1,494
Non-controlling interests		55	50
Total equity		1,231	1,544

The consolidated financial statements were approved by the board of directors and authorised for issue on 12 March 2013.

They were signed on its behalf by:

Nick Buckles
Director

Trevor Dighton
Director

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Consolidated statement of cash flow

For the year ended 31 December 2012

	Notes	2012 £m	2011 £m
Profit before taxation		175	257
Adjustments for:			
Finance income		(94)	(111)
Finance costs		209	203
Depreciation of property, plant and equipment		121	120
Amortisation and impairment of acquisition-related intangible assets		86	96
Amortisation of other intangible assets		24	17
Acquisition-related expenses		7	2
Profit on disposal of property, plant and equipment and intangible assets other than acquisition-related		(3)	(11)
Profit on disposal of subsidiaries		(2)	(33)
Equity-settled transactions		–	1
Operating cash flow before movements in working capital		523	541
Increase in inventories		(14)	(20)
Increase in receivables		(117)	(123)
Increase in payables		6	77
Decrease in provisions		(5)	(7)
Decrease in retirement benefit obligations		(37)	(40)
Net cash flow from operating activities of continuing operations		356	428
Net cash flow from operating activities of discontinued operations		16	21
Cash generated by operations		372	449
Tax paid		(85)	(77)
Net cash flow from operating activities		287	372
Investing activities			
Interest received		6	17
Cash flow from associates		3	4
Purchases of property, plant and equipment and intangible assets other than acquisition-related		(160)	(173)
Proceeds on disposal of property, plant and equipment and intangible assets other than acquisition-related		23	31
Acquisition of subsidiaries		(101)	(165)
Net cash balances acquired		15	6
Disposal of subsidiaries		19	37
Sale of investments		–	10
Net cash used in investing activities		(195)	(233)
Financing activities			
Dividends paid to non-controlling interests		(19)	(10)
Dividends paid to equity shareholders of the parent		(120)	(114)
Other net movement in borrowings		324	239
Transactions with non-controlling interests		6	(18)
Interest paid		(117)	(119)
Repayment of obligations under finance leases		(22)	(17)
Own shares purchased		(6)	(13)
Net cash flow from/(used in) financing activities		46	(52)
Net increase in cash, cash equivalents and bank overdrafts	39	138	87
Cash, cash equivalents and bank overdrafts at the beginning of the year		370	306
Effect of foreign exchange rate fluctuations on cash held		(36)	(23)
Cash, cash equivalents and bank overdrafts at the end of the year	28	472	370

Notes to the consolidated financial statement

1. General information

G4S plc is a company incorporated in the United Kingdom under the Companies Act 1985. The consolidated financial statements incorporate the financial statements of the company and entities (its subsidiaries) controlled by the company (collectively comprising the group) and the group's interest in associates and jointly controlled entities made up to 31 December each year. The 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. The address of the registered office is given on page 150.

In preparing the financial statements this year the format and layout of certain disclosures have been revised in regard to the principles set out in the Financial Reporting Council's publication 'Cutting Clutter'. These revisions have been implemented to make the financial statements easier to follow and to provide readers with a clearer understanding of the financial performance of the group.

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 132 to 141.

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 policies which have a significant effect on the financial statements, and estimates with a significant risk of material adjustment, are discussed in note 4. 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. Further information on the going concern assessment is given in note 33 on pages 116 to 119.

The comparative income statement for the year ended 31 December 2011 has been re-presented for operations qualifying as discontinued during the current year. Revenue from continuing operations has been reduced by £556m and PBT has been decreased by £22m compared to the figures published previously. Further details of discontinued operations are presented within note 7. In addition, the comparative consolidated statement of financial position as at 31 December 2011 has been restated to reflect the completion during 2012 of the initial accounting in respect of acquisitions made during 2011. Adjustments made to the provisional calculation of the fair values of assets and liabilities acquired amount to £9m, 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. The prior year statement of changes in equity has been restated to show the movements in the reserve for non-controlling interests. The prior year cash flow statement has been restated to show own shares purchased within financing activities, rather than investing activities.

(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. The cost of acquisition is measured as the acquisition date fair values of the assets transferred to the vendor and does not include transaction costs. 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 deferred and contingent consideration payable, including that in respect of put options held by non-controlling shareholders, as estimated at the date of acquisition. For acquisitions prior to 1 January 2010 subsequent changes to the present value of the estimate of contingent consideration and any difference upon final settlement of such a liability are recognised as adjustments to the cost of acquisition. For acquisitions after 1 January 2010 such changes are recognised in the income statement with respect to contingent consideration and in other comprehensive income with respect to put options. Non-controlling interests are stated at their proportion of the fair values of the assets and liabilities recognised. Profits and losses are applied in the proportion of their respective ownership to the interest of the parent and to the non-controlling interest.

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 consolidated statement of financial position 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 other comprehensive income, together with exchange differences arising on monetary items that are in substance a part of the group's net investment in foreign operations and on borrowings and other currency instruments designated as hedges of such investments where and to the extent that the hedges are deemed to be effective. On disposal translation differences are recognised in the income statement in the period in which the operation is disposed of.

(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, commodity risk in relation to its diesel consumption 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. The group manages these risks through a range of derivative financial instruments, including interest rate swaps, fixed rate agreements, commodity swaps, commodity options, forward foreign exchange contracts and currency swaps.

Derivative financial instruments are recognised in the consolidated statement of financial position as financial assets or liabilities at fair value.

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

Fair value hedge

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

Cash flow and net investment hedges

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 or 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.

3. Significant accounting policies continued

(e) Intangible assets

Goodwill

All business combinations are accounted for by the application of the acquisition 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. No goodwill arises on the acquisition of an additional interest from a non-controlling interest in a subsidiary as this is accounted for as an equity transaction. 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. 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.

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

Other intangible assets

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.

Capitalised computer software is stated at cost, net of amortisation and any provision for impairment. Amortisation is charged on software so as to write off the cost of the assets to their estimated residual values by equal annual instalments over their expected useful economic lives up to a maximum of eight years.

(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 50 years
Short leasehold buildings (under 50 years)	over the life of the lease
Equipment and motor vehicles	two to ten years

Assets held under finance leases are depreciated over the shorter of their expected useful economic lives or 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.

(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 a bad debt 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.

Service concession assets

Under the terms of a Private Finance Initiative (PFI) or similar project the risks and rewards of ownership of an asset remain largely with the purchaser of the associated services. In such cases, the group's interest in the asset is classified as a financial asset and included at its discounted value within trade and other receivables, to the extent to which the group has an unconditional right to receive cash from the grantor of the concession for the construction of the asset. To the extent that the group has the right to charge for the use of such an asset, conditional upon the extent of the use, the group recognises an intangible asset.

3. Significant accounting policies continued

(g) Financial instruments continued

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.

(i) Impairment

The carrying value of the group's assets, with the exception of 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.

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) 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.

The retirement benefit obligation recognised in the consolidated statement of financial position 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.

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 comprehensive income.

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.

(k) 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.

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

3. Significant accounting policies continued

(l) Revenue recognition

Revenue

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

Construction contracts

Where significant, security system installations with a contract duration in excess of one month are accounted for as construction contracts. Where the outcome of a construction contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the balance sheet date. This is measured either by the proportion that contract costs incurred for work to date bears to the estimated total contract costs or by the proportion that sales value of work completed to date bears to the total sales value. Variations in contract work, claims and incentive payments are included to the extent that it is likely that they will be agreed with the customer.

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

Construction contracts are recognised in the consolidated statement of financial position at cost plus profit recognised to date, less provision for foreseeable losses and less progress billings. Balances are not offset.

(m) Pre-contract costs

Pre-contract costs in respect of major outsourcing contracts incurred after the point at which the group achieves preferred bidder status, at which point it is considered probable that the contract will be obtained, are capitalised and expensed over the life of the contract (subject to recoverability criteria). Costs incurred prior to this point are expensed as incurred. Capitalised costs are expensed immediately in the event that the bidder status is not followed by the award of the contract.

(n) 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's net carrying amount. Borrowing costs are recognised as an expense 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 by quantum or nature, including major restructuring costs and other one off items, are included within profit from operations but are disclosed separately.

(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.

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

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

Deferred tax is measured based on the tax rates that have been enacted or substantively enacted by the end of the reporting period.

3. Significant accounting policies continued

(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. This classification can be a matter of fine judgement.

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 consolidated statement of financial position as a finance lease obligation. 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) Non-current assets held for sale and discontinued operations

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

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

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

(s) Dividend distribution

Dividends are recognised as distributions to equity holders in the period in which they are paid or approved by the shareholders in general meeting.

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

A number of new standards, amendments to standards and interpretations became effective for the year ended 31 December 2012, but none of these had a material effect on the consolidated financial statements of the group. The group has not adopted early any standard, amendment or interpretation. A number of new standards, amendments to standards and interpretations have been announced but are not yet effective for the year ended 31 December 2012. One of these amendments is to IAS19 Employee Benefits. The amendment makes changes to recognition, measurement and disclosure of defined benefit expense, in particular requiring that the return on investment assets recognised in the income statement be calculated at the same interest rate as that used for calculating the finance cost on the obligations, and to the disclosures of employee benefits. None of the new standards is expected to have a material effect on the consolidated financial statements of the group.

4. Accounting estimates, judgements and assumptions

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of the group's accounting policies, which are described in note 3, with respect to the carrying amounts of assets and liabilities at the date of the financial statements, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. These judgements, estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, including current and expected economic conditions, and in some cases, actuarial techniques. Although these judgements, estimates and associated assumptions are based on management's best knowledge of current events and circumstances, the actual results may differ.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

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

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 relevant to the acquisition. Furthermore, management make an assessment of the useful economic life of acquired intangible assets upon recognition. Full details of the fair values of assets and liabilities of acquired businesses are presented in note 17.

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

The group tests tangible and intangible assets, including goodwill, for impairment on an annual basis or more frequently if there are indications that amounts may be impaired. The impairment analysis for such assets is based principally upon discounted estimated future cash flows from the use and eventual disposal of the assets. Such an analysis includes estimation of future results, cash flows, any annual growth rates and judgement as to 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, as defined by IAS 18, is as follows:

	Notes	2012 £m	2011 £m
Continuing operations			
Sale of goods		154	218
Rendering of services		7,126	6,524
Revenue from construction contracts		221	224
Revenue from continuing operations as presented in the consolidated income statement	6	7,501	6,966
Discontinued operations			
Sale of goods		1	3
Rendering of services		535	676
Revenue from construction contracts		2	3
Revenue from discontinued operations	6, 7	538	682
Other operating income			
Interest income		12	18
Expected return on defined retirement benefit scheme assets		82	93
Total other operating income		94	111
Total revenue as defined by IAS 18		8,133	7,759

6. Operating segments

The group operates in two core product areas: secure solutions and cash solutions which represent the group's reportable segments. For each of the reportable segments, the group's CEO (the chief operating decision maker) reviews internal management reports on a regular basis. The group operates on a worldwide basis and derives a substantial proportion of its revenue, PBITA and PBIT from each of the following geographical regions: Europe (comprising the United Kingdom and Ireland, and Continental Europe), North America, and Developing markets (comprising the Middle East and Gulf States, Latin America and the Caribbean, Africa, and Asia Pacific).

Segment information is presented below:

Revenue by reportable segment

	Continuing operations 2012 £m	Discontinued operations 2012 £m	Total 2012 £m	Continuing operations 2011 £m	Discontinued operations 2011 £m	Total 2011 £m
Secure solutions						
UK and Ireland	1,516	–	1,516	1,252	–	1,252
Continental Europe	1,393	20	1,413	1,475	29	1,504
Europe	2,909	20	2,929	2,727	29	2,756
North America	1,311	425	1,736	1,169	483	1,652
Middle East and Gulf States	381	48	429	368	74	442
Latin America and the Caribbean	582	2	584	427	4	431
Africa	357	1	358	346	3	349
Asia Pacific	671	25	696	635	22	657
Developing markets	1,991	76	2,067	1,776	103	1,879
Total Secure solutions	6,211	521	6,732	5,672	615	6,287
Cash solutions						
Europe	780	14	794	817	60	877
North America	114	–	114	106	–	106
Developing markets	396	3	399	371	7	378
Total Cash solutions	1,290	17	1,307	1,294	67	1,361
Total revenue	7,501	538	8,039	6,966	682	7,648

Revenue by geographical area

	Total 2012 £m	Total 2011 £m
UK and Ireland*	1,963	1,708
Continental Europe	1,760	1,925
Europe	3,723	3,633
North America	1,850	1,758
Middle East and Gulf States	501	504
Latin America and the Caribbean	644	489
Africa	479	474
Asia Pacific	842	790
Developing markets	2,466	2,257
Total revenue	8,039	7,648

Revenue from internal and external customers by reportable segment

	Total gross segment revenue 2012 £m	Inter-segment revenue 2012 £m	External revenue 2012 £m	Total gross segment revenue 2011 £m	Inter-segment revenue 2011 £m	External revenue 2011 £m
Secure solutions	6,737	(5)	6,732	6,296	(9)	6,287
Cash solutions	1,307	–	1,307	1,361	–	1,361
Total revenue	8,044	(5)	8,039	7,657	(9)	7,648

Inter-segment sales are charged at prevailing market prices.

*UK and Ireland revenue includes £1.851m relating to the UK (2011: £1.591m).

6. Operating segments continued

PBITA by reportable segment

	Continuing operations 2012 £m	Discontinued operations 2012 £m	Total 2012 £m	Continuing operations 2011 £m	Discontinued operations 2011 £m	Total 2011 £m
Secure solutions						
UK and Ireland	115	–	115	119	–	119
Continental Europe	75	(4)	71	81	(4)	77
Europe	190	(4)	186	200	(4)	196
North America	76	(1)	75	72	16	88
Middle East and Gulf States	33	–	33	31	6	37
Latin America and the Caribbean	51	–	51	37	(3)	34
Africa	29	–	29	33	1	34
Asia Pacific	39	2	41	35	2	37
Developing markets	152	2	154	136	6	142
Total Secure solutions	418	(3)	415	408	18	426
Cash solutions						
Europe	78	(1)	77	88	(9)	79
North America	5	–	5	2	–	2
Developing markets	52	(3)	49	47	1	48
Total Cash solutions	135	(4)	131	137	(8)	129
Total PBITA before head office costs	553	(7)	546	545	10	555
Head office costs	(37)	–	(37)	(43)	–	(43)
Total PBITA	516	(7)	509	502	10	512

PBITA by geographical area

Europe	268	(5)	263	288	(13)	275
North America	81	(1)	80	74	16	90
Developing markets	204	(1)	203	183	7	190
Total PBITA before head office costs	553	(7)	546	545	10	555
Head office costs	(37)	–	(37)	(43)	–	(43)
Total PBITA	516	(7)	509	502	10	512

Reconciliation to PBIT

	Continuing operations 2012 £m	Discontinued operations 2012 £m	Total 2012 £m	Continuing operations 2011 £m	Discontinued operations 2011 £m	Total 2011 £m
Total PBITA	516	(7)	509	502	10	512
Amortisation and impairment of acquisition-related intangible assets	(86)	(3)	(89)	(96)	(3)	(99)
Impairment of assets relating to disposal groups	–	(35)	(35)	–	(6)	(6)
Acquisition-related costs	(7)	–	(7)	(2)	–	(2)
Exceptional items	(133)	–	(133)	(55)	–	(55)
Total PBIT	290	(45)	245	349	1	350

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. Operating segments continued

Segment assets and liabilities

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

	2012 £m	2011 £m
Total assets		
By reportable segment		
Secure solutions	3,620	3,652
Cash solutions	1,070	1,103
Head office	294	228
Inter-segment trading balances	(272)	(173)
Total segment operating assets	4,712	4,810
Non-operating assets	904	817
Total assets	5,616	5,627
Total liabilities		
By reportable segment		
Secure solutions	(1,259)	(1,245)
Cash solutions	(212)	(202)
Head office	(76)	(46)
Inter-segment trading balances	272	173
Total segment operating liabilities	(1,275)	(1,320)
Non-operating liabilities	(3,110)	(2,763)
Total liabilities	(4,385)	(4,083)
Non-current operating assets		
By geographical area		
UK and Ireland*	1,195	1,231
Continental Europe	440	472
Europe	1,635	1,703
North America	539	633
Middle East and Gulf States	54	56
Latin America and the Caribbean	315	240
Africa	150	168
Asia Pacific	237	248
Developing markets	756	712
Head office	127	122
Total segment non-current operating assets	3,057	3,170
Non-operating assets	274	263
Less: Non-current assets held for sale	(94)	(13)
Total non-current assets	3,237	3,420

*UK and Ireland non-current operating assets include £1,158m of assets relating to the UK (2011: £1,206m).

