G4S
Capital Markets Day – Session One
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G4S

SPEAKERS

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Kim Challis, Group MD

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Andy Baker, Regional MD G4S Africa

Grahame Gibson, Group COO & Regional CEO - Americas

Dan Ryan, Regional CEO, Asia Middle East

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QUESTIONS FROM

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Charles Wilson, Goldman Sachs

Jaime Brandwood, UBS

Kean Marden, Jefferies

Alex Magni, HSBC

Daniel Patterson, SEB Enskilda

Andrew Ripper, Merrill Lynch

Paul Checketts, Barclays Capital

Andy Chu, Deutsche Bank

Welcome & Introduction

Nick Buckles, Group CEO
I think we'll make a start. Good morning everybody and welcome to the G4S Capital Markets Day. Before I start I'd like to introduce a couple of people in the audience, we have three of our non-executives here, if you could stand up please, Bo Lerenius, Mark Seligman, Paul Condon. Our new Chairman has just arrived, so I'll introduce him, John if you could just stay standing for a second, if everyone doesn't know this is John Connolly our new Chairman to be. So welcome to him. Welcome to his first meeting, we're saving a bit on induction by inviting him to the meeting today, so you'll get to find out a bit more about the Group.

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John Connolly, Chairman
Nick, thank you, I'm looking forward to the role. Thank you.

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Nick Buckles, Group CEO
So without further ado we'll make a start. We've got quite a busy agenda today, we tried to pick topics we thought would be of interest to our investors and we've got a good line up of presenters here today. What we're going to go through is I'm going to give a quick overview of strategy, no big surprises there hopefully. Then we'll talk about two aspects of our business which we're trying to drive some strategic change through on, i.e. service excellence and business development. And then we'll have a Q&A at the end of that session, first of all from the floor and then from the lines.

Then we're going to look at the UK and Africa region, that's one regional structure looking at the big outsourcing opportunities in the UK, and then another Q&A basically. Then a coffee break and then Africa comes back on and we'll talk about our opportunities there. And then move onto the Americas and Asia, Middle East thereafter. Trevor comes along to talk about our finance strategy; we'll probably be picking up more on the acquisition there. And then I come back for a summary and outlook and then another Q&A. And we're planning to be done by I think 12.30, or is it one o'clock? One o'clock.

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Strategy Development and Introduction to the G4S Way

Nick Buckles, Group CEO
So firstly moving onto strategy, no big surprises here, our vision - slightly amended but only in that we want to be recognised as the global leader in providing secure outsourcing solutions, it was security solutions, it's now very much focused on outsourcing as a vision. We want to be the voice of the industry.

Our aim is to get to £10bn in revenues by 2014 and 50% of the Group coming from developing markets by 2019. And increase the number of contracts, and it's still around the 35% mark, the number of contracts that we have in the Group that are based on solutions, long term relationships, etc, with customers. And of course strategy has got to be driven by our customers. and what we're looking to do is to help them achieve their strategic goal, which I have to say most of the time now is reducing their costs and bringing innovation and costs reductions through the services we offer and creating long term value clearly for our shareholders.

You've seen this slide before, not a big change there; there hasn't been a market update in terms of the security market. This is Freedonia on the left hand side. You can see there the expectation is through to 2019, the growth in the security business will be around 8% compound annual growth a year. I think that's probably a little bit high, probably a little bit optimistic, but that's where the market says the industry is going.

Just to remind you the security market worldwide is about £80bn. And the market research is also saying that indeed by 2019 about 50% of the world market will be in developing markets.

Then on the right hand side these are the latest nominal GDP growth forecasts for different territories. The figures in brackets are where we were in September and indeed on the previous Capital Markets, where we were in April last year we showed. And what you can see there really is still expected to be double digit nominal GDP growth in developing markets, but Western Europe has dropped from 4, to 3, to 2% in the last 12 months. And North America is around the 4% mark. If you weight that on our own sort of business spread that gives us a weighted average of about 5.5% nominal GDP growth in our territories.