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 £183m (2011: £33m) and £46m (2011: £2m) respectively relating to disposal groups classified as held for sale. Included within operating and non-operating liabilities are £36m (2011: £19m) and £16m (2011: £10m) respectively relating to liabilities associated with disposal groups classified as held for sale. Disposal groups are analysed in note 27.

6. Operating segments continued

Other information

	Impairment losses recognised in income 2012 £m	Depreciation and amortisation 2012 £m	Capital additions 2012 £m	Impairment losses recognised in income 2011 £m	Depreciation and amortisation 2011 £m	Capital additions 2011 £m
By reportable segment						
Secure solutions	35	151	192	13	145	257
Cash solutions	–	85	84	6	89	86
Head office	–	4	7	–	1	9
Total	35	240	283	19	235	352

	Capital additions 2012 £m	Capital additions 2011 £m
By geographical area		
UK and Ireland	59	101
Continental Europe	49	59
Europe	108	160
North America	17	27
Middle East and Gulf States	5	4
Latin America and the Caribbean	108	113
Africa	16	13
Asia Pacific	22	26
Developing markets	151	156
Head office	7	9
Total	283	352

7. Discontinued operations

Operations qualifying as discontinued in 2012 comprise the cash and secure solutions businesses in Pakistan, which were disposed of in October 2012, the electronic monitoring justice business in North America, which was disposed of in April 2012, and the US government solutions business. Following a strategic review, the group decided to divest its US government solutions business to a parent able to add or create more value than it is able to, being a foreign parent with limited control over the business strategy and restricted access to the data required to run the business successfully. The sale is expected to complete during 2013.

Operations qualifying as discontinued in 2011 comprised the cash and secure solutions businesses in Poland, which were disposed of in September 2012; the cash solutions business in Sweden, which was disposed of in February 2012 and the secure solutions business in Russia. The UK Risk Assessment business in Afghanistan was classified as held for sale in December 2011, however, upon the extension of a major contract, it has been reclassified as continuing as at 31 December 2012.

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

	2012 £m	2011 £m
Revenue	538	682
Expenses	(548)	(675)
Impairment of assets	(35)	(6)
Operating loss before interest and taxation (PBIT)	(45)	1
Net finance costs	(4)	(5)
Attributable tax credit/(charge)	6	(2)
Total operating loss for the year	(43)	(6)
Loss on disposal of discontinued operations	(20)	–
Net loss attributable to discontinued operations	(63)	(6)

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

The impairment of assets in 2012 relates to the US government solutions business to bring its net assets down to its realisable value.

The impairment of assets in 2011 relates to the sale of the Swedish cash business which was sold in 2012 for total proceeds below the carrying value of its assets.

7. Discontinued operations continued

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

	2012 £m	2011 £m
Net cash flows from operating activities	16	21
Net cash flows from investing activities	5	(12)
Net cash flows from financing activities	(3)	(11)
	18	(2)

8. Profit from operations before interest and taxation (PBIT)

The income statement can be analysed as follows:

Continuing operations	2012 Ex. Olympics £m	2012 Olympics £m	2012 Total £m	2011 Total £m
Revenue	7,297	204	7,501	6,966
Cost of sales	(5,682)	(274)	(5,956)	(5,414)
Gross profit	1,615	(70)	1,545	1,552
Administration expenses	(1,237)	(18)	(1,255)	(1,203)
PBIT	378	(88)	290	349

Included within administration expenses in the current year is £86m of amortisation of acquisition-related intangible assets, £7m of acquisition-related expenses and £45m of restructuring costs. During 2012 the group undertook a detailed review of the overhead structure across all reporting levels and geographies in order to maximise efficiency and eliminate duplication. Restructuring generated a headcount reduction of over 1,500 positions.

In February 2013, the group announced that it had agreed a financial settlement with the London Organising Committee of the Olympic and Paralympic Games in respect of the provision of the security workforce for the London 2012 Olympic and Paralympic Games. The terms of the settlement meant that the group incurred an overall loss on the contract of approximately £70m (recorded in cost of sales), plus additional costs mainly relating to charitable donations and external fees of £11m, and further sponsorship and marketing costs of £7m, both of which are included within administrative expenses.

As explained in the financial review on page 43, the £45 million of restructuring costs and the Olympics contract which made an £88 million loss have both been treated as exceptional items and disclosed separately on the face of the income statement on the basis of their quantum and one off nature. The group considers the entire Olympics contract, including all directly attributable costs, to be exceptional as the scale and complexity of the contract means it can be distinguished from the group's underlying operations.

For 2011 the revenue and PBITA relating to the Olympics contract is not sufficiently material to require separate disclosure.

Included within administration expenses in the prior year is £83m of amortisation of acquisition-related intangible assets and a £13m goodwill impairment charge relating to the group's businesses in Greece, £2m of acquisition-related expenses and £55m of aborted acquisition and legal costs. The aborted acquisition costs include debt finance underwriting fees, financing and hedging costs that arose on the proposed acquisition of ISS A/S which was terminated on 1 November 2011.

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):

	2012 £m	2011 £m
Cost of sales		
Cost of inventories recognised as an expense	90	101
Write-down of inventories to net realisable value	–	2
Net loss on Olympics contract	70	–
Administration expenses		
Acquisition-related expenses	7	2
Aborted acquisition costs	–	55
Other costs on Olympics	11	–
Sponsorship costs on Olympics	7	–
Restructuring costs	45	–
Amortisation of acquisition-related intangible assets	89	86
Goodwill impairment	–	13
Amortisation of other intangible assets	24	18
Impairment of goodwill and other assets relating to disposal groups	35	6
Depreciation of property, plant and equipment	127	131
Profit on disposal of property, plant and equipment and intangible assets other than acquisition-related	(3)	(11)
Loss/(profit) on disposal of subsidiaries	18	(33)
Impairment of trade receivables	28	13
Litigation settlements	1	1
Research and development expenditure	5	6
Operating lease rentals payable	131	143
Operating sub-lease rentals receivable	(14)	(14)
Government grants received as a contribution towards wage costs	–	(1)

10. Auditors' remuneration

	2012 £m	2011 £m
Fees payable to the company's auditor for the audit of the company's annual report and accounts	1	1
Fees payable to the company's auditor and its associates for other services:		
The audit of the company's subsidiaries pursuant to legislation	5	5
Corporate finance services	–	1
Fees payable to other auditors for the audit of the company's subsidiaries pursuant to legislation	1	1

The Corporate Governance Statement on pages 65 to 71 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:

	2012 Number	2011 Number
By reportable segment		
Secure solutions	595,950	589,673
Cash solutions	52,178	50,078
Not allocated, including shared administration and head office	126	153
Total average number of employees	648,254	639,904
By geographical area		
Europe	127,136	123,237
North America	59,062	55,005
Developing markets	461,930	461,509
Not allocated, including shared administration and head office	126	153
Total average number of employees	648,254	639,904

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

	2012 £m	2011 £m
Wages and salaries	4,689	4,404
Social security costs	552	553
Employee benefits	211	170
Total staff costs	5,452	5,127

Information on directors' remuneration, long-term incentive plans, and pension contributions and entitlements is set out in the Directors' Remuneration Report on pages 72 to 81.

12. Finance income

	2012 £m	2011 £m
Interest income on cash, cash equivalents and investments	11	10
Other interest income	1	8
Expected return on defined retirement benefit scheme assets	82	93
Loss arising from change in fair value of derivative financial instruments hedging loan notes	(6)	(22)
Gain arising from fair value adjustment to the hedged loan note items	6	22
Total finance income	94	111

13. Finance costs

	2012 £m	2011 £m
Interest on bank overdrafts and loans	35	32
Interest on loan notes	83	73
Interest receivable on loan note related derivatives	(10)	–
Interest on obligations under finance leases	4	4
Other interest charges	7	4
Total group borrowing costs	119	113
Finance costs on defined retirement benefit obligations	90	90
Total finance costs	209	203

Included within interest on bank overdrafts and loans is a charge of £6m (2011: £9m) relating to cash flow hedges that were transferred from equity during the year.

14. Taxation

	Continuing operations 2012 £m	Discontinued operations 2012 £m	Total 2012 £m	Continuing operations 2011 £m	Discontinued operations 2011 £m	Total 2011 £m
Current taxation expense/(credit)						
UK corporation tax	6	–	6	2	–	2
Overseas tax	72	(2)	70	76	3	79
Adjustments in respect of prior years:						
UK corporation tax	(3)	–	(3)	(10)	–	(10)
Overseas tax	(1)	–	(1)	(6)	–	(6)
Total current taxation expense/(credit)	74	(2)	72	62	3	65
Deferred taxation credit (see note 36)						
Current year	(26)	–	(26)	(3)	–	(3)
Adjustments in respect of prior years	(6)	(4)	(10)	(6)	(1)	(7)
Total deferred taxation credit	(32)	(4)	(36)	(9)	(1)	(10)
Total income tax expense/(credit) for the year	42	(6)	36	53	2	55

UK corporation tax is calculated at 24.5% (2011: 26.5%) of the estimated assessable profits for the period. Overseas tax is calculated at the corporation tax rates prevailing in the relevant jurisdictions.

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

	2012 £m	2011 £m
Profit before taxation		
Continuing operations	175	257
Discontinued operations	(69)	(4)
Total profit before taxation	106	253
Tax at UK corporation tax rate of 24.5% (2011: 26.5%)	26	67
Expenses that are not deductible in determining taxable profit	9	6
Tax losses not recognised in the current year	8	2
Different tax rates of subsidiaries operating in non-UK jurisdictions	8	5
Movement in deferred tax balance due to reduction in UK rate to 23% from 1 April 2013	(1)	(3)
Adjustments for previous years	(14)	(22)
Total income tax charge	36	55
Effective tax rate	34%	22%

The following taxation (credit)/charge has been recognised directly in equity within the statement of comprehensive income:

	2012 £m	2011 £m
Tax relating to components of other comprehensive income		
Change in fair value of cash flow and net investment hedging financial instruments	(3)	2
Actuarial losses on defined retirement benefit schemes	(32)	(12)
Other	(2)	1
Total tax credited to other comprehensive income	(37)	(9)

15. Dividends

	Pence per share	DKK per share	2012 £m	2011 £m
Amounts recognised as distributions to equity holders of the parent in the year				
Final dividend for the year ended 31 December 2010	4.73	0.4082	–	66
Interim dividend for the six months ended 30 June 2011	3.42	0.2928	–	48
Final dividend for the year ended 31 December 2011	5.11	0.4544	72	–
Interim dividend for the six months ended 30 June 2012	3.42	0.3220	48	–
			120	114
Proposed final dividend for the year ended 31 December 2012	5.54	0.4730	78	

The proposed final dividend is subject to approval by shareholders at the Annual General Meeting. If so approved, it will be paid on 14 June 2013 to shareholders who are on the UK register on 17 May 2013. The exchange rate used to translate it into Danish krone is that at 12 March 2013.

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

	2012 £m	2011 £m
From continuing and discontinued operations		
Profit for the year attributable to equity holders of the parent	48	181
Weighted average number of ordinary shares (m)	1,403	1,405
Earnings per share from continuing and discontinued operations (pence)		
Basic and diluted	3.4p	12.9p
From continuing operations		
Earnings		
Profit for the year attributable to equity holders of the parent	48	181
Adjustment to exclude loss for the year from discontinued operations (net of tax) (note 7)	63	6
Profit from continuing operations	111	187
Earnings per share from continuing operations (pence)		
Basic and diluted	7.9p	13.3p
From discontinued operations		
Loss per share from discontinued operations (pence)		
Basic and diluted	(4.5)p	(0.4)p
From adjusted earnings		
Earnings		
Profit from continuing operations	111	187
Adjustment to exclude net retirement benefit finance cost/(income) (net of tax)	6	(2)
Adjustment to exclude amortisation and impairment of acquisition-related intangible assets (net of tax)	61	71
Adjustment to exclude acquisition-related expenses (net of tax)	5	1
Adjustment to exclude exceptional items (net of tax)	115	42
Adjusted profit for the year attributable to equity holders of the parent	298	299
Weighted average number of ordinary shares (m)	1,403	1,405
Adjusted earnings per share (pence)	21.2p	21.3p

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

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

17. Acquisitions

Current year acquisitions

The group undertook a number of business combinations in the current period. The principal acquisition in subsidiary undertakings was the purchase of a 100% interest in Vanguarda Segurança e Vigilância Ltda "Vanguarda", a security personnel, security systems and monitoring services provider in Brazil.

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

	Europe £m	Developing markets £m	Total group £m
Provisional fair value of net assets acquired of subsidiary undertakings	10	7	17
Goodwill	1	75	76
Total purchase consideration	11	82	93

The following table sets out the provisional fair value to the group in respect of all acquisitions made in the year:

	Fair value £m
Intangible assets	31
Property, plant and equipment	1
Trade and other receivables	7
Cash and cash equivalents	17
Trade and other payables	(22)
Provisions	(7)
Borrowings	(1)
Deferred tax liabilities	(9)
Net assets acquired of subsidiary undertakings	17
Goodwill	76
Total purchase consideration (paid in cash)	93

Within trade and other receivables are gross contractual amounts receivable of £8m with £1m of the contractual cash flows from these receivables not expected to be collected.

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 £31m. The fair values of net assets acquired are provisional and represent estimates following a preliminary valuation exercise. These estimates may be adjusted to reflect any development in the issues to which they relate.

The goodwill arising on acquisitions can be ascribed to the existence of a skilled, active workforce, developed expertise and processes, and the opportunities to obtain new contracts and develop the business. None of these meet the criteria for recognition as intangible assets separable from goodwill. No goodwill acquired in the year is expected to be deductible for tax purposes.

From their respective dates of acquisition, the acquired businesses contributed £39m to revenues, £4m to PBITA and £1m to profit for the part year they were under the group's ownership. If all acquisitions had occurred on 1 January 2012, group revenue would have been £7,537m, PBITA would have been £518m and profit for the year would have been £72m.

Prior year acquisitions

Principal acquisitions in subsidiary undertakings in the prior year included the purchase of a 100% interest in Interativa Service Ltda, a facilities management business in Brazil; Munt Centrale Holland B.V., a coin management service company based in the Netherlands, and The Cotswold Group Limited, the UK's market leader in surveillance, fraud, analytics, intelligence and investigations services. The group also acquired the offender monitoring technology operations of Guidance Limited and customer contracts from Chubb Group Security Limited and completed the buyout of its Turkish business during the year, which was accounted for in equity.

17. Acquisitions continued

Prior year acquisitions continued

At 31 December 2011, the fair value adjustments made against net assets acquired were provisional. The initial accounting in respect of acquisitions made during 2011 has since been finalised. The net assets acquired and goodwill arising in respect of all acquisitions made in the year are as follows:

	Fair value £m
Intangible assets	71
Property, plant and equipment	7
Inventories	2
Trade and other receivables	17
Cash and cash equivalents	13
Trade and other payables	(36)
Current tax liabilities	(1)
Provisions	(4)
Borrowings	(5)
Deferred tax liabilities	(21)
Net assets acquired of subsidiary undertakings	43
Goodwill	94
Total purchase consideration	137
Satisfied by:	
Cash	130
Contingent consideration	7
Total purchase consideration	137

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 £70m.

On completion of the fair value exercise during 2012, adjustments made to the provisional calculation of identifiable assets and liabilities amounted to £9m, with an equivalent increase in the reported value of goodwill. The comparative consolidated statement of financial position at 31 December 2011 has been restated accordingly.

In the year of acquisition, in aggregate, the acquired businesses contributed £28m to revenues, £4m to PBITA and £2m to profit for the part year they were under the group's ownership. If all acquisitions had occurred on 1 January 2011, group revenue would have been £7,038m, PBITA would have been £509m and profit for the year would have been £200m.

Post balance sheet acquisitions

No significant acquisitions have been effected between the balance sheet date and the date that the financial statements were authorised for issue.

18. Disposal of subsidiaries

In February 2012, the group disposed of its cash solutions business in Sweden.

In April 2012, the group disposed of the electronic monitoring justice business in North America.

In September 2012, the group disposed of its businesses in Poland.

In October 2012, the group disposed of its business in Pakistan.

In December 2012, the group disposed of its security systems business in the Netherlands.

In December 2011, the group disposed of its consumer alarms business in Norway.

In December 2011, the group sold its 50% share of the equity in STC (Milton Keynes) Ltd.