So in terms of where are we post ISS - basically just to give you an update on our integrated strategy. As we said at the time 90% of the market globally in facility services is still bought on a single service basis. So of the £500bn FM market of which £90bn is security only 10% is integrated. But that is increasing. But there is still a very large market out there for single service provision.

If you're going to do integrated facilities then self-delivery of the services really does generate long term cost savings for the customer, whereas a thin management level doesn’t. In terms of defensiveness and indeed market opportunity the UK is the only major market where we operate where we have to provide integrated facilities as a means, in some cases to defend market share, but most of the time to win new business - and particularly in government in the UK.

The only other area where we've seen the need to develop from a defensive perspective is in the US Government space where you'll see Graham will talk about where the real opportunities lie going forward outside of security, or manned security in the US Government.

Facilities services overall is still very attractive in developing markets, but particularly in those very large markets of Brazil, India and China, very high growth and good margins. But indeed where we will continue to be successful and you'll see that coming through in our presentations time and time again, is where we focus on the sectors where safety and security are considered really important to the customer, and compliance.

The global security market, as you saw on the earlier slide does have structural growth, it grows ahead of GDP we believe and we have had a very strong track record over the last several years, so in terms of organically growing. And finally just in terms of integrating the security services we provide it's still very important and you'll see lots of examples throughout today of where we've brought together a number of different security and facilities services to generate cost savings and long term relationships with our customers.

So in terms of the definition, still very much in line with where we've been previously, our definition is that we specialise in outsourcing of business processes and facilities in those sectors particularly where security and safety are strategic to the customer. That's not to say that we won't do other sectors clearly, but they are the ones where security will be key and we'll have a bigger chance of winning.

We're very much a B2B and B2G company, you saw us divest Norwegian home alarms last year in the B2C space and typically we will exit B2C where applicable, it's not our core business.

And what we're really looking to do is sign long term contracts, or have long term relationships with our customers. We're looking for large customers, and what we're looking to do is deliver on at least one of those five elements at the bottom there. And as I mentioned already cost management and reducing costs through outsourcing is probably the big differentiator for us currently.

So what we're trying to build on today is showing how our strategy will deliver enhanced growth in the future. And each of our presenters will be picking up on these points to show it in action basically and we'll come back and talk about it at the end. But what really drives our growth is outsourcing, even in a traditional African market for example there are still banks doing their own cash in transit and there are still mining companies doing in house security. So even in the basic services - they come from outsourcing basically and clearly you'll see some much more sophisticated examples of outsourcing when we look at the UK market.

We've got a focus on sectors; again security and safety are key. And this is a slight change for a number of our businesses; we really are getting them to focus on large customers, as well as small customers. and you'll see when we go through the regions the pipeline we've now got is looking at a lot more larger customers as well as the smaller ones. And that's a big change of emphasis for a number of our businesses to look at large, major wins.

We've always been good at this but it's definitely a key aspect of our strategy which has been successful and that's bringing the expertise from developed markets into developing markets. So our 80 or so countries we operate in, which we would describe as developing there's a lot of core product growth in our core services in those markets, but also adding the additional services we're developed in places like the UK and the US and Europe to those markets gives them even high growth potential.

And then finally our acquisitions will be focused on making sure that what we acquire either is high growth itself, or enables the core business to grow even quicker alongside that acquisition. And you'll see again some examples of this as we go through the morning.

So in terms of our business objectives, very simple really, organic growth is a fundamental driver throughout the organisation and what you'll see with Graham Levinsohn's presentation how we've further invested in sectors particularly and international accounts, which is becoming an increasing part of our business. That we're setting up service excellence centres, one of the reasons being to get global consistent service of our international accounts.

We've nearly completed the rollout of Salesforce.com throughout the organisation, I think it's about 75% implemented and that has made a huge difference to our visibility on the contract opportunities and where we can start to focus our resources on winning the bigger pieces of business out there.

Just reiterating - more focus on large bids and the fact that we're looking to use acquisitions to generate more organic growth.