The net assets and profit on disposal of operations disposed of were as follows:

	2012 £m	2011 £m
Goodwill	10	–
Property, plant and equipment and intangible assets other than acquisition-related	18	1
Other non current assets	–	9
Current assets	26	13
Liabilities	(17)	(19)
Net assets of operations disposed	37	4
(Loss)/profit on disposal	(18)	33
Total consideration	19	37
Satisfied by:		
Cash received	25	38
Disposal costs	(6)	(1)
Total consideration	19	37

19. Intangible assets

	Acquisition-related intangible assets				Other intangibles £m	Total £m
	Goodwill £m	Trademarks £m	Customer related £m	Technology £m		
2012						
Cost						
At 1 January 2012	2,275	34	673	19	185	3,186
Acquisition of businesses	76	–	31	–	–	107
Additions	–	–	–	–	25	25
Disposals	(5)	(1)	(2)	(12)	(10)	(30)
Reclassified as held for sale	(88)	–	(14)	–	–	(102)
Translation adjustments	(73)	–	(13)	(1)	(1)	(88)
At 31 December 2012	2,185	33	675	6	199	3,098
Amortisation and accumulated impairment losses						
At 1 January 2012	(70)	(28)	(412)	(17)	(98)	(625)
Amortisation charge	–	(3)	(85)	(1)	(24)	(113)
Disposals	1	1	2	12	6	22
Reclassified as held for sale	–	–	11	–	–	11
Translation adjustments	7	–	9	1	4	21
At 31 December 2012	(62)	(30)	(475)	(5)	(112)	(684)
Carrying amount						
At 1 January 2012	2,205	6	261	2	87	2,561
At 31 December 2012	2,123	3	200	1	87	2,414
2011						
Cost						
At 1 January 2011	2,232	34	608	18	154	3,046
Acquisition of businesses	94	–	70	–	1	165
Additions	–	–	1	–	35	36
Disposals	–	–	–	–	(4)	(4)
Reclassified as held for sale	(15)	–	–	–	(6)	(21)
Translation adjustments	(36)	–	(6)	1	5	(36)
At 31 December 2011	2,275	34	673	19	185	3,186
Amortisation and accumulated impairment losses						
At 1 January 2011	(73)	(25)	(335)	(15)	(83)	(531)
Amortisation charge	–	(3)	(82)	(1)	(18)	(104)
Impairment charge	(13)	–	–	–	–	(13)
Disposals	–	–	–	–	4	4
Reclassified as held for sale	9	–	–	–	6	15
Translation adjustments	7	–	5	(1)	(7)	4
At 31 December 2011	(70)	(28)	(412)	(17)	(98)	625
Carrying amount						
At 1 January 2011	2,159	9	273	3	71	2,515
At 31 December 2011	2,205	6	261	2	87	2,561

Customer-related intangibles comprise the contractual and other relationships with customers which meet the criteria for identification as intangible assets in accordance with IFRS.

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

19. Intangible assets continued

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

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

Where the planned growth rate in year three exceeds the forecast underlying economic growth rate, the excess is reduced progressively in the projections for years four and five. The table below shows the year three growth rates for the group's significant CGUs. Into-perpetuity growth rates are derived from the expected year five growth rates taking into account the estimated long-term growth prospects of the relevant economic market that the CGU operates in and generally range between 0% and 5%.

Future cash flows are discounted at a pre-tax, weighted average cost of capital which for the businesses based in the UK is 7.1% (2011: 6.1%). This UK rate is used as a base for calculating the rates across the group by adjusting for the different financial risks in each country in which the CGUs operate. Pre-tax cash flows are discounted using pre-tax discount rates derived from calculating the net present value of the post-tax cash flows discounted at post-tax rates. Risk-adjusted discount rates applicable to group entities range from 5.4% in Hong Kong to 71.1% in the Democratic Republic of Congo. The discount rates for the group's significant CGUs are disclosed in the table below.

The following countries have significant carrying amounts of goodwill:

	Discount rate 2012	Discount rate 2011	Year 3 growth rate* 2012	Year 3 growth rate* 2011	Goodwill 2012 £m	Goodwill 2011 £m
United Kingdom	7.1%	6.1%	2.8%	4.1%	706	694
United States of America	7.4%	6.0%	5.2%	4.2%	395	415
Brazil	14.8%	18.7%	8.7%	8.7%	157	88
Netherlands	7.0%	6.0%	3.6%	3.5%	146	149
Canada	6.9%	6.1%	2.8%	4.4%	51	53
Hong Kong	5.4%	4.9%	7.3%	7.4%	39	41
Malaysia	8.6%	9.2%	7.5%	7.5%	43	44
Estonia	7.4%	7.4%	3.6%	5.0%	61	63
Israel	9.4%	9.4%	2.0%	1.3%	34	35
South Africa	14.0%	14.3%	9.0%	8.4%	36	40
Other (all allocated)					455	583
Total goodwill					2,123	2,205

*Lower of country growth rate per IMF and implied year three business forecast growth rate.

Within the UK, the most significant CGUs and their goodwill carrying values are UK Care and Justice (£247m), UK Cash Solutions (£205m) and UK Secure Solutions (£102m). Within the US, the most significant CGU is US Commercial Security Solutions with goodwill of £283m.

The key assumptions used in the discounted cash flow calculations relate to the discount rates used. The underlying economic growth rates do not have a material effect on the calculations of the discounted cash flow. With all other variables being equal, a 1% increase applied to all group CGUs (e.g. increasing the base UK discount rate from 7.1% to 8.1%) would result in a goodwill impairment to the group of approximately £10m. A significant increase of 3% applied to all group CGUs (e.g. increasing the base UK discount rate from 7.1% to 10.1%) would result in a group impairment of approximately £35m, of which £20m relates to Brazil.

In applying the group's model in 2011, the group impaired the goodwill relating to its businesses in Greece by £13m. The challenging economic circumstances in the country had resulted in a discount rate of 16% being applied to the relevant cash flows. The remaining goodwill relating to Greece is £14m and given the ongoing economic and political uncertainty in the country there remains a risk of further impairment. However, during the current year there has been no further deterioration in the country's outlook and therefore no further impairment has been required. No impairment has been identified and recognised in any of the group's other CGUs for the year ended 31 December 2012 or for the year ended 31 December 2011. Management believe that there is currently no reasonably possible change in the underlying factors used in the impairment model for its CGUs, which would lead to a material impairment of goodwill.

20. Property plant and equipment

	Land and buildings £m	Equipment and vehicles £m	Total £m
2012			
Cost			
At 1 January 2012	222	1,012	1,234
Acquisition of businesses	–	1	1
Additions	24	126	150
Disposals	(3)	(89)	(92)
Reclassified as held for sale	(2)	(15)	(17)
Translation adjustments	(1)	(52)	(53)
At 31 December 2012	240	983	1,223
Depreciation and accumulated impairment losses			
At 1 January 2012	(67)	(636)	(703)
Depreciation charge	(15)	(112)	(127)
Disposals	4	65	69
Reclassified as held for sale	1	10	11
Translation adjustments	–	39	39
At 31 December 2012	(77)	(634)	(711)
Carrying amount			
At 1 January 2012	155	376	531
At 31 December 2012	163	349	512
2011			
Cost			
At 1 January 2011	223	1,025	1,248
Acquisition of businesses	1	6	7
Additions	16	128	144
Disposals	(9)	(97)	(106)
Reclassification	–	(21)	(21)
Reclassified as held for sale	(6)	(21)	(27)
Translation adjustments	(3)	(8)	(11)
At 31 December 2011	222	1,012	1,234
Depreciation and accumulated impairment losses			
At 1 January 2011	(61)	(611)	(672)
Depreciation charge	(16)	(115)	(131)
Disposals	6	80	86
Reclassification	–	3	3
Reclassified as held for sale	2	15	17
Translation adjustments	2	(8)	(6)
At 31 December 2011	(67)	(636)	(703)
Carrying amount			
At 1 January 2011	162	414	576
At 31 December 2011	155	376	531

During the prior year management reclassified certain short-life assets, such as consumables, from within the equipment and vehicles category to inventory to more accurately reflect their usage.

The net book value of equipment and vehicles held under finance leases was £57m (2011: £50m). Accumulated depreciation on these assets was £116m (2011: £104m) and the depreciation charge for the year was £19m (2011: £15m).

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

20. Property plant and equipment continued

The net book value of equipment and vehicles includes £34m (2011: £36m) of assets leased by the group to third parties under operating leases. Accumulated depreciation on these assets was £91m (2011: £88m) and the depreciation charge for the year was £9m (2011: £11m).

The net book value of land and buildings comprises of freeholds of £71m (2011: £66m), long leaseholds of £20m (2011: £19m) and short leaseholds of £72m (2011: £70m).

21. Investment in joint ventures

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

During 2011, the group sold its 50% share of the equity in STC (Milton Keynes) Ltd. Up until the date of disposal, its results were also consolidated on the basis of equity shares held.

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:

	2012 £m	2011 £m
Results		
Revenue	36	44
Expenses	(32)	(41)
Profit after tax	4	3
Balance sheet		
Assets		
Non-current assets	16	22
Current assets	6	7
Liabilities		
Current liabilities	(10)	(10)
Non-current liabilities	(7)	(14)
Net assets	5	5

22. Investment in associates

The net investment in associates at 31 December 2012 is £3m and relates to a non-trading entity in Australia. As at 31 December 2011 the net investment of £9m also included Space Gateway Support LLC and MWV-All Star, both in the USA. These associates are undertakings of the US Government Solutions business and have been discontinued and reclassified as held for sale during 2012. In total the two associates recorded revenue of £39m (2011: £60m) and profit of £2m (2011: £3m) for the year ended 31 December 2012.

23. Inventories

	2012 £m	2011 £m
Raw materials	16	16
Work in progress	16	13
Finished goods including consumables	96	94
Total inventories	128	123

24. Investments

Investments comprise primarily listed securities of £40m (2011: £44m) 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

	2012 £m	2011 £m
Within current assets		
Trade debtors	1,234	1,286
Allowance for doubtful debts	(46)	(67)
Amounts owed by associated undertakings	2	2
Other debtors (including tax receivable)	171	180
Prepayments and accrued income	88	103
Amounts due from construction contract customers (see note 26)	22	28
Derivative financial instruments at fair value (see note 32)	26	14
Total trade and other receivables included within current assets	1,497	1,546
Within non-current assets		
Derivative financial instruments at fair value (see note 32)	81	106
Other debtors*	48	56
Total trade and other receivables included within non-current assets	129	162

*Other debtors includes amounts receivable under service concession arrangements of £13m (2011: £19m) which are pledged as security against borrowings of the group.

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 120 countries. The group's largest customer is the UK Government which represents approximately 10% (2011: 5%) of the total trade debtor balance as at 31 December 2012. Group companies are required to follow the Group Finance Manual guidelines with respect to assessing the credit worthiness of potential customers. These guidelines include processes such as obtaining approval for credit limits over a set amount, performing credit checks and assessments and obtaining additional security where required.

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:

	2012 £m	2011 £m
At 1 January	(67)	(73)
Amounts written off during the year	28	13
Increase in allowance	(7)	(7)
At 31 December	(46)	(67)

The ageing of trade debtors, net of allowance for doubtful debt, is as follows:

	2012 £m	2011 £m
Not yet due	881	846
1–30 days overdue	161	185
30–60 days overdue	70	70
60–90 days overdue	29	37
91–180 days overdue	26	30
181–365 days overdue	7	30
Over 365 days overdue	14	21
Net trade debtors	1,188	1,219

No provision has been made on the above amounts 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 2012 that were overdue for payment was 31% (2011: 34%). The group-wide average age of all trade debtors at year end was 60 days (2011: 59 days).

The group's monthly management accounts use the last three months sales of the year to calculate management trade debtor days. Using this calculation the group-wide average age of trade debtors is 50 days (2011: 49 days at constant exchange rates).

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

Included within "not yet due" is £75m relating to the Olympics contract settlement.

26. Construction contracts

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

	2012 £m	2011 £m
Amounts due from contract customers included in trade and other receivables (see note 25)	22	28
Amounts due to contract customers included in trade and other payables (see note 31)	(2)	(5)
Net balances relating to construction contracts	20	23
Contract costs incurred plus recognised profits less recognised losses to date	311	320
Less: Progress billings	(291)	(297)
Net balances relating to construction contracts	20	23

At 31 December 2012, advances received from customers for contract work amounted to £4m (2011: £5m). 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.

27. Disposal groups classified as held for sale

At 31 December 2012, disposal groups classified as held for sale comprised primarily the assets and liabilities associated with the classified Government Solutions business in the United States of America, which have been subjected to a £35m impairment charge to goodwill to write down their assets to their estimated recoverable value.

At 31 December 2011, disposal groups classified as held for sale comprised primarily the assets and liabilities associated with the cash solutions business in Sweden, which was disposed of on 27 February 2012, the cash and secure solutions businesses in Poland, which was disposed of on 4 September 2012, and the UK Risk Assessment Services business in Afghanistan, which has now been reclassified as continuing following the extension of a major contract.

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

	2012 £m	2011 £m
ASSETS		
Goodwill	53	6
Acquisition-related intangibles	3	–
Property, plant and equipment and intangible assets other than acquisition-related	6	10
Investment in associates	5	–
Trading investments	11	–
Trade and other receivables	116	17
Deferred tax asset	15	–
Cash and cash equivalents	20	2
Total assets classified as held for sale	229	35
LIABILITIES		
Bank overdrafts	–	(12)
Bank loans	(1)	–
Trade and other payables	(36)	(19)
Current tax liabilities	–	2
Retirement benefit obligations	(13)	–
Deferred tax liability	(2)	–
Total liabilities associated with assets classified as held for sale	(52)	(29)
Net assets of disposal group	177	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 consolidated statement of financial position is presented below:

	2012 £m	2011 £m
Cash and cash equivalents	469	433
Bank overdrafts	(17)	(53)
Cash, cash equivalents and bank overdrafts included within disposal groups classified as held for sale	20	(10)
Total cash, cash equivalents and bank overdrafts	472	370

Cash and cash equivalents comprise principally short-term money market deposits, current account balances and group-owned cash held in ATM machines and at 31 December 2012 bore interest at a weighted average rate of 0.5% (2011: 0.4%). The credit risk on cash and cash equivalents is limited because wherever possible and in accordance with Group Treasury policy the cash is placed with bank counterparties that hold investment grade credit ratings assigned by international credit-rating agencies.

The group operates a multi-currency notional pooling cash management system which included over 140 group companies at 31 December 2012. It is anticipated that the number of participants in the group will continue to grow. The group met the conditions of IAS 32 *Financial Instruments: Presentation* allowing balances within this cash pool to be offset for reporting purposes. At 31 December 2012 £360m (2011: £303m) of the cash balances and the equivalent amount of the overdraft balances were offset.

Cash and cash equivalents of £27m (2011: £17m) 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

	2012 £m	2011 £m
Bank overdrafts	17	53
Bank loans	345	932
Loan notes*	2,039	1,180
Total bank overdrafts, bank loans and loan notes	2,401	2,165
The borrowings are repayable as follows:		
On demand or within one year	75	100
In the second year	86	53
In the third to fifth years inclusive	1,059	1,065
After five years	1,181	947
Total bank overdrafts, bank loans and loan notes	2,401	2,165
Less: Amount due for settlement within 12 months (shown under current liabilities):		
– Bank overdrafts	(17)	(53)
– Bank loans	(18)	(47)
– Loan notes	(40)	–
	(75)	(100)
Amount due for settlement after 12 months	2,326	2,065

*Loan notes includes £794m (2011: £830m) of private loan notes and £1,245m (2011: £350m) of public loan notes.

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

	Sterling £m	Euros £m	US dollars £m	Others £m	Total £m
Bank overdrafts	6	1	7	3	17
Bank loans	137	73	99	36	345
Loan notes	419	895	725	–	2,039
At 31 December 2012	562	969	831	39	2,401
Bank overdrafts	21	24	–	8	53
Bank loans	419	205	263	45	932
Loan notes	419	–	761	–	1,180
At 31 December 2011	859	229	1,024	53	2,165

Of the borrowings in currencies other than sterling, £1,078m (2011: £1,032m) is designated as a net investment hedge.

29. Bank overdrafts, bank loans and loan notes continued

The weighted average interest rates on bank overdrafts, bank loans and loan notes at 31 December 2012 adjusted for hedging were as follows:

	2012 %	2011 %
Bank overdrafts	1.5	1.2
Bank loans	3.5	2.4
Private loan notes	4.5	4.4
Public loan notes	4.2	7.8

The group's committed bank borrowings comprise a £1,100m multicurrency revolving credit facility with a maturity date of March 2016. At 31 December 2012, undrawn committed available facilities amounted to £856m (2011: £767m). 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 re-priced 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 (£354m) on 1 March 2007. The notes mature in March 2014 (\$100m), March 2017 (\$200m), March 2019 (\$145m) and March 2022 (\$105m).

The group issued further fixed rate loan notes in the US Private Placement market totalling US\$514m (£331m) and £69m on 15 July 2008. The notes mature in July 2013 (\$65m), July 2015 (\$150m), July 2016 (£25m), July 2018 (\$224m) and (£44m), and July 2020 (\$75m).

The group issued its inaugural public note of £350m using its European Medium Term Note Programme on 13 May 2009. The note matures in May 2019.

During 2012 the group issued two further public notes. A euro 600m note issued on May 2012 maturing May 2017 and a euro 500m note issued on December 2012 maturing December 2018.

The committed bank facilities and the private loan notes are subject to one financial covenant (net debt to EBITDA ratio where EBITDA is calculated as PBITA plus depreciation) and non-compliance with the covenant may lead to an acceleration of maturity. The group complied with the financial covenant throughout the year to 31 December 2012 and the year to 31 December 2011. The group has not defaulted on, or breached the terms of, any material loans during the year.

Bank overdrafts, bank loans, the loan notes issued in July 2008, the loan notes issued in May 2009, euro 510m of the loan notes issued in May 2012 and euro 380m of the loan notes issued in December 2012 are stated at amortised cost. The loan notes issued in March 2007, euro 90m of the loan notes issued in May 2012 and euro 120m of the loan notes issued in December 2012 are stated at amortised cost recalculated at an effective interest rate current at the balance sheet date as they are part of a fair value hedge relationship.

US\$265m (£163m) of the loan notes issued in July 2008 have a fair value market gain of £31m (2011: £40m) resulting from the cross currency swaps fixing the GBP value of this portion of the loan notes at an exchange rate of 1.975.

Euro 325m (£264m) of the loan notes issued in May 2012 have a fair value market loss of £5m partly resulting from the cross currency swaps fixing the GBP value of this portion of the loan notes at an exchange rate of 1.222 and partly resulting from the cross currency swaps fixing the GBP and euro interest rates.

Euro 350m (£284m) of the loan notes issued in December 2012 have a fair value market gain of £2m resulting from the cross currency swaps fixing the GBP and euro interest rates.

30. Obligations under finance leases

	Minimum lease payments 2012 £m	Minimum lease payments 2011 £m	Present value of minimum lease payments 2012 £m	Present value of minimum lease payments 2011 £m
Amounts payable under finance leases:				
Within one year	20	18	18	16
In the second to fifth years inclusive	42	51	40	46
After five years	4	2	3	2
	66	71	61	64
Less: Future finance charges on finance leases	(5)	(7)		
Present value of lease obligations	61	64		
Less: Amount due for settlement within 12 months (shown under current liabilities)			(18)	(16)
Amount due for settlement after 12 months			43	48

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 2012, the weighted average effective borrowing rate was 4.9% (2011: 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 group's obligations under finance leases are secured by the lessors' charges over the leased assets.

31. Trade and other payables

	2012 £m	2011 £m
Within current liabilities:		
Trade creditors	232	245
Amounts due to construction contract customers (see note 26)	2	5
Amounts owed to associated undertakings	2	2
Other taxation and social security costs	228	231
Other creditors	433	435
Accruals and deferred income	294	328
Derivative financial instruments at fair value (see note 32)	5	5
Total trade and other payables included within current liabilities	1,196	1,251
Within non-current liabilities:		
Derivative financial instruments at fair value (see note 32)	6	4
Other creditors	12	15
Total trade and other payables included within non-current liabilities	18	19

Trade and other payables comprise principally amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 42 days (2011: 39 days).

32. Derivative financial instruments

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

	Assets 2012 £m	Assets 2011 £m	Liabilities 2012 £m	Liabilities 2011 £m
Cross currency swaps designated as cash flow hedges	32	40	5	–
Interest rate swaps designated as cash flow hedges	–	–	6	9
Interest rate swaps designated as fair value hedges	73	77	–	–
Commodity swaps	2	3	–	–
	107	120	11	9
Less: Non-current portion	(81)	(106)	(6)	(4)
Current portion	26	14	5	5

Derivative financial instruments are stated at fair value, measured using techniques consistent with Level 2 of the valuation hierarchy (inputs other than quoted prices in active markets that are observable for the asset or liability, either directly or indirectly). 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 £15m during the year.

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

	Assets 2012 £m	Assets 2011 £m	Liabilities 2012 £m	Liabilities 2011 £m
Within one year	9	2	1	3
In the second year	–	10	2	2
In the third year	17	–	–	2
In the fourth year	–	23	3	1
In the fifth year or greater	8	8	5	1
Total carrying value	34	43	11	9

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

	Assets 2012 £m	Assets 2011 £m	Liabilities 2012 £m	Liabilities 2011 £m
Within one year	7	2	7	7
In the second year	3	10	6	2
In the third year	–	–	5	2
In the fourth year	17	24	4	–
In the fifth year or greater	17	9	–	1
Total cash flows	44	45	22	12

33. Financial risk

Capital management

The group manages its capital structure through an appropriate mix of debt and equity that supports the development of the group through organic and acquisition growth, maximises shareholder returns and minimises the cost of capital whilst maintaining an investment grade credit rating so that it can benefit from good access to debt capital markets on attractive terms.

The group has had an investment grade credit rating since March 2009 when Standard & Poor's assessed the group BBB stable. Subsequent to the Olympics contract announcement on 13 July 2012 and the board review in September, Standard & Poor's revised the rating to BBB stable in November. The group will continue to manage its capital structure so that it retains its investment grade.

The group's policy is to maintain a net debt to EBITDA ratio of around 2 to 2.5 times. At the end of 2012 the ratio was 2.66 times. It is expected that the ratio will fall back into the target range next year. The group is currently well financed has a diverse range of finance providers and the maturity profile is long term. Borrowings are principally in pounds sterling, US dollars and euros reflecting the geographies of significant operational assets and profits.

33. Financial risk continued

Liquidity risk

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

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

31 December 2011	29%
31 March 2012	25%
30 June 2012	27%
30 September 2012	15%
31 December 2012	28%

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.

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

Maturity profile of loans and borrowings

The contractual maturities of financial assets and liabilities, together with the carrying amounts in the statement of financial position, including interest payments, estimated based on expectations at the reporting date, are shown below:

31 December 2012

	Notes	Carrying amount £m	Fair value £m	Total contractual cash flows £m	Within 1 year £m	2-5 years £m	Over 5 years £m
Investments	24	56	56	56	56	–	–
Derivative financial instruments (interest rate swaps)	32	73	73	81	18	52	11
Financial assets designated at fair value through profit and loss		129	129	137	74	52	11
Derivative financial instruments (commodity swaps)	32	2	2	2	2	–	–
Derivative financial instruments (cross currency swaps)	32	32	32	32	6	12	14
Financial assets designated as cash flow hedges		34	34	34	8	12	14
Net trade receivables	25	1,188	1,188	1,188	1,188	–	–
Cash and cash equivalents	28	469	469	469	469	–	–
Other financial assets	25	13	13	13	–	13	–
Loans and receivables		1,670	1,670	1,670	1,657	13	–
Loan notes (issued March 2007, 5.77%-6.06%, maturing 2014-22)	29	(409)	(409)	(448)	(20)	(249)	(179)
Financial liabilities designated as fair value hedges		(409)	(409)	(448)	(20)	(249)	(179)
Derivative financial instruments (interest rate swaps)	32	(6)	(6)	(6)	(3)	(3)	–
Derivative financial instruments (cross-currency swaps)	32	(5)	(5)	(5)	(2)	(3)	–
Financial liabilities designated as cash flow hedges		(11)	(11)	(11)	(5)	(6)	–
Loan notes (issued July 2008, 6.09%-7.56%, maturing 2013-20)	29	(385)	(354)	(514)	(66)	(198)	(250)
Loan notes (issued May 2009, 7.75%, maturing 2019)	29	(350)	(350)	(540)	(27)	(109)	(404)
Loan notes (issued May 2012, 2.875%, maturing 2017)	29	(489)	(507)	(557)	(14)	(543)	–
Loan notes (issued December 2012, 2.625%, maturing 2018)	29	(406)	(409)	(469)	(11)	(42)	(416)
Bank loans	29	(345)	(345)	(345)	(18)	(327)	–
Overdrafts	29	(17)	(17)	(17)	(17)	–	–
Finance lease liabilities	30	(61)	(61)	(61)	(18)	(40)	(3)
Trade payables	31	(232)	(232)	(232)	(232)	–	–
Other liabilities	31	(12)	(12)	(12)	–	(12)	–
Financial liabilities measured at amortised cost		(2,297)	(2,287)	(2,747)	(403)	(1,271)	(1,073)

33. Financial risk continued

31 December 2011

	Notes	Carrying amount £m	Fair value £m	Total contractual cash flows £m	Within 1 year £m	2-5 years £m	Over 5 years £m
Investments	24	70	70	70	70	–	–
Derivative financial instruments (interest rate swaps)	32	77	77	85	17	51	17
Financial assets designated at fair value through profit and loss		147	147	155	87	51	17
Derivative financial instruments (commodity swaps)	32	3	3	3	2	1	–
Derivative financial instruments (cross currency swaps)	32	40	40	40	(1)	32	9
Financial assets designated as cash flow hedges		43	43	43	1	33	9
Net trade receivables	25	1,219	1,219	1,219	1,219	–	–
Cash and cash equivalents	28	433	433	433	433	–	–
Other financial assets	25	19	19	19	–	19	–
Loans and receivables		1,671	1,671	1,671	1,652	19	–
Loan notes (issued March 2007, 5.77%-6.06%, maturing 2014-22)	29	(430)	(430)	(489)	(21)	(271)	(197)
Financial liabilities designated as fair value through profit and loss		(430)	(430)	(489)	(21)	(271)	(197)
Derivative financial instruments (interest rate swaps)	32	(9)	(9)	(10)	(6)	(3)	(1)
Financial liabilities designated as cash flow hedges		(9)	(9)	(10)	(6)	(3)	(1)
Loan notes (issued July 2008, 6.09%-7.56%, maturing 2013-20)	29	(400)	(360)	(560)	(27)	(258)	(275)
Loan notes (issued May 2009, 7.75%, maturing 2019)	29	(350)	(393)	(567)	(27)	(109)	(431)
Bank loans	29	(932)	(932)	(932)	(47)	(885)	–
Overdrafts	29	(53)	(53)	(53)	(53)	–	–
Finance lease liabilities	30	(64)	(64)	(64)	(16)	(46)	(2)
Trade payables	31	(245)	(245)	(245)	(245)	–	–
Other liabilities	31	(15)	(15)	(15)	–	(15)	–
Financial liabilities measured at amortised cost		(2,059)	(2,062)	(2,436)	(415)	(1,313)	(708)

The gross cash flows disclosed in the tables above represent the contractual undiscounted cash flows relating to derivative financial liabilities held for risk management purposes and which are usually not closed out before contractual maturity. The disclosure shows net cash flow amount for derivatives that are net cash-settled and gross cash inflow and outflow amounts for derivatives that have simultaneous gross cash settlement – e.g. forward exchange contracts.

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.

At 31 December 2012, the group's US dollar and euro net assets were approximately 85% and 60% respectively hedged by foreign currency loans (2011: US dollar 75%, euro 50%).

Cross-currency swaps with a nominal value of £134m were arranged to hedge the foreign currency risk on US\$265m of the second US Private Placement notes issued in July 2008, effectively fixing the sterling value of this portion of debt at an exchange rate of 1.9750.

Cross currency swaps with a nominal value of £266m were arranged to hedge the foreign currency risk on euro 325m of the euro public notes issued in May 2012, effectively fixing the sterling value of this portion of debt at an exchange rate of 1.2217.

Cross currency swaps with a nominal value of £284m were arranged to hedge the foreign currency risk on euro 350m of the euro public notes issued in December 2012, effectively fixing the sterling value of this portion of debt at an exchange rate of 1.2332.

Assuming a 1% appreciation of sterling against the US dollar and the euro, the fair value net gain on the cross currency swaps which hedge part of the currency loan notes would be expected to fall by £7m.

33. Financial risk continued

Market risk continued

Interest rate risk and interest rate swaps

Borrowing at floating rates as described in note 29 exposes the group to cash flow interest rate risk, which the group manages within policy limits approved by the directors. Interest rate swaps and, to a limited extent, forward rate agreements are utilised to fix the interest rate on a proportion of borrowings on a reducing scale over forward periods up to a maximum of five years. At 31 December 2012 the nominal value of such contracts was £98m (in respect of US dollar) (2011: £174m) and £73m (in respect of euro) (2011: £121m), their weighted average interest rate was 1.3% (US dollar) (2011: 2.7%) and 3.2% (euro) (2011: 3.6%), 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 the first issue in March 2007, the group was comfortable with the proportion of floating rate exposure not hedged by interest rate swaps and therefore rather than take on a higher proportion of fixed rate debt arranged fixed to floating swaps effectively converting the fixed coupon on the Private Placement to a floating rate. Following the swaps the resulting average coupon on the US Private Placement is Libor + 60bps. These swaps have been documented as fair value hedges of the US Private Placement fixed interest loan notes, with the movements in their fair value posted to profit and loss at the same time as the movement in the fair value of the hedged item.

The interest on the US Private Placement notes issued in July 2008, the GBP public notes issued in May 2009, 510m of the euro public notes issued in May 2012 and 380m of the euro public notes issued in December 2012 was kept at fixed rate.

All three public notes have a coupon step up of 1.25% which is triggered should the credit rating of G4S plc fall below investment grade.

The core group borrowings are held in US dollar, euro and sterling. Although the impact of rising interest rates is largely shielded by fixed rate loans and interest rate swaps which fix a portion of the exposure, some interest rate risk remains. A 1% increase in interest rates across the yield curve in each of these currencies with the 31 December 2012 debt position constant throughout 2013, would lead to an expectation of an additional interest charge of £9m in the 2013 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 solutions businesses. Commodity swaps and commodity options are used to fix synthetically part of the exposure and reduce the associated cost volatility. Commodity swaps hedging 39 million litres of projected 2013 diesel consumption, 36 million litres of projected 2014 diesel consumption and 21 million litres of projected 2015 diesel consumption were in place at 31 December 2012.

Counterparty credit risk

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

For treasury-related transactions, the policy limits the aggregate credit risk assigned to a counterparty. The utilisation of a credit limit is calculated by applying a weighting to the notional value of each transaction outstanding with each counterparty based on the type and duration of the transaction. The total mark to market value outstanding with each counterparty is also closely monitored against policy limits assigned to each counterparty. For short-term transactions (under one year), at inception of the transaction, the financial counterparty must be investment grade rated by either the Standard & Poor's or Moody's rating agencies. For long-term transactions, at inception of the transaction, the financial counterparty must have a minimum rating of BBB+/Baa1 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 2012 the largest two counterparty exposures related to treasury transactions were £38m and £31m and both were held with institutions with a long-term Standard & Poor's credit rating of A- and A respectively. These exposures represent 36% and 29% of the carrying values of derivative financial instruments, with a fair value gain at the balance sheet date. Both of these banks had significant loans commitments outstanding to G4S plc at 31 December 2012.

The group operates a multi-currency notional pooling cash management system with a wholly-owned subsidiary of an A+ rated bank. At year end credit balances of £360m were pooled with debit balances of £362.7m, resulting in a net pool balance of negative £2.7m. There is legal right of set off under the pooling agreement and an overdraft facility of £3m.

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 £107m (2011: £107m).

In the UK, following the closure of the defined benefit schemes to new entrants in 2004, the main scheme for new employees is a contracted-in defined contribution scheme.

34. Retirement benefit obligations continued

Defined contribution arrangements continued

G4S Government Solutions, Inc. is the administrator of several defined benefit schemes. G4S Government Solutions, Inc. 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 G4S Government Solutions, Inc. 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 2012 totalled £8m (2011: £8m). The estimated amounts of contributions expected to be paid to the schemes during the financial year commencing 1 January 2013 in respect of the ongoing accrual of benefits is approximately £8m assuming consistent exchange rates.

Defined benefit arrangements

The group operates a number of defined benefit retirement arrangements where the benefits are based on employees' length of service. In most cases these are calculated on the basis of final pensionable pay, other than for the smallest of the three sections in the UK and one scheme in the Netherlands where they are based on career average pay. Liabilities under these arrangements are stated at the discounted value of benefits accrued to date, based upon actuarial advice.

Under unfunded arrangements, the group does not hold the related assets separate from the group. The amount charged to the income statement in respect of these arrangements in 2012 totalled £4m (2011: £3m). 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 scheme is in the UK, it also operates other material schemes, primarily in the Netherlands and Canada.