In terms of margin improvement we've mentioned this is a bit at the year-end. A number of initiatives underway at the moment to at least maintain the margin where we are. First of all we're undertaking a major review of procurement, we're looking to address about £500m of external spend. We've already been through one tranche of overhead reviews at group and regional level in the organisation and we're working down into the business unit level now.

We've set up the service excellence centres which David will talk about in a little while to start to work on gross margin improvement. Our gross margin if you look at our accounts for the last six years has declined about 1% over that period of time and probably about three or four tenths in the last couple of years. So we've got to try and reverse that trend.

We've been quite active in divestments in the previous year particularly and we'll continue to be active in those divestments to improve the margin. And the good news for us is that our higher growth businesses are those that have higher margins, so UK Government, developing markets particularly and hopefully in the future cash services will return to strong growth.

Finally on organisational design, earlier this year we integrated the cash divisions into our regional structure, that's gone down very well in the organisation. Not only have we saved about £5m in a year in costs, but we've got a lot more focus on the local customer in each market and also some back office synergies by bringing the businesses together in each of those countries.

We're currently working down through the organisation from top to bottom trying to right size, this horrible word, but make sure we've got the right level of overheads in each part of our organisation. Just to give you an example some of our manned security businesses have 10% overheads to revenue and some have 17% overheads to revenue, so a big opportunity there to right size the overheads.

And of course running through the whole organisation is the importance of cash generation and Trevor will talk more about that, but we really have got a strong focus on that throughout this year and the coming years.

In terms of divestments the criteria really revolves around four areas, clearly if it's not core to Group strategy and we would put B2C and some other businesses in that category. And this is the probably the most telling criteria really. If we don't believe the businesses can meet our margin targets in the medium term. And David will talk about our margin targets in a little while. And some of the examples you'll see at the bottom there have been because of that reason.

And particularly if that's coupled with somebody else that's willing to pay a premium for that business over and above the implied multiple in our numbers. And we've always had the principle that if you're not one or two in cash solutions and don’t have a way to get there that you should exit the market.

So some of the businesses we've divested since 2006, you can see below there. We exited France and Germany on all services; I think that's proved to be an excellent move. Those businesses have been severely loss making ever since we left those markets. Sweden cash solutions we left last year and Poland. We didn't announce Poland at the year-end, but that was one of the businesses we were very close to selling at the time and that's now actually out of the books, that was a £40m business losing about £2m a year.

Norway Home Alarms I mentioned, TLCS was a visa processing business and Taiwan cash we were the number three. So we'll continue to look at divestments to make sure - or if they are within this criteria.

In terms of how we differentiate ourselves from our competitors globally, we're the only global business that can provide integrated security on a global basis. So project management, risk consulting, physical security, systems, systems and software overlays and obviously personnel. So that's a big positive for us on a global basis.

The cash market has been difficult for us in the last 18 months with the very low interest rate environment, but we do have some excellent expertise in the organisation around understanding the cash cycle and how you can get value and interest rate benefits through managing cash more efficiently in society. That will come back at a future time, but we have got - as I say very strong expertise there. And we have got the best growth and best margins in the industry still.

In terms of government, you'll see some very good examples I think this morning of how we've developed business in government in the UK and our knowledge of how to do business with government and particularly in the sectors which are high growth at the moment, which are justice, police, immigration and welfare, you can see that we've had great success in winning those contracts. And a lot of it does come down to understanding the customer and being able to put together long term, cost reducing solutions. And you'll see that with Kim and Richard's presentation coming up.

Then finally again from a customer perspective we can offer them services through all their difficult to operate terrains throughout developing markets. And that does actually enable us to win business in developed markets as well.

Our values haven't changed, we don't talk about them a lot to investors but they very much drive that way we behave in the organisation. We take them very seriously, we have value owners on the Executive and they do get driven down through the business plan process to all elements of the organisation.

And while we're on the subject of management you won't have seen this structure chart before, I'll take you through it. This is our organisational structure. The first thing I'd like to do is get all the Exec team to stand up that are here please?