For defined benefit schemes, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being updated to 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 carrying values of retirement benefit obligations at the balance sheet date are presented below:

	2012 £m	2011 £m
UK	412	285
Rest of World	24	10
Net liability on material funded defined retirement benefit schemes	436	295
Unfunded and other funded defined retirement benefit obligations	35	49
	471	344

The defined benefit scheme in the UK accounts for 95% of the net balance sheet liability on material funded defined retirement benefit schemes. It comprises three sections: the pension scheme demerged from the former Group 4 Falck A/S with total membership of approximately 8,000; the Securicor scheme, responsibility for which the group assumed on 20 July 2004 with the acquisition of Securicor plc, with total membership of approximately 20,000; and the GSL scheme, responsibility for which the group assumed on 12 May 2008 with the acquisition of GSL, with total membership of approximately 2,000. The UK scheme was formally actuarially assessed at 5 April 2009. Pension obligations stated in the statement of financial position take account of future earnings increases, have been updated to 31 December 2012 and use the valuation methodologies specified in IAS 19 *Employee Benefits*.

During the prior year the group closed the UK scheme to future accrual. Existing members retained their link to final salary where appropriate and their benefits accrued to-date. Members have been offered the opportunity to move to a new defined contribution scheme for future pension benefits. There has been no curtailment gain or loss.

As at the latest actuarial valuation, the participants of the UK pension scheme sections can be analysed as follows:

At 5 April 2009	Group 4 Falck Scheme	GSL Scheme	Securicor Scheme	Total
Active participants				
– Number	618	1,311	1,409	3,338
– Average age	53.2	50.8	51.9	51.7
Deferred participants				
– Number	4,559	537	10,352	15,448
– Average age	51.3	48.4	50.8	50.9
Pensioner participants				
– Number	2,607	208	7,878	10,693
– Average age	68.2	61.1	69.9	69.3

34. Retirement benefit obligations continued

The weighted average principal assumptions used for the purposes of the actuarial valuations were as follows:

	UK	Rest of World
Key assumptions used at 31 December 2012		
Discount rate	4.5%	3.9%
Expected return on scheme assets (as at 1 January 2012)	5.7%	4.4%
Expected rate of salary increases	3.1%	2.3%
Future pension increases (LPI5%)	2.9%	1.1%
Inflation	3.0%	2.1%
Key assumptions used at 31 December 2011		
Discount rate	5.0%	5.3%
Expected return on scheme assets (as at 1 January 2011)	7.0%	5.1%
Expected rate of salary increases	3.1%	2.4%
Future pension increases (LPI5%)	3.0%	1.5%
Inflation	3.1%	2.1%

In addition to the above, the group uses appropriate mortality assumptions when calculating the schemes obligations. The mortality tables used for the scheme in the UK are as follows:

- Current and future pensioners: Birth year table SIP[M/F]A base allowing for individual scaling factors based on analysis of mortality experienced, medium cohort improvement factors with an underpin of 1.0% per annum.

The amounts recognised on the balance sheet in respect of these defined benefit schemes are as follows:

	DBO £m	Assets £m	Asset ceiling £m	Total £m
2012				
Amounts recognised on the balance sheet at beginning of the period				
UK	(1,723)	1,438	–	(285)
Rest of World	(102)	101	(9)	(10)
Total	(1,825)	1,539	(9)	(295)
Amounts recognised in income				
Current service cost	(7)	–	–	(7)
Settlement and curtailment gains	2	–	–	2
Finance cost on defined retirement benefit obligations	(90)	–	–	(90)
Expected return on defined retirement benefit scheme assets	–	82	–	82
Total amounts recognised in income	(95)	82	–	(13)
Remeasurements				
Actuarial loss on defined benefit obligation	(177)	–	–	(177)
Actuarial loss on asset	–	(9)	–	(9)
Change in effect of asset ceiling	–	–	9	9
Remeasurement effects recognised in OCI	(177)	(9)	9	(177)
Cash				
Employer contributions	–	47	–	47
Employee contributions	(4)	4	–	–
Benefits paid from plan assets	73	(73)	–	–
Net cash	69	(22)	–	47
Other				
Exchange rates	3	(1)	–	2
Amounts recognised on the balance sheet at end of the period				
UK	(1,886)	1,474	–	(412)
Rest of World	(139)	115	–	(24)
Total	(2,025)	1,589	–	(436)

34. Retirement benefit obligations continued

	DBO £m	Assets £m	Asset ceiling £m	Total £m
2011				
Amounts recognised on the balance sheet at beginning of the period				
UK	(1,566)	1,310		(256)
Rest of World	(95)	90	(4)	(9)
Total	(1,661)	1,400	(4)	(265)
Amounts recognised in income				
Current service cost	(9)	–	–	(9)
Finance cost on defined retirement benefit obligations	(90)	–	–	(90)
Expected return on defined retirement benefit scheme assets	–	93	–	93
Total amounts recognised in income	(99)	93	–	(6)
Remeasurements				
Actuarial loss on defined benefit obligation	(132)	–	–	(132)
Actuarial gain on assets	–	64	–	64
Change in effect of asset ceiling	–	–	(5)	(5)
Remeasurement effects recognised in OCI	(132)	64	(5)	(73)
Cash				
Employer contributions	–	48	–	48
Employee contributions	(6)	6	–	–
Benefits paid from plan assets	70	(70)	–	–
Net cash	64	(16)	–	48
Other				
Exchange rates	3	(2)	–	1
Amounts recognised on the balance sheet at end of the period				
UK	(1,723)	1,438	–	(285)
Rest of World	(102)	101	(9)	(10)
Total	(1,825)	1,539	(9)	(295)

34. Retirement benefit obligations continued

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

	2012 £m	2011 £m
Cost of sales	(5)	(6)
Administration expenses	–	(3)
Finance income	82	93
Finance costs	(90)	(90)
Total	(13)	(6)

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

	2012 £m	2011 £m
At 1 January	(326)	(253)
Actuarial losses recognised in the year	(186)	(68)
Restriction to defined benefit asset due to the asset ceiling	9	(5)
At 31 December	(503)	(326)

The contribution from sponsoring companies in 2012 included £37m (2011: £40m) of additional contributions in respect of the deficit in the schemes.

The asset ceiling restriction reflects an inability to derive economic value from an IAS19 surplus in a plan in the Netherlands.

The amounts included in the consolidated statement of financial position arising from the group's obligations in respect of its material defined benefit schemes are as follows:

	UK £m	Rest of World £m	Total £m
2012			
Present value of defined benefit obligations	1,886	139	2,025
Fair value of scheme assets	(1,474)	(115)	(1,589)
Deficit in scheme	412	24	436
2011			
Present value of defined benefit obligations	1,723	102	1,825
Fair value of scheme assets	(1,438)	(101)	(1,539)
Restriction to defined benefit asset due to the asset ceiling	–	9	9
Deficit in scheme	285	10	295
2010			
Present value of defined benefit obligations	1,566	95	1,661
Fair value of scheme assets	(1,310)	(90)	(1,400)
Restriction to defined benefit asset due to the asset ceiling	–	4	4
Deficit in scheme	256	9	265
2009			
Present value of defined benefit obligations	1,547	116	1,663
Fair value of scheme assets	(1,240)	(95)	(1,335)
Deficit in scheme	307	21	328
2008			
Present value of defined benefit obligations	1,296	111	1,407
Fair value of scheme assets	(1,040)	(81)	(1,121)
Deficit in scheme	256	30	286

34. Retirement benefit obligations continued

The composition of the scheme assets at the reporting date is as follows:

	UK	Rest of World	Total
2012			
Equity instruments	15%	35%	16%
Debt instruments	22%	45%	24%
Property	2%	3%	2%
Cash	10%	2%	10%
Other assets	51%	15%	48%
	100%	100%	100%
2011			
Equity instruments	10%	34%	12%
Debt instruments	25%	44%	27%
Property	0%	4%	0%
Cash	28%	2%	26%
Other assets	37%	16%	35%
	100%	100%	100%

Other assets in the UK comprised a range of derivatives, private equity holdings, macro-orientated and multi-strategy alternative investments and a credit portfolio including corporate bond exposure, credit long/short funds and distressed debt investments.

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.

For the UK, the expected return on assets is based on the return targeted under the investment strategy. For the rest of the world, 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:

	2012	2011	2010	2009	2008
Experience adjustments on scheme liabilities					
Amount (£m)	(2)	16	(31)	8	1
Percentage of scheme liabilities (%)	–	1	(2)	–	–
Experience adjustments on scheme assets					
Amount (£m)	9	(63)	3	(141)	(332)
Percentage of scheme assets (%)	1	(4)	–	(11)	(30)

The estimated amounts of contributions expected to be paid to the schemes during the financial year commencing 1 January 2013 in respect of the ongoing accrual of benefits should be approximately £10m 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 approximately £38m will also be made in 2013 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 4.5%, in respect of the UK schemes at 31 December 2012 (4.95% at 31 December 2011). 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 £32m.

Liability calculations are also impacted heavily by the mortality projections included in the actuarial assumptions. The weighted average life expectancy of a male member of the UK schemes currently aged 65 has been assumed as 21 years. The weighted average life expectancy at 65 of a male currently aged 52 has been assumed as 22 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 £88m.

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 £15m.

35. Provisions

	Employee benefits £m	Restructuring £m	Claims reserves £m	Onerous contracts £m	Total £m
At 1 January 2012	17	1	40	13	71
Additional provision in the year	7	3	38	4	52
On acquisition of subsidiary	–	–	6	1	7
Utilisation of provision	(7)	(1)	(33)	(6)	(47)
Unused amounts reversed	(2)	–	(1)	(1)	(4)
Translation adjustments	(1)	–	(1)	–	(2)
At 31 December 2012	14	3	49	11	77
Included in current liabilities					32
Included in non-current liabilities					45
					77

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.

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.

Restructuring

Restructuring provisions include amounts for redundancy payments, and the costs of closure of activities in acquired businesses and discontinued operations. Settlement of restructuring provisions is highly probable. The timing is uncertain but is generally likely to be short term.

Claims reserves

The claims reserves are held by the wholly-owned captive insurance subsidiaries in Guernsey and the US which underwrite part of the group's cash solutions, general liability, workers' compensation and auto liability policies. The provisions are subject to regular actuarial review and are adjusted as appropriate. Settlement of these provisions is highly probable but both the value of the final settlements and their timing is uncertain, dependent upon the outcome of ongoing processes to determine both liability and quantum in respect of a wide range of claims or possible claims.

Onerous contracts

The onerous contract provision mainly comprises the provision against future liabilities for loss-making contracts, for all properties sub-let at a shortfall, for the cost of replacing assets where there is a present contractual requirement and for long-term idle, leased properties. The provision is based on the value of future net cash outflows. Whilst the likelihood of settlement of these obligations is considered probable, there is uncertainty over their value and duration.

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 2011	75	(84)	27	45	63
(Charge)/credit to the income statement	(11)	25	(4)	–	10
Acquisition of subsidiaries	–	(21)	–	–	(21)
Charge/(credit) to equity	12	–	–	(1)	11
Transfers/other	–	1	–	1	2
At 31 December 2011	76	(79)	23	45	65
At 1 January 2012	76	(79)	23	45	65
Credit to the income statement	3	27	5	1	36
Acquisition of subsidiaries	–	(9)	–	–	(9)
Credit to equity	25	–	–	3	28
Transfers/other	–	–	–	4	4
At 31 December 2012	104	(61)	28	53	124

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:

	2012 £m	2011 £m
Deferred tax liabilities	(68)	(92)
Deferred tax assets	179	157
Net deferred tax asset included in held for sale	13	–
Total deferred tax position	124	65

At 31 December 2012, the group has unutilised tax losses of approximately £485m (2011: £456m) potentially available for offset against future profits. A deferred tax asset of £28m (2011: £23m) has been recognised in respect of approximately £106m (2011: £71m) of gross losses. No deferred tax asset has been recognised in respect of the remaining £379m (2011: £385m) 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 £14m which will expire between 2013 and 2022. Other losses may be carried forward indefinitely.

At 31 December 2012, the aggregate amount of temporary differences associated with undistributed earnings of non-UK subsidiaries for which deferred tax liabilities have not been recognised is £1,378m (2011: £1,401m). 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.

At 31 December 2012, the group has total unprovided contingent tax liabilities of approximately £5m (2011: £11m) relating to unresolved tax issues in various jurisdictions.

37. Share capital

G4S plc	2012 £	2011 £
Issued and fully paid ordinary shares of 25p each	352,667,160	352,667,160
	2012 Number	2011 Number
Ordinary shares in issue	1,410,668,639	1,410,668,639

38. Other reserves

	Hedging reserve £m	Translation reserve £m	Merger reserve £m	Reserve for own shares £m	Total other reserves £m
At 1 January 2011	(32)	164	426	(12)	546
Total comprehensive income	6	(54)	–	–	(48)
Own shares purchased	–	–	–	(13)	(13)
Own shares awarded	–	–	–	9	9
At 31 December 2011	(26)	110	426	(16)	494
At 1 January 2012	(26)	110	426	(16)	494
Total comprehensive income	(8)	(60)	–	–	(68)
Own shares purchased	–	–	–	(6)	(6)
Own shares awarded	–	–	–	2	2
At 31 December 2012	(34)	50	426	(20)	422

Other reserves includes:

Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow instruments related to the hedged transactions that have not yet occurred (net of tax).

Translation reserve

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations, as well as from the translation of liabilities that hedge the company's net investment in foreign operations (net of tax).

Merger reserve

The merger reserve comprises reserves arising upon the merger between the former Group 4 Falck A/S and the former Group 4 Securitas BV in 2000 and the acquisition of Securicor plc by the group in 2004.

Reserve for own shares

An employee benefit trust established by the group held 7,589,853 shares at 31 December 2012 (2011: 6,265,571 shares) to satisfy the vesting of awards under the performance share plan and performance-related and synergy bonus schemes. During the year 2,211,404 shares were purchased by the trust, whilst 885,970 shares were used to satisfy the vesting of awards under the schemes. At 31 December 2012, the cost of shares held by the trust was £20,207,798 (2011: £16,484,777), whilst the market value of these shares was £19,470,928 (2011: £17,029,822). Shares held by the trust are treated as treasury shares, are deducted from equity, do not receive dividends and are excluded from the calculations of earnings per share.

39. Analysis of net debt

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

	2012 £m	2011 £m
Cash and cash equivalents	469	433
Investments	56	70
Net cash and overdrafts included within disposal groups classified as held for sale	20	(10)
Net debt (excluding cash and overdrafts) included within disposal groups classified as held for sale	10	–
Bank overdrafts	(17)	(53)
Bank loans	(345)	(932)
Loan notes	(2,039)	(1,180)
Fair value of loan note derivative financial instruments	105	120
Obligations under finance leases	(61)	(64)
Total net debt	(1,802)	(1,616)

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

	2012 £m	2011 £m
Increase in cash, cash equivalents and bank overdrafts per consolidated cash flow statement	138	87
Sale of investments	–	(10)
Movement in debt and lease financing	(302)	(222)
Change in net debt resulting from cash flows	(164)	(145)
Borrowings acquired with subsidiaries	(1)	(5)
Net additions to finance leases	(21)	(11)
Movement in net debt in the year	(186)	(161)
Translation adjustments	–	(29)
Net debt at the beginning of the year	(1,616)	(1,426)
Net debt at the end of the year	(1,802)	(1,616)

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:

	2012 £m	2011 £m
Within one year	133	138
In the second to fifth years inclusive	315	310
After five years	181	197
Total operating lease commitments	629	645

The group leases a number of its office properties, vehicles and other operating equipment under operating leases. Property leases are negotiated over an average term of eight 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 four 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 £10m (2011: £10m).

42. Share-based payments

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 and (b) certain market performance conditions are met. The proportion of the allocation of awards to these criteria is described in the remuneration report. Vesting occurs after the third anniversary of the date the shares were allocated conditionally. To the extent that the performance criteria have been met and the shares are not forfeited, these shares can only be released upon request after the third anniversary but before the tenth anniversary.

The number of shares allocated conditionally is as follows:

	Performance-related bonus scheme 2012 Number	PSP 2012 Number	Total 2012 Number	Performance-related bonus scheme 2011 Number	PSP 2011 Number	Total 2011 Number
Outstanding at 1 January	1,068,455	16,102,450	17,170,905	1,525,349	14,914,806	16,440,155
Allocated during the year	40,652	5,859,439	5,900,091	121,090	6,431,172	6,552,262
Transferred during the year	(296,907)	(613,518)	(910,425)	(577,984)	(2,798,491)	(3,376,475)
Forfeited during the year	–	(727,959)	(727,959)	–	(727,154)	(727,154)
Expired during the year	–	(5,031,187)	(5,031,187)	–	(1,717,883)	(1,717,883)
Outstanding at 31 December	812,200	15,589,225	16,401,425	1,068,455	16,102,450	17,170,905

The weighted average remaining contractual life of conditional share allocations outstanding at 31 December 2012 was 16 months (2011: 19 months). The weighted average share price at the date of allocation of shares allocated conditionally during the year was 277.1p (2011: 253.0p) and the contractual life of all conditional allocations was three years.