So what you can see amongst the room here is 200 years of experience in G4S. You wouldn't believe it looking at us would you? So they're not our ages up there, they're our years of service with the Group. So we're very, very pleased with the team we've got here, lots of experience. So sit down, thanks very much.

One of the changes we made in January when we collapsed the cash services division alongside that and it really came out of the thinking around the integration with ISS actually was one of the areas we'd wanted to do for a number of years was set up service excellence centres within the centre. And at that point DTS was made COO alongside Graham. And also has an additional responsibility now alongside UK and Africa to drive some best practice sharing across these three main product lines, which is what he'll come back and talk about in a second.

But you see a lot of experience, a very strong management team with a good track record of delivery.

From an investor perspective, which is why we're here today, why should you invest in G4S? We've got very strong growth, sometimes we're called defensive, sometimes we're called high growth; it depends on where the market is at the time. But we have delivered around 8% average organic revenue growth over the past years. We've got very strong developing markets exposure, as I mentioned, it's currently 30% and we expect that to go up to 50% by 2019.

While we're on that subject to get to 50% by 2019 just if you wanted to do the maths, we need to grow our developing markets organically by about 8% more than our developed markets business. And at the same time spend about two thirds of our acquisition spend on developing markets. If the differential between developed and developing becomes 10% then that acquisition spend could be 50/50. So what I'm really painting there is the picture that that 50% by 2019 is very achievable. And indeed if we make divestments of - underperforming businesses which will typically be in developed markets you'll see we'll definitely get there even quicker.

In terms of resilience we're very diversified by geography and by services. So in terms of geography you know that the UK and the US are about 40% of our profits, there's not one country which is more than 5% thereafter. So as long as we keep the UK and the US on track we're pretty well set up in terms of profits and revenues.

We have a range of defensive services in our portfolio as well as high growth. And we have grown through the cycle, clearly much slower following the very tough 2008/2009 recession, but still growing. And good customer retention ranging from 90% to 95% throughout the geographies - so a real good visibility on future earnings. And in terms of our financial disciplines, best in class margins in most of the services we offer, good free cash flow generation and a good and disciplined and coherent M&A strategy.

On the basis of this, we always put this chart up, since the start of 2004 when we announced the merger we've grown our TSR by 360% over that period.

So in summary, a good underlying trading platform at the IMS last week we talked about the progress this year, the organic growth is increasing very nicely, margin a little bit under pressure, particularly from three businesses which we described, the US Government piece is tough going and Graham will talk a little bit more about that.

The UK cash business lost some margin at the back end of last year and is going through the process of rebuilding that for the second half with some new business wins. And also at the same time in the UK Government piece we lost about £130/£140m last year of high margin business, we've more than replaced that this year, but clearly all those contracts are in a start-up stage. So there's has been a little bit of a margin issue in the first half.

But in summary a good platform, accelerating organic growth from high growth markets, from focusing on large bids, from acquiring the right expertise and as Graham will show you, how we've invested in business development and large contracts.

And then in terms of margin improvement over the medium term overhead and procurement focus. David will talk about service excellence, we'll make divestments on the basis we've already mentioned and of course we've got the added benefit as I said earlier that our higher margin businesses are the ones which are higher growth through the cycle.

So that summaries that strategy. I'd now like to hand you over to David to talk about service excellence centres.

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G4S Way - Service Excellence Centres

David Taylor Smith, COO & Regional CEO - UK & Africa
Good morning, my name's David Taylor Smith, I'm known as DTS. Last time I said my name was DTS here someone asked a question for STD, so we'll stick with David Taylor Smith this time.

I'm just going to introduce the G4S Way. So about two years ago we showed this chart at an earlier presentation which was indicating countries going down the verticals and then a number of G4S Ways with owners moving across those countries. Our principal means of delivering our service and profit is through the country and regional structure.

So what we've done is a bit of work around that and I'll show you a little bit later what that looks like then if you're operating a G4S business.