Under the PSP, the vesting of half (2011: one third) of the shares allocated conditionally depends upon Total Shareholder Return (a market performance condition) over the vesting year measured against a comparator group. 25% of the allocation vests upon the group's Total Shareholder Return equalling median performance amongst the comparator group. The fair value of the shares allocated subject to this market performance condition has therefore been reduced by 75%.

Total expenses of £nil were recognised in the income statement in the year (2011: £1m) in respect of conditional share allocations, the calculation of which included an estimate of the number of those shares allocated subject to non-market performance conditions that would vest based upon the probable achievement against the performance conditions.

43. Related party transactions

Transactions and balances with joint ventures and associated undertakings

Transactions between the company and its subsidiaries have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the group and other related parties are disclosed below. All transactions with related parties are entered into in the normal course of business.

Transactions with joint ventures included revenue recorded of £30m (2011: £22m). Amounts due to related parties include £2m (2011: £2m) to associates. Amounts due from related parties include £4m (2011: £5m) from joint ventures and £2m (2011: £2m) from associates.

No expense has been recognised in the year for bad and doubtful debts in respect of amounts owed by related parties. Details of principal joint ventures and associated undertakings are shown in notes 21 and 22 respectively.

The group has a legal interest in a number of joint ventures and joint arrangements, where the economic interest was divested by the Global Solutions Group prior to its acquisition by G4S plc. The significant transactions with these entities are:

	2012 Services/sales to £m	2011 Services/sales to £m
White Horse Education Partnership Limited	2	2
Integrated Accommodation Services plc	44	45
Fazakerley Prison Services Limited	34	32
Onley Prison Services Limited	14	13
ECD Cookham Wood Limited	13	13
ECD Onley Limited	13	12
Stratus Integrated Services Limited	7	7
UK Court Services (Manchester) Limited	2	2
East London Lift Company Limited	1	1
Brent, Harrow & Hillingdon LIFT Company Ltd	–	1
Total	130	128

43. Related party transactions continued

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 £1m at 31 December 2012 (2011: £1m).

Transactions with other related parties

During the prior year the group completed a transaction to sell a property belonging to its Secure Solutions business in Turkey to the then non-controlling interest for proceeds of approximately £5m. This transaction was undertaken on an arm's length basis.

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 72 to 81.

	2012 £	2011 £
Short-term employee benefits	7,253,734	6,460,187
Post-employment benefits	104,212	1,047,125
Other long-term benefits	41,819	44,992
Share-based payment	132,289	693,220
Total	7,532,054	8,245,524

44. Events after the balance sheet date

No significant post-balance sheet events have affected the group since 31 December 2012.

45. Significant investments

The companies listed below are those which were part of the group at 31 December 2012 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. A comprehensive list of all subsidiaries will be disclosed as an appendix to the group's annual return.

The principal activities of the companies listed below are indicated according to the following key:

Secure solutions	S
Cash solutions	C

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

	Product segment	Country of incorporation	Ultimate ownership
Subsidiary undertakings			
G4S Soluciones de Seguridad S.A.	S	Argentina	75%
G4S Custodial Services Pty Limited	S	Australia	100%
G4S Secure Solutions AG (Austria)	S	Austria	100%
G4S Secure Solutions SA/NV	S	Belgium	100%
G4S Cash Solutions (Belgium) NV	C	Belgium	100%
Interativa Service Ltda	S	Brazil	100%
Vanguarda Segurança e Vigilância Ltda	S	Brazil	100%
G4S Cash Solutions (Canada) Limited	C	Canada	100%
G4S Secure Solutions (Canada) Limited	S	Canada	100%
G4S Secure Solutions Colombia S.A.	S+C	Colombia	100%
G4S Security Services A/S	S	Denmark	100%
G4S Aviation Services (UK) Limited	S	England	100%
G4S Care and Justice Services (UK) Limited	S	England	100%
G4S Cash Centres (UK) Limited	C	England	100%
G4S Cash Solutions (UK) Limited	C	England	100%
G4S Integrated Services (UK) Limited	S	England	100%
G4S Risk Management Limited	S	England	100%
G4S Secure Solutions (UK) Limited	S	England	100%
Group 4 Total Security Limited	S	England	100%
G4S Utility and Outsourcing Services (UK) Limited	S	England	100%

45. Significant investments continued

	Product segment	Country of incorporation	Ultimate ownership
AS G4S Baltics	S+C	Estonia	100%
G4S Security Services Oy	S	Finland	100%
G4S Cash Solutions S.A.	C	Greece	100%
G4S Keszpenzlogisztikai Kft	C	Hungary	100%
G4S Secure Solutions (India) Pvt. Limited ^{1,5}	S	India	49%
G4S Secure Solutions (Ire) Limited	S	Ireland	100%
G4S Secure Solutions (Israel) Limited	S	Israel	92%
G4S Security Technologies (Israel) Limited	S	Israel	92%
G4S Kenya Limited	S+C	Kenya	100%
G4S Security Services S.A.R.L	S+C	Luxembourg	100%
Safeguards G4S Sdn Bhd ^{2,5}	S+C	Malaysia	49%
G4S Cash Solutions BV	C	Netherlands	100%
G4S Beheer BV	S	Netherlands	100%
G4S Secure Solutions AS	S	Norway	100%
G4S Peru S.A.C.	S+C	Peru	100%
G4S Secure Solutions (PNG) Limited	S+C	Papua New Guinea	100%
al Majal Service Master Co. Limited ⁵	S	Saudi Arabia	49%
G4S Cash Solutions (SA) (Pty) Limited	C	South Africa	75%
G4S Secure Solutions (SA) (Pty) Limited	S	South Africa	74%
G4S Secure Solutions AB	C	Sweden	100%
G4S Secure Solutions (Thailand) Limited	S	Thailand	100%
Group 4 Securicor Security Services UAE (LLC) G4S ⁵	S	UAE	49%
G4S Government Solutions, Inc.	S	USA	100%
G4S Integrated Services, Inc.	S	USA	100%
G4S Secure Solutions (USA) Inc.	S	USA	100%
G4S Technology LLC	S	USA	100%
G4S Youth Services LLC	S	USA	100%
Joint ventures (see note 21)			
Bridgend Custodial Services Limited ³	S	England	59%
Bloemfontein Correctional Contracts (Pty) Limited ⁴	S	South Africa	20%
Associated undertakings (see note 22)			
Space Gateway Support LLC	S	USA	46%

1 G4S Secure Solutions (India) Pvt. Limited has a year end of 31 March.

2 Safeguards G4S Sdn Bhd has a year end of 30 June.

3 Bridgend Custodial Services Limited has a year end of 30 September.

4 Bloemfontein Correctional Contracts (Pty) Limited has a year end of 30 September.

5 By virtue of shareholder agreements, options, pre-emption rights and other contractual arrangements, the group has the power to govern the financial and operating policies, so as to obtain the benefits from the activities of these companies. These are therefore consolidated as full subsidiaries.

Parent company balance sheet

At 31 December 2012

	Notes	2012 £m	2011 £m
Fixed assets			
Intangible assets	(b)	16	12
Investments	(c)	3,051	3,051
		3,067	3,063
Current assets			
Debtors	(d)	2,930	3,280
Cash at bank and in hand		9	36
		2,939	3,316
Creditors – amounts falling due within one year			
Bank overdraft (unsecured)		(9)	(1)
Borrowings (unsecured)	(e)	(40)	–
Other creditors	(f)	(2,851)	(2,887)
		(2,900)	(2,888)
Net current assets		39	428
Total assets less current liabilities		3,106	3,491
Creditors – amounts falling due after more than one year			
Borrowings (unsecured)	(e)	(1,174)	(1,451)
Other creditors	(f)	(2)	(4)
		(1,176)	(1,455)
Net assets		1,930	2,036
Capital and reserves			
Called up share capital	37	353	353
Share premium and reserves	(i)	1,577	1,683
Equity shareholders' funds		1,930	2,036

The parent company financial statements were approved by the board of directors and authorised for issue on 12 March 2013.

They were signed on its behalf by:

Nick Buckles
Director

Trevor Dighton
Director

Parent company reconciliation of movements in equity shareholders' funds

For the year ended 31 December 2012

	2012 £m	2011 £m
Retained profit for the year	24	1,120
Changes in fair value of hedging derivatives	(6)	7
Dividends declared	(120)	(114)
Own shares purchased	(6)	(13)
Equity-settled transactions	–	1
Tax on equity movements	2	(2)
Net (decrease)/increase in shareholders' funds	(106)	999
Opening equity shareholders' funds	2,036	1,037
Closing equity shareholders' funds	1,930	2,036

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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 2006. 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).

The financial statements have been prepared under the going concern basis.

Exemptions

Under section 408 of the Companies Act 2006 the company is exempt from the requirement to present 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 the revised FRS 8 *Related Party Disclosures* from disclosing related party transactions with wholly-owned subsidiaries within the group.

Intangible fixed assets

Intangible fixed assets are stated at cost net of accumulated amortisation and any provision for impairment. Intangible fixed assets are amortised on a straight-line basis over their expected economic life. Software is amortised over periods up to a maximum of eight years.

Fixed asset investments

Fixed asset investments, which comprise investments in subsidiary undertakings, are stated at cost less amounts written-off.

Financial instruments

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

External debtors

Debtors do not carry interest and are stated initially at their fair value. The company provides for bad debts based upon an analysis of those that are past due in accordance with local conditions and past default experience.

Cash at bank and in hand and bank overdrafts

Cash at bank and in hand and bank overdrafts comprise cash balances and call deposits.

Interest-bearing borrowings

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

External creditors

Creditors are not interest-bearing and are stated initially at their fair value.

Amounts owed to/from subsidiary undertakings

Amounts owed to/from subsidiary undertakings bear interest at prevailing market rates.

Equity instruments

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

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, commodity risk in relation to its diesel consumption 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. The company manages these risks through a range of derivative financial instruments, including interest rate swaps, fixed rate agreements, commodity swaps, commodity options, forward foreign exchange contracts and currency swaps.

(a) Significant accounting policies continued

Derivative financial instruments and hedge accounting continued

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.

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.

Share-based payments

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

Dividends

Dividends are recognised as distributions to equity holders in the period in which they are paid. 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) Intangible fixed assets

	Software £m
Cost	
At 1 January 2012	12
Additions at cost	5
At 31 December 2012	17
Amortisation	
At 1 January 2012	–
Amortisation charge	(1)
At 31 December 2012	(1)
Net book value	
At 31 December 2012	16
At 31 December 2011	12

(c) Fixed asset investments

The following are included in the net book value of fixed asset investments:

Subsidiary undertakings	Total £m
Shares at net book value:	
At 1 January and 31 December 2012	3,051

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

	2012 £m	2011 £m
Amounts owed by group undertakings	2,828	3,141
Other debtors	–	19
Derivative financial instruments at fair value	102	120
Total debtors	2,930	3,280

Included within derivative financial instruments at fair value is £77m due after more than one year (2011: £106m). See note (g) for further details.

Included in other debtors is £nil (2011: £3m) with regard to deferred tax comprised as follows:

	2012 £m	2011 £m
Employee benefits	–	1
Changes in fair value of hedging derivatives	–	2
Total deferred tax	–	3

The reconciliation of deferred tax balances is as follows:

	Total £m
At 1 January 2012	3
Credited to profit and loss	(2)
Charged to equity in relation to changes in fair value of hedging derivatives	(1)
At 31 December 2012	–

(e) Borrowings (unsecured)

The unsecured borrowings are in the following currencies:

	2012 £m	2011 £m
Sterling	419	419
Euro	73	204
US dollar	722	828
Total unsecured borrowings	1,214	1,451

The payment profile of the unsecured borrowings is as follows:

	2012 £m	2011 £m
Repayable within one year	40	–
Repayable within two to five years	402	509
Repayable after five years	772	942
Total unsecured borrowings	1,214	1,451

Undrawn committed facilities mature as follows:

	2012 £m	2011 £m
Within one year	–	480
Within two to five years	856	287
Total undrawn committed facilities	856	767

Borrowings consist of £73m of floating rate bank loans (2011: £271m) and £1,144m of fixed rate loan notes (2011: £1,180m). Bank overdrafts, bank loans and loan notes issued in July 2008 and May 2009 are stated at amortised cost. The loan notes issued in March 2007 are stated at amortised cost recalculated at an effective interest rate current at the balance sheet date as they are part of a fair value hedge relationship. The directors believe the fair value of the company's bank overdrafts, bank loans and the loan notes issued in March 2007, calculated from market prices, approximates to their book value. US\$265m (£163m) of the loan notes issued in July 2008 have a fair value market gain of £31m (2011: £40m). The fair value of the remaining notes approximates to their book value.

Borrowing at floating rates exposes the company to cash flow interest rate risk. The management of this risk is detailed in note (h).

There were no financial liabilities upon which no interest is paid.

(f) Other creditors

	2012 £m	2011 £m
Amounts falling due within one year:		
Amounts owed to group undertakings	2,817	2,849
Other taxation and social security costs	1	–
Other creditors	–	1
Accruals and deferred income	31	32
Derivative financial instruments at fair value	2	5
Total creditors – amounts falling due within one year	2,851	2,887
Amounts falling due after more than one year:		
Derivative financial instruments at fair value	2	4

(g) Derivative financial instruments

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

	Assets 2012 £m	Assets 2011 £m	Liabilities 2012 £m	Liabilities 2011 £m
Cross currency swaps designated as cash flow hedges	31	40	–	–
Interest rate swaps designated as cash flow hedges	–	–	3	6
Interest rate swaps designated as fair value hedges	70	77	–	–
Commodity swaps	1	3	1	3
	102	120	4	9
Less: Amounts falling due after more than one year	(77)	(106)	(2)	(4)
Amounts falling due within one year	25	14	2	5

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 decreased by £12m (2011: increase £30m) during the year.

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

	Assets 2012 £m	Assets 2011 £m	Liabilities 2012 £m	Liabilities 2011 £m
Within one year	9	2	2	5
In the second year	–	10	2	2
In the third year	–	–	–	2
In the fourth year	17	23	–	–
In the fifth year or greater	6	8	–	–
Total carrying value	32	43	4	9

Projected settlement of cash flows (including accrued interest) associated with derivatives:

	Assets 2012 £m	Assets 2011 £m	Liabilities 2012 £m	Liabilities 2011 £m
Within one year	7	2	2	7
In the second year	2	10	2	3
In the third year	–	–	–	2
In the fourth year	17	24	–	–
In the fifth year or greater	6	9	–	–
Total cash flows	32	45	4	12

(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 together with G4S International Finance plc 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.

Cross currency swaps with a nominal value of £134m were arranged to hedge the foreign currency risk on US\$265m of the second US Private Placement notes issued in July 2008, effectively fixing the sterling value on this portion of debt at an exchange rate of 1.9750.

Assuming a 1% appreciation of sterling against the US dollar, the fair value net gain on the cross currency swaps which hedge part of the currency loan notes would be expected to fall by £2m.

Interest rate risk and interest rate swaps

Borrowing at floating rates as described in note 29 to the consolidated financial statements exposes the group 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 of five years. At 31 December 2012 the nominal value of such contracts was £nil (in respect of US dollar) (2011: £71m) and £73m (in respect of euro) (2011: £121m), their weighted average interest rate was nil% (US dollar) (2011: 4.8%) and 3.2% (euro) (2011: 3.6%), and their weighted average period to maturity was one year and two months. 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 quantity of interest rate swaps outstanding in the company is expected to continue to decline as Treasury activity is increasingly conducted by G4S International Finance plc.

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

The interest on the US Private Placement notes issued in July 2008 and on the GBP Public Bond issued in May 2009 was kept at fixed rate.

The core company borrowings are held in US dollar, euro and sterling. Although the impact of rising interest rates is largely shielded by fixed rate loans and interest rate swaps which fix a portion of the exposure, some interest rate risk remains. A 1% increase in interest rates across the yield curve in each of these currencies with the 31 December 2012 debt position constant throughout 2013, would lead to an expectation of an additional interest charge of £3m in the 2013 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 solutions businesses. The company acts as a market intermediary, arranging commodity swaps and commodity options with its relationship banks with back to back deals on identical terms with its subsidiaries to fix synthetically part of the exposure and reduce the associated cost volatility.

Counterparty credit risk

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

For treasury-related transactions, the policy limits the aggregate credit risk assigned to a counterparty. The utilisation of a credit limit is calculated by applying a weighting to the notional value of each transaction outstanding with each counterparty based on the type and duration of the transaction. The total mark to market value outstanding with each counterparty is closely monitored against policy limits assigned to each counterparty.