So the roles of the service excellence centre are to drive and help support gross margin profit improvement. And we've identified seven ways we think we can do that. Firstly is to focus on underperforming businesses, those which are delivering below group margin targets, or on rare occasions delivering a loss. And improving operational efficiency and I'll give you examples later about some good practice we've got in helping to rollout operational efficiency in a number of countries. Lowering cash losses in our cash business and then the opposite side to that in our justice business is reducing escapes and fatalities.

We also then in a subsequent phase we'll move on to improving the consistency of our service delivery, particularly we're being demanded for that from our international customers. We'll act as a hub for best practice, our view is best practice exists where it does it's not going to be centralised. If there's a country or a service line that has an area of best practice then what we want to do is highlight that and allow people to learn from that. And then we're also going to rollout optimal operational delivery structures.

Now these are - I'm going to just show you a couple of slides on our Group targets, margin targets. You can see here these are for the developed markets, and they vary between 5 to 10%. 5% for our manned security businesses and then for systems, cash, justice and consultancy we have Group targets of 10%. Now these are obviously reviewed regularly and we have businesses which over perform this and some which don't perform to this target at the moment.

If I look at the developing markets, what you'll notice is slightly higher, 8% versus the 5% and then 12.5% versus the 10% for the other service lines. We've also added in here facilities management, in some of our businesses we do deliver more than security as a single product and we'd expect a return of 8% on that.

So what do we think the prize is? We think there's a prize of up to £50m. And if I just kind of illustrate practically some examples of how we might get there. So if you look in the area of gross margin improvement from rolling out best practice we have some excellent core operating systems in our cash and secure solutions business, we have preferred core operating systems, which help drive operational efficiency and service delivery in our businesses. These are not mandated and rolled out in all country operations and we think there is a prize there if we do. If you roll these out, experience shows us that it delivers improved gross margin performance.

The next two are about - I mean it sounds obvious, but just making sure that we pay people on market rate. We have terms and conditions that most efficiently match our demands from our customers and then roster them against that as efficiently as possible. Now that sounds quite basic, but actually in a number of markets, particularly ones which have high regulatory environments for labour that sometimes is difficult. So we've got some tools which we can bring to bear in that area.

In cash loss prevention what we've done, and I'll show you the charts in a minute, we've kept what we think are the technical expertise in the cash division intact, where we've developed some world class systems, hardware, vehicles and equipment to help reduce cash losses. I mean a good example - I yesterday reviewed a product we're about to rollout in the UK, which is a foam based system which fills the back of a vehicle with hardened foam in 60 seconds. You might think that sounds a bit technical, but the benefit to that is we can reduce then the crewing of those vehicles from two to one. So it brings a sort of gross margin improvement from that.

And then lastly is making sure that we have structured price increased programmes, particularly in high inflation environments, where you need to keep an iron grip on wage inflation and price increase programmes, so just some practical examples.

Again, just to reiterate the preferred method is - our model is delivering through autonomous country based structures and regions and then us to work across that in a harmonious way to help then introduce this area as a best practice.

These are the teams, so a highly experienced team in the Cash Service Excellence Centre. So we've retained what I'd describe as the technical experts within the cash division and instead of being applied across a smaller portfolio of cash businesses they're now been applied globally.

You can there four pillars, headed by Colin, Security, Technology, Operations and Reconciliation. And we're driving a programme in each of those areas. The reconciliation component is specifically to ensure that we maintain strong protocols around how we retain and segregate cash and operate ATM estates for clients.

If we you look at the Secure Solutions organisation headed by Ian Nesbit who has got - he's just finished running our African operations, so a very senior individual we've put in this role with experience of working in Asia and also the in the UK market. And he'll be assisted by two operations directors that we're recruiting into role at the moment and we've now got a chief technology officer which will focus on our manned security technology and systems.

So how do we see this being rolled out? Well we're on to it, we've started already. They're going to be rolled out - the service excellence elements of the G4S Way in the next couple of years and I'll show you what that looks like in a second. The teams work with individual country and G4S Way owners to make sure that their work is co-ordinated in an effective fashion. They have annual plans; they're budgeted and held centrally at a Group level. And in addition we've established two boards, one for cash and one for manned security which is formed of the most experienced heads of the largest businesses in the world that meet quarterly to help to ensure that they're on target with strategy and help with implementation.