For short-term transactions (under one year), at inception of the transaction, the financial counterparty must be investment grade rated by either the Standard & Poor's or Moody's rating agencies. For long-term transactions, at inception of the transaction, the financial counterparty must have a minimum rating of BBB+/Baa1 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 2012 the largest two counterparty exposures relating to treasury transactions were £38m and £30m and both were held with institutions with long-term Standard & Poor's credit ratings of A- and A respectively. These exposures represent 37% (2011: 38%) and 29% (2011: 27%) of the carrying values of derivative financial instruments, with a fair value gain at the balance sheet date. Both of these banks had significant loan commitments outstanding to G4S plc at 31 December 2012.

The company participates in the group's multi-currency notional pooling cash management system with a wholly-owned subsidiary of an Aa3 rated bank. There is legal right of set off under the pooling agreement.

(i) Share premium and reserves

	Share premium £m	Profit and loss account £m	Own shares £m	Total £m
At 1 January 2012	258	1,441	(16)	1,683
Retained profit	–	24	–	24
Changes in fair value of hedging derivatives	–	(6)	–	(6)
Dividends declared	–	(120)	–	(120)
Own shares purchased	–	–	(6)	(6)
Own shares awarded	–	(2)	2	–
Tax on equity movements	–	2	–	2
At 31 December 2012	258	1,339	(20)	1,577

(j) 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.

(k) Staff costs and employees

	2012 Number	2011 Number
The average monthly number of employees of the company during the year was:	49	51

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

	2012 £m	2011 £m
Wages and salaries	–	1
Total staff costs	–	1

Certain G4S plc staff costs are now borne by G4S Corporate Services Limited and are reported within the separate financial statements of that company.

(l) Share-based payments

The group has one type of equity-settled, share-based payment scheme in place being the conditional allocations of G4S plc shares. An employee benefit trust established by the group holds shares to satisfy the vesting of conditional allocation awards. Reserve for own share disclosures relevant to the company are presented within note 38 to the consolidated financial statements. Share-based payments disclosures relevant to the company are presented within note 42 to the consolidated financial statements.

(m) Related party transactions

Certain disclosures relevant to the company are presented within note 43 to the consolidated financial statements. Company transactions with group undertakings primarily consist of royalty charges, central service charges, group insurance recharges and loan transactions.

There were no material transactions with non-wholly owned group undertakings in 2012 (2011: none).

(n) 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 2012 guarantees totalling £493m (2011: £583m) were in place in support of such facilities.

The company also guarantees the debt obligations of G4S International Finance plc. At 31 December 2012 contingent liabilities of £1,061m were outstanding in support of such debt obligations.

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 2012 totalled £19m (2011: £21m).

Notice of Annual General Meeting

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION.

If you are in any doubt about the contents of this document or the action you should take, you should immediately consult your stockbroker, bank manager, solicitor, accountant or other independent professional adviser authorised under the Financial Services and Markets Act 2000 if you are resident in the United Kingdom or, if not, from another appropriately authorised independent financial adviser. If you have sold or otherwise transferred all your shares in G4S plc, please send this notice and the accompanying documents to the person through whom the sale or transfer was effected so that it can be passed on to the purchaser or transferee.

Notice is hereby given that the Annual General Meeting of G4S plc will be held at Salters' Hall, 4 Fore Street, London EC2Y 5DE on Thursday, 6 June 2013 at 2.00pm in order to consider and, if thought fit, to pass the following Resolutions:

Resolutions 1 to 17 and Resolution 20 will be proposed as ordinary resolutions. Resolutions 18, 19 and 21 will be proposed as special resolutions.

1. To receive the financial statements of the company for the year ended 31 December 2012 and the reports of the directors and auditor thereon.
2. To receive and approve the Directors' Remuneration Report contained in the annual report for the year ended 31 December 2012.
3. To declare a final dividend for the year ended 31 December 2012 of 5.54p (DKK 0.473) for each ordinary share in the capital of the company.
4. To elect Ashley Almanza (member of the Risk Committee) as a director.
5. To elect John Connolly (member of the Nomination and Risk Committees) as a director.
6. To elect Adam Crozier (member of the Audit and Nomination Committees) as a director.
7. To elect Paul Spence (member of the Audit, CSR and Risk Committees) as a director.
8. To elect Tim Weller (member of Audit and Risk Committees) as a director.
9. To re-elect Nick Buckles (member of the Risk Committee) as a director.
10. To re-elect Mark Elliott (member of the CSR, Nomination and Remuneration Committees) as a director.
11. To re-elect Winnie Kin Wah Fok (member of the CSR and Remuneration Committees) as a director.
12. To re-elect Grahame Gibson as a director.
13. To re-elect Mark Seligman (member of the Audit and Remuneration Committees) as a director.
14. To re-elect Clare Spottiswoode (member of the CSR and Remuneration Committees) as a director.
15. To re-appoint KPMG Audit Plc as auditor of the company to hold office until the conclusion of the next Annual General Meeting of the company.
16. To authorise the directors to determine the remuneration of the auditor.
17. That the directors be and are hereby generally and unconditionally authorised pursuant to and in accordance with section 551 of the Companies Act 2006 ("the Act") to exercise all the powers of the company to allot shares in the company or grant rights to subscribe for, or convert any security into, shares in the company:
 - (i) up to an aggregate nominal amount of £117,555,000; and
 - (ii) comprising equity securities (as defined in section 560 of the Act) up to a further aggregate nominal amount of £117,555,000 provided that they are offered by way of a rights issue to holders of ordinary shares on the register of members at such record date(s) as the directors may determine where the equity securities respectively attributable to the interests of the ordinary shareholders are proportionate (as nearly as may be practicable) to the respective numbers of ordinary shares held or deemed to be held by them on any such record date(s), subject to such exclusions or other arrangements as the directors may deem necessary or expedient to deal with treasury shares, fractional entitlements, record dates, shares represented by depositary receipts, legal or practical problems arising under the laws of any territory or the requirements of any relevant regulatory body or stock exchange or any other matter;provided that this authority shall expire on the date of the next Annual General Meeting of the company, save that the company shall be entitled to make offers or agreements before the expiry of such authority which would or might require relevant securities to be allotted after such expiry and the directors shall be entitled to allot relevant securities pursuant to any such offer or agreement as if this authority had not expired; and all unexpired authorities granted previously to the directors to allot relevant securities under section 551 of the Act shall cease to have effect at the conclusion of this Annual General Meeting (save to the extent that the same are exercisable pursuant to section 551(7) of the Act by reason of any offer or agreement made prior to the date of this resolution which would or might require shares to be allotted or rights to be granted on or after that date).

18. That the directors be and are hereby empowered, pursuant to section 570 of the Act, subject to the passing of Resolution 17 above, to allot equity securities (as defined in section 560 of the Act) for cash pursuant to the authority conferred by Resolution 17 above as if section 561 of the Act did not apply to any such allotment, provided that this power shall be limited to:

- (i) the allotment of equity securities in connection with an offer or issue of equity securities (but in the case of the authority granted under paragraph (ii) of Resolution 17 above, by way of rights issue only) to or in favour of the holders of shares on the register of members at such record date(s) as the directors may determine where the equity securities respectively attributable to the interests of the shareholders are proportionate (as nearly as may be practicable) to the respective numbers of shares held by them on any such record date(s), but subject to such exclusions or other arrangements as the directors may deem necessary or expedient in relation to fractional entitlements, treasury shares, record dates, shares represented by depositary receipts, legal or practical problems arising under the laws of any territory or the requirements of any relevant regulatory body or stock exchange or any other matter; and
- (ii) the allotment (otherwise than pursuant to sub-paragraph (i) above) of equity securities pursuant to the authority granted under Resolution 17(i) above up to a maximum nominal amount of £17,633,000;

and shall expire on the expiry of the general authority conferred by Resolution 17 above unless previously renewed, varied or revoked by the company in general meeting, 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, or treasury shares to be sold, after such expiry and the directors shall be entitled to allot equity securities or sell treasury shares pursuant to any such offer or agreement as if the power conferred hereby had not expired.

All previous unutilised authorities under section 570 of the Act shall cease to have effect at the conclusion of this Annual General Meeting.

19. That the company be and is hereby generally and unconditionally authorised for the purposes of section 701 of the Act, to make market purchases (within the meaning of section 693(4) of the Act) of ordinary shares of 25p each in the capital of the company on such terms and in such manner as the directors may from time to time determine, provided that:

- (i) the maximum number of such shares which may be purchased is 141,066,000;
- (ii) the minimum price which may be paid for each such share is 25p (exclusive of all expenses);
- (iii) the maximum price which may be paid for each such 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 (exclusive of expenses); and
- (iv) this authority shall, unless previously revoked or varied, expire at the conclusion of the Annual General Meeting of the company to be held in 2014 (except in relation to the purchase of such 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).

20. That in accordance with sections 366 and 367 of the Act, the company and all companies which are subsidiaries of the company during the period when this Resolution 20 has effect be and are hereby unconditionally authorised to:

- (i) make political donations to political parties or independent election candidates not exceeding £50,000 in total;
- (ii) make political donations to political organisations other than political parties not exceeding £50,000 in total; and
- (iii) incur political expenditure not exceeding £50,000 in total;

(as such terms are defined in the Act) during the period beginning with the date of the passing of this resolution and ending at the conclusion of the next Annual General Meeting of the company provided that the authorised sum referred to in paragraphs (i), (ii) and (iii) above may be comprised of one or more amounts in different currencies which, for the purposes of calculating the said sum, shall be converted into pounds sterling at the exchange rate published in the London edition of the Financial Times on the date on which the relevant donation is made or expenditure incurred (or the first business day thereafter) or, if earlier, on the day in which the company enters into any contract or undertaking in relation to the same.

21. That a general meeting of the company, other than an Annual General Meeting, may be called on not less than 14 clear days' notice.

By order of the board

Peter David
Secretary
26 March 2013

The Manor
Manor Royal
Crawley
West Sussex RH10 9UN
Company No. 4992207

Notice of Annual General Meeting continued

Notes

1. Shareholders are entitled to appoint a proxy to exercise all or any of their rights to attend and to speak and vote on their behalf at the meeting. A shareholder may appoint more than one proxy in relation to the Annual General Meeting provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that shareholder. A proxy need not be a shareholder of the company. A proxy form which may be used to make such appointment and give proxy instructions accompanies this notice.
2. Details of how to appoint a proxy are set out in the notes to the enclosed proxy form. In order to be valid an appointment of proxy must be returned with any power of attorney or any other authority under which it is executed, by one of the following methods: in hard copy form by post to Capita Registrars, PXS, the Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU; in hard copy form to that address by courier or by hand during usual business hours; or, in the case of CREST members, by utilising the CREST electronic proxy appointment service as described in paragraphs 8 and 9 below. In each case the form of proxy must be received by the company no later than 2.00pm on 4 June 2013. To change your proxy instructions you may return a new proxy appointment using the method set out above. The deadline for receipt of proxy appointments also applies in relation to amended instructions. Persons listed on the VP Securities register should follow the instructions on their Voting Request Form.
3. The return of a completed proxy form, other such instrument or any CREST Proxy Instruction will not prevent a shareholder attending the Annual General Meeting and voting in person if he/she wishes to do so.
4. Any person to whom this notice is sent who is a person nominated under section 146 of the Act to enjoy information rights (a "Nominated Person") may, under an agreement between him/her and the shareholder by whom he/she was nominated, have a right to be appointed (or to have someone else appointed) as a proxy for the Annual General Meeting. If a Nominated Person has no such proxy appointment right or does not wish to exercise it, he/she may, under any such agreement, have a right to give instructions to the shareholder as to the exercise of voting rights.
5. The statement of the rights of shareholders in relation to the appointment of proxies in paragraph 1 above does not apply to Nominated Persons. The rights described in this paragraph can only be exercised by shareholders of the company.
6. To be entitled to attend and vote at the Annual General Meeting (and for the purpose of the determination by the company of the votes they may cast), shareholders must be registered in the Register of Members of the company at 5.30pm on 4 June 2013 (or, in the event of any adjournment, at 5.30pm on the date which is two working days before the time of the adjourned meeting). Changes to the Register of Members after the relevant deadline shall be disregarded in determining the rights of any person to attend and vote at the meeting.
7. As at 25 March 2013 (being the latest practicable date prior to the publication of this Notice) the company's issued share capital consisted of 1,410,668,639 ordinary shares, carrying one vote each. Therefore, the total voting rights in the company as at 25 March 2013 was 1,410,668,639.
8. CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so by using the procedures described in the CREST Manual (available via www.euroclear.com/CREST). CREST Personal Members or other CREST sponsored members, and those CREST members who have appointed a 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.
9. In order for a proxy appointment or instruction made using the CREST service 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 instruction, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy or is 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 issuer's agent (ID RA10) by 2.00pm on 4 June 2013. For this purpose, the time of receipt will be taken to be the time (as determined by the time stamp applied to the message by the CREST Application Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.
10. CREST members and, where applicable, their CREST sponsors or voting service providers should note that Euroclear UK & Ireland Limited does not make available special procedures in CREST for any particular message. Normal system timings and limitations will, therefore, apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member, or sponsored member, or has appointed a voting service provider, to procure that his CREST sponsor or voting service provider(s) take(s) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting system providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.
11. 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.

12. Voting on all Resolutions will be conducted by way of a poll rather than a show of hands. This is a more transparent method of voting as shareholders' votes are to be counted according to the number of shares held. As soon as practicable following the Annual General Meeting, the results of the voting at the meeting and the numbers of proxy votes cast for and against and the number of votes actively withheld in respect of each of the Resolutions will be announced via a Regulatory Information Service and also placed on the company's website: www.g4s.com.
13. Any corporation which is a shareholder can appoint one or more corporate representatives who may exercise on its behalf all of its powers as a shareholder provided that they do not do so in relation to the same shares.
14. Under section 527 of the Act members meeting the threshold requirements set out in that section have the right to require the company to publish on a website a statement setting out any matter relating to: (i) the audit of the company's accounts (including the auditor's report and the conduct of the audit) that are to be laid before the Annual General Meeting; or (ii) any circumstance connected with an auditor of the company ceasing to hold office since the previous meeting at which annual accounts and reports were laid in accordance with section 437 of the Act. The company may not require the shareholders requesting any such website publication to pay its expenses in complying with sections 527 or 528 of the Act. Where the company is required to place a statement on a website under section 527 of the Act, it must forward the statement to the company's auditor not later than the time when it makes the statement available on the website. The business which may be dealt with at the Annual General Meeting includes any statement that the company has been required under section 527 of the Act to publish on a website.
15. Any shareholder attending the meeting has the right to ask questions. The company must cause to be answered any such question relating to the business being dealt with at the meeting but no such answer need be given if (a) to do so would interfere unduly with the preparation for the meeting or involve the disclosure of confidential information, (b) the answer has already been given on a website in the form of an answer to a question, or (c) it is undesirable in the interests of the company or the good order of the meeting that the question be answered.
16. Under sections 338 and 338A of the Act, members meeting the threshold requirements in those sections have the right to require the company (i) to give, to members of the company entitled to receive notice of the meeting, notice of a resolution which those members intend to move (and which may properly be moved) at the meeting; and/or (ii) to include in the business to be dealt with at the meeting any matter (other than a proposed resolution) which may properly be included in the business at the meeting. A resolution may properly be moved, or a matter properly included in the business, unless (a) (in the case of a resolution only) it would, if passed, be ineffective (whether by reason of any inconsistency with any enactment of the company's constitution or otherwise); (b) it is defamatory of any person; or (c) it is frivolous or vexatious. A request made pursuant to this right may be in hard copy or electronic form, must identify the resolution of which notice is to be given or the matter to be included in the business, must be authenticated by the person(s) making it and must be received by the Company not later than 24 April 2013, being the date six clear weeks before the meeting, and (in the case of a matter to be included in the business only) must be accompanied by a statement setting out the grounds for the request.
17. A copy of this notice, and other information required by section 311A of the Act, can be found at www.g4s.com
18. Any electronic address or web site address is provided in this Notice of Meeting solely for the purpose stated expressly herein and may not be used to communicate with the company other than for such purpose. Notwithstanding any telephone number, fax number or email address that appears on this document or elsewhere, neither the company nor Capita Registrars will accept voting instructions received via media other than post, electronically via the Share Portal service or by CREST Proxy Instruction in accordance with the notes above.

Recommendation and explanatory notes relating to business to be conducted at the Annual General Meeting on 6 June 2013

The board of G4S plc considers that 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 the company and its shareholders as a whole. The directors unanimously recommend that you vote in favour of the Resolutions as they intend to do in respect of their own beneficial holdings.

Explanatory notes in relation to the business to be conducted at the Annual General Meeting are set out below.

1. Financial statements of the company (Resolution 1)

The chairman will present the financial statements of the company for the year ended 31 December 2012 and the reports of the directors and auditor thereon to the Annual General Meeting.

2. Remuneration report (Resolution 2)

It is mandatory for all listed companies to put their directors' remuneration report to an advisory shareholder vote. As the vote is advisory it does not affect the actual remuneration paid to any individual director.

3. Final dividend (Resolution 3)

A final dividend of 5.54p (DKK 0.473) per ordinary share for the year ended 31 December 2012 is recommended for payment by the directors. If the recommended final dividend is approved, it will be paid on Friday 14 June 2013 to all ordinary shareholders who were on the register of members at the close of business on 17 May 2013.

4. Election and re-election of directors (Resolutions 4 to 14)

Resolutions 4 to 8 deal with the election of those directors who have been or will have been appointed since the company's last Annual General Meeting and who, in accordance with the company's articles of association, will retire and stand for election.

Resolutions 9 to 14 deal with the re-election of the other directors in accordance with the requirements of the UK Corporate Governance Code which provides for all directors of FTSE 350 companies to be subject to re-election by shareholders every year. Lord Condon, Mr Dighton and Mr Lerenius will retire from the board at the conclusion of the meeting and so are not seeking re-election.

Biographies of each of the directors seeking election or re-election are set out on pages 54 to 57 apart from Mr Weller whose biography appears on page 64 and Mr Almanza whose biography is set out below. Mr Almanza will join the board with effect from 1 May 2013 and, in accordance with the company's articles of association and, being eligible, will retire and offer himself for election at the Annual General Meeting which will be the first such meeting since his appointment.

The board has confirmed following a performance review that all directors standing for re-election continue to perform effectively and demonstrate commitment to their roles.

Biography of Mr Ashley Almanza

A chartered accountant by training, Mr Almanza, who holds an MBA from London Business School, held a number of senior roles at BG Group from 1993 to 2012, including Chief Financial Officer from 2002 to 2011 and Executive Vice President from 2009 to 2012. He was previously chairman of the Hundred Group of Finance Directors. Mr Almanza has experience as a long-serving FTSE 100 chief financial officer, as well as broad-ranging international experience and strong finance skills.

Mr Almanza is currently a non-executive director of Schroders plc and a member of the Advisory Board of Oxford University Centre for Business Taxation.

5. Reappointment of auditor and auditor's remuneration (Resolutions 15 and 16)

Resolution 15 relates to the reappointment of KPMG Audit Plc as the company's auditor to hold office until the next Annual General Meeting of the company. Resolution 16 authorises the directors to set the auditor's remuneration.

6. Authority to allot shares (Resolution 17)

Resolution 17 seeks shareholder approval for the directors to be authorised to allot shares.

At the last Annual General Meeting of the company held on 7 June 2012, the directors were given authority to allot ordinary shares in the capital of the company up to a maximum nominal amount of £235,110,000. Of this amount 470,220,000 shares could only be allotted pursuant to a rights issue. This authority expires at the end of this year's Annual General Meeting.

Resolution 17 will, if passed, renew this authority to allot on the same terms as last year's resolution. The board considers it appropriate that the directors be granted the same authority to allot shares in the capital of the company up to a maximum nominal amount of £235,110,000 representing approximately 66% of the company's issued ordinary share capital as at 25 March 2013 (the latest practicable date prior to publication of the Notice of Annual General Meeting). Of this amount, 470,220,000 shares (representing approximately 33% of the company's issued ordinary share capital) can only be allotted pursuant to a rights issue. The authority will last until the conclusion of the next Annual General Meeting in 2014.

The directors do not have any present intention of exercising this authority. In accordance with best practice, if the directors were to exercise this authority so as to allot shares representing more than one third of the current capital of the company, they would all offer themselves for re-election at the following Annual General Meeting, although, as noted in 4. above, it is the directors' current intention to stand for election annually in any event.

As at the date of the Notice of Annual General Meeting, the company does not hold any ordinary shares in the capital of the company in treasury. However, the 7,589,853 shares held within the G4S Employee Benefit Trust and referred to on page 127 (note 38 to the consolidated financial statements) are accounted for as treasury shares.

7. Disapplication of statutory pre-emption rights (Resolution 18)

Resolution 18 seeks shareholder approval to give the directors authority to allot shares in the capital of the company pursuant to the authority granted under Resolution 17 for cash without complying with the pre-emption rights in the Companies Act 2006 (the "Act") in certain circumstances. This authority will permit the directors to allot:

- (a) shares up to a nominal amount of £235,110,000 (representing approximately 66% of the company's issued share capital) on an offer to existing shareholders. However unless the shares are allotted pursuant to a rights issue (rather than an open offer), the directors may only allot shares up to a nominal amount of £117,555,000 (representing approximately 33% of the company's issued share capital) (in each case subject to any adjustments, such as for fractional entitlements and overseas shareholders, as the directors see fit); and
- (b) shares up to a maximum nominal value of £17,633,000, representing approximately 5% of the issued ordinary share capital of the company as at 25 March 2013 (the latest practicable date prior to publication of the Notice of Annual General Meeting) otherwise than in connection with an offer to existing shareholders.

As with Resolution 17, the terms of Resolution 18 are the same as last year's resolution.

The directors confirm their intention to follow the provisions of the Pre-emption Group's Statement of Principles regarding cumulative usage of authorities within a rolling three-year period. The Principles provide that companies should not issue shares for cash representing more than 7.5% of the relevant company's issued share capital in any rolling three-year period, other than to existing shareholders, without prior consultation with shareholders.

The authority contained in Resolution 18 will expire upon the expiry of the general authority conferred by Resolution 17 (i.e. at the end of the next Annual General Meeting of the company).

8. Purchase of own shares (Resolution 19)

Resolution 19 seeks to renew the company's authority to buy back its own ordinary shares in the market as permitted by the Act. The authority limits the number of shares that could be purchased to a maximum of 141,066,000 (representing a little less than 10% of the company's issued ordinary share capital as at 25 March 2013 (the latest practicable date prior to publication of the Notice of Annual General Meeting)) and sets minimum and maximum prices. This authority will expire at the conclusion of the company's Annual General Meeting in 2014.

The directors have no present intention of exercising the authority to purchase the company's ordinary shares but will keep the matter under review, taking into account the financial resources of the company, the company's share price and future funding opportunities. The authority will be exercised only if the directors believe that to do so would result in an increase in earnings per share and would be in the interests of shareholders generally. No shares were purchased pursuant to the equivalent authority granted to the directors at the company's last Annual General Meeting.

As at 25 March 2013 (the latest practicable date prior to the publication of the Notice of Annual General Meeting), there were no options over the ordinary shares in the capital of the company.

9. Political donations (Resolution 20)

Resolution 20 is designed to deal with the rules on political donations contained in the Act. Under the rules, political donations to any political parties, independent election candidates or political organisations or the incurring of political expenditure are prohibited unless authorised by shareholders in advance. What constitutes a political donation, a political party, a political organisation or political expenditure is not easy to decide, as the legislation is capable of wide interpretation. Sponsorship, subscriptions, payment of expenses, paid leave for employees fulfilling public duties and support for bodies representing the business community in policy review or reform, may fall within this.

Therefore, notwithstanding that the company has not made political donations requiring shareholder authority in the past, and has no intention either now or in the future of making any such political donation or incurring any such political expenditure in respect of any political party, political organisation or independent election candidate, the board has decided to put forward Resolution 20, which is the same as the resolution on this subject which was passed at the company's Annual General Meeting held on 7 June 2012. This will allow the company to support the community and put forward its views to wider business and government interests without running the risk of being in breach of the law. This authority will cover the period from the date Resolution 20 is passed until the conclusion of the next Annual General Meeting of the company. As permitted under the Act, Resolution 20 also covers political donations made, or political expenditure incurred, by any subsidiaries of the company.

10. Period of notice for calling general meetings (Resolution 21)

Resolution 21 is a resolution to allow the company to hold general meetings (other than Annual General Meetings) on 14 days' notice.

Before the introduction of the Companies (Shareholders' Rights) Regulations 2009 on 3 August 2009, the minimum notice period permitted by the Act for general meetings (other than Annual General Meetings) was 14 days. One of the amendments made to the Act by the Regulations was to increase the minimum notice period for general meetings of listed companies to 21 days, but with an ability for companies to reduce this period back to 14 days (other than for Annual General Meetings) provided that two conditions are met. The first condition is that the company offers a facility for shareholders to vote by electronic means. This condition is met if the company offers a facility, accessible to all shareholders, to appoint a proxy by means of a website. The second condition is that there is an annual resolution of shareholders approving the reduction of the minimum notice period from 21 days to 14 days.

The board is therefore proposing Resolution 21 as a special resolution to approve 14 days as the minimum period of notice for all general meetings of the company other than Annual General Meetings. The approval will be effective until the company's next Annual General Meeting, when it is intended that the approval be renewed. The board will consider on a case by case basis whether the use of the flexibility offered by the shorter notice period is merited, taking into account the circumstances, including whether the business of the meeting is time sensitive.

Group financial record

G4S plc was formed in 2004 from the merger of the security businesses of Group 4 Falck and Securicor. Since that time, the group has delivered strong financial performance and shareholder returns as demonstrated by the following financial record:

Dividend

Since 2005, G4S has delivered average dividend per share growth of 14.2% per annum.

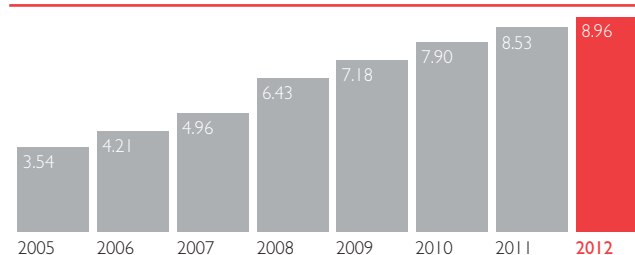
+5%

In dividend per share in 2012

+14.2%

In dividend per share from 2005 to 2012

Pence per share



Earnings per share**

Since 2005, G4S has generated average adjusted earnings per share growth of 9.7% on a compounded basis.

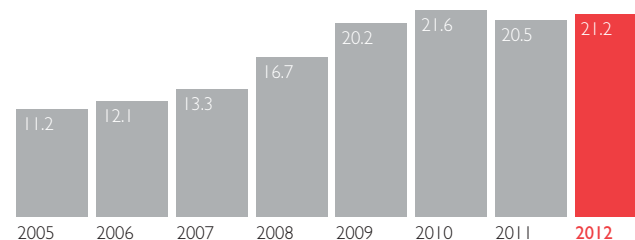
+3.4%

EPS in 2012

+9.7%

EPS CAGR* from 2005 to 2012

(as reported) pence



Revenue**

G4S revenues have grown by an average of 8.5% since 2005. The group strategy for enhanced growth has helped deliver strong underlying organic growth together with capability-adding acquisitions to help drive growth in the future.

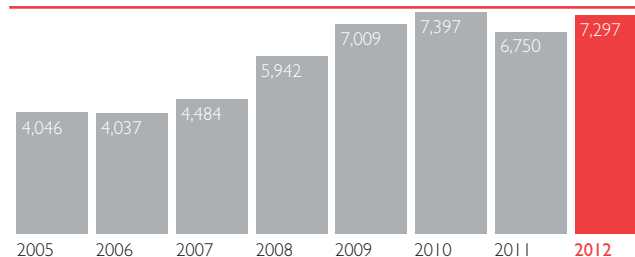
+8.1%

Revenues in 2012

+8.5%

Revenue CAGR* from 2005 to 2012

(as reported) £m



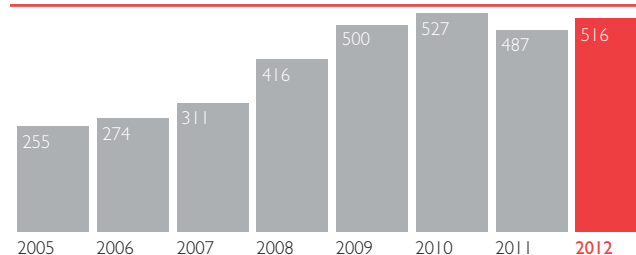
Profit before interest, tax and amortisation**

Operating profit, defined as profit before interest, tax and amortisation, has grown by an average of 10.7% since 2005. The increase in operating profit has been driven by strong revenue growth, a strong cost focus and an improving business mix with our higher growth businesses such as government and Developing markets having higher than the group average margins.

+6.0%**
PBITA in 2012

+10.7%
PBITA CAGR* from 2005 to 2012

(as reported) £m



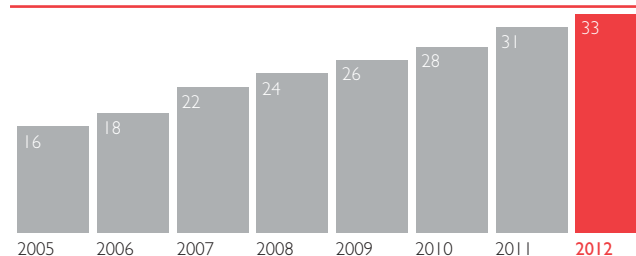
Revenue from developing markets

Our global presence, market shares and experience of working in less developed markets is unrivalled in almost any industry. It means that we know what it takes to be successful in these markets and are well positioned to maximise the structural growth opportunities as they develop over time.

+10%
Organic growth from Developing markets in 2012

+20.7%
Revenue from Developing markets CAGR* from 2005 to 2012

%



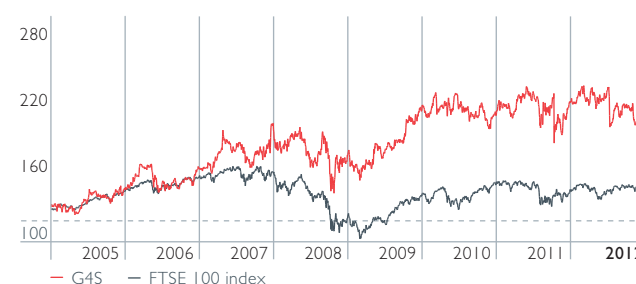
2005–2012 share price performance

From 2005 to the end of 2012, the G4S share price has increased 108.5%, outperforming the FTSE 100 by 73% (see page 78 for its comparative TSR performance against that of the FTSE 100 and our bespoke peer group).

+108.5%
G4S share price since 2005

+9.1%
G4S share price CAGR* from 2005 to 2012

Value (p)



* CAGR is compound average growth rate

** 2011 and 2012 at 2012 exchange rates, excluding the Olympic Games contract and adjusted for discontinued and divested businesses. 2005-2010 as reported.

General information

Financial calendar

Results announcements

Half-year results – August
Final results – March

Dividend payment

Interim paid – 19 October 2012
Final payable – 14 June 2013

Annual General Meeting

6 June 2013

Corporate addresses

Registered office

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Manor Royal
Crawley
West Sussex RH10 9UN
Telephone +44 (0) 1293 554 400

Registered number

4992207

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KPMG Audit Plc
15 Canada Square
London E14 5GL

Stockbrokers

J.P. Morgan Cazenove
125 London Wall
London EC2Y 5AJ

Citigroup Global Markets Limited
Citigroup Centre
Canada Square, Canary Wharf
London E14 5LB

Financial advisors

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125 London Wall
London EC2Y 5AJ

Barclays Capital
5 The North Colonnade
Canary Wharf
London E14 4BB

G4S website

www.g4s.com

General shareholder information

Registrars and transfer office

All enquiries relating to the administration of shareholdings should be directed to:

Capita Registrars
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 20 8639 3399
Fax: +44 (0) 1484 600 911
Email: ssd@capitaregistrars.com
Secure share portal:
www.capitashareportal.com

Please note that beneficial owners of shares who have been nominated by the registered holder of those shares to receive information rights under section 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.

Capita share portal

The share portal is an online facility provided by the company's registrars, Capita Registrars, for shareholders to manage their holding securely online reducing the need for paperwork. By registering for a free portal account, shareholders are able to access a range of online facilities 24 hours a day including those described below.

View account holding details

Allows shareholders to access their personal account, shareholding balance, share transaction history, indicative share valuation and dividend payment history. It also enables shareholders to buy and sell shares.

Change of address, bank mandates, downloadable forms

Allows shareholders to update their postal address and complete, change or delete bank mandate instructions for dividends. A wide range of shareholder information, including downloadable forms such as stock transfer forms, is also available.

Online proxy voting

Provides shareholders with an online proxy voting mechanism to cast proxy votes.

Dedicated helpline

Capita Registrars also has a helpline to help users with all aspects of the service.
Telephone (from the UK): 0871 664 0391
Calls cost 10p per minute plus network extras, lines are open 8.30am to 5.30pm Monday to Friday)
Telephone
(outside the UK): +44 (0) 20 8639 3367
Email: shareportal@capita.co.uk

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For further information visit our website:

www.g4s.com



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