We review their performance each month; I did a review yesterday with Nick. As a team we'll look at it in the Group Exec on Thursday and then I do individual performance reviews with the individual service excellence teams. And then they also have a role of sharing best practice around the Group. So a good example is a about a month ago I attended a forum for our security directors for our cash business, two days where they were looking at sharing best practice on systems, hardware and methods for preventing cash losses, reviewing the cash losses we've had and then the organisational lessons we can learn from that.

So this is looking at the G4S Way at a business unit level. So this one looks at cash solutions, so what you saw earlier was the countries A, B, C and then the service excellence running across. What you see here is if you were running a cash business within a country. So you can see here reputation, business controls, customers and best people are all service excellence areas owned by other members of the Group Exec. And the area we're focusing on in these teams is the service excellence. So you can see there, cash losses, cash prevention, insurance and reconciliation and then operations - looking at how we can improve gross margin in the way I described a few minutes ago.

Where it's lightly coloured shows that there is an overlap with some of these, so you would expect Irene to own the best practice drive around recruitment and training, but then also to have a linkage into operations to make sure that that happens as efficiently as possible.

If we look at that for our secure solutions, particularly at manned security here and you can see cash losses has been replaced then by direct labour management; employing people efficiently, matching their terms to work and then deploying them against that work as efficiently as possible.

So we're excited about the opportunity to lead and help develop the service excellence centres. Our initial focus will be on basics, and we think there's a profit prize improvement in there. We will focus on underperforming business and we will aim to implement the portions of the service excellence centre of the G4S Way in the next couple of years.

I'd now like to hand over to Graham who is going to talk to us about the business development component to the G4S Way.

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G4S Way - Business Development

Graham Levinsohn, Group Strategy and Development Director
Excellent, thank you David and good morning, I'm now going to talk about the business development sector of the G4S Way.

If we start by just going back to the challenge we were faced with in 2010. In 2010 we declared organic growth of 2%. When we looked at our big contract losses and our big contract gains they roughly cancelled each other out. Clearly if we wanted to return to a growth rate of 6 to 10% we had to start to look to do some things differently. And just to put that in context, if we look at a 10% growth rate based on a 90% customer retention level and maybe £200m of price increases to cover wage inflation that would require new sales of £1.3bn. So to do that we had to look at what we were doing in businesses and really start to drive best practice very hard.

So we developed the model where we looked at best people with an initial focus on organisational design. We looked at best processes with a heavy focus on big bidding and indeed account management to drive customer retention. And of course to make that happen we had to make sure it was embedded and consistently applied, so we introduced a system called Salesforce.com to embed that in our businesses.

So if I now look at the organisational piece, we started to segment our customers in three broad areas, strategic, typically very complex accounts, with long sales cycles and typically they were critical national infrastructure, federal government, large financial institutions. Below that we had our key accounts, where we still needed a robust bid process and account management process. And then finally we had our core customers, typically local held accounts or branch held accounts, where again we still needed a robust sales process to drive activity.

By segmenting our customers in this way we started to look at our organisational design and build and structure our sales organisation into field sales, into bidding and into big complex bidding in our biggest businesses.

In bidding we came up with a big bid process and in terms of the teams building winning bid teams we looked at the components that were required. Clearly we needed to own the customer, we needed operational delivery expertise. We needed sector expertise. We also need technical experts, whether that's on system integration, or risk consultancy. And of course we needed the bid engine so we had good pricing and financial modelling expertise. Good risk and legal analysis and of course good bid writers in that bid engine.

I've talked about the importance of Salesforce, and that's really about embedded the processes in all of our businesses, it's about ensuring best practices across all of our 120 countries. So that's also about collaborating globally on international accounts, it's definitely about retaining customers through best practice account management processes. It's about visibility of the pipeline so we can deploy the best resources in the biggest opportunities. And of course it's about driving the productivity of the sales organisation.

So to move on and start the focus on key sectors, something I've talked about for the last two or three years. Let's just review what we've been doing in the key global sectors that we've been focusing on. And remember these are key global sectors where we've identified small global villages of decision makers and we've matched that off by putting global sector expertise in.

We started this programme in 2009 and you can see from aviation with a compound annual growth rate of 16%, right the way through to oil and gas at 29% we have driven significant growth in these three key sectors.

In total the revenue contribution to the Group has grown from £400m in 2009 to over £600m last year.

We have now identified an additional sector to add to these global sectors, mining which has similar characteristics in terms of a small global decision making pool. We currently turn over about £75m in the sector, but we believe there is substantial room for growth.

So let's just talk about this sector for a little while. Whist there's 3000 stock exchange listed mining companies in truth the top ten companies account for one third of the mine productions in roughly about 2000 mines. So it's a very concentrated sector that allows and facilitates that global approach. But every year this industry continues to reinvent. With 100,000 new licences issued every year and indeed and in exploration - £8bn spent on exploration every year.

And there is good geographical concentration. As you can see here down the West Coast of Americas - significant mining capability in Latin America, concentrated areas in Africa and of course a significant concentration down in Australia being the key hubs that we have to focus on.

Today, as I said, our presence - about £75m across 49 countries, 250 contracts of which 77 are in the Americas and a significant concentration in LatAm. And you can see the countries listed there, of course Africa, America, Asia, Middle East and Europe in terms of where we have presence today. So a good footprint to build on and drive in future years.

Coming back to one of the initial sectors, the aviation sector where we've had significant success. We now have operations across 45 countries, serving 85 airlines across 120 airports. We're very much focused on integrated solutions, delivering to international standards.

And our footprint is testament to this focus; this is 120 airports where we carry out security services. Of course the big gap, in general - Grahame Gibson will talk about later, being in the US where there has been significant regulatory change that gives us opportunity to move into the aviation space in the US. But more of that from Grahame later.

In terms of the Port sector, the top chart shows the amount of spend in billions of euros in security in the maritime space, rising from €6.7bn in 2008 to €8.3bn this year. So every year security spend in this space grows typically by 12 to 14%. And again you can see the split by regions in the lower chart. So again, a significant opportunity.

And we've taken advantage of this opportunity; we've increased our footprint in terms of terminals by 34% in this three year period. So we now carry out security at over 150 ports and terminals across 70 different countries. Again, driving success and driving our footprint.

Finally on sectors, Oil and Gas, the top right chart you will see the revenue growth from about $250m to over $400m in that period of time. Driven by significant success in international clients' contracts and Americas and the Middle East are key sectors. We have live opportunities today which we think total about $100m and that we're looking to close out. And more and more we are focusing on the big capital infrastructure projects, particularly around LNG type sites, which are indeed rich in security.

So concluding, we do have a significant sales pipeline, I've put this chart on because it shows how much we are now tailoring our efforts to key sectors. If you take the government sector, financial institutions, oil and gas, mining, ports and airports then

71% of our global pipeline is in those key sectors. What's key about that is typically the average contract size is much bigger. So it drives us to a much bigger bidding profile going forward and indeed greater outsourcing opportunities as we go into the future. And as you can see 75% of our Group pipeline by value is now for bids of over £2m per annum.

So how is this translated into our results? Well you'll remember I talked about that 2% organic growth rate in 2010, our big contract losses equalling our big contract gains. In 2011 our big contract losses halved, so our customer retention in our big customers improved significantly, our big contract wins more than doubled, so again our success rate in big bids improved.

We started to see the initial seeds come through in 2011, because clearly contract wins take time to rollout and come in to the numbers. But our organic growth rate in 2011 went to that 4.5% heading towards that 6 to 10% range. And in quarter one this year at the IMS we announced, excluding the Olympics that our organic growth rate had again gone back into the 6 to 10% organic growth target range.

So 2012 will continue to see us implementing the G4S Way in terms of business development and continue to drive our organic growth positively. This is underpinned by what we see in our bid pipeline. As Nick said Salesforce is rolled out to about 75% of our businesses to day. It will be completely rolled out by year end. Our total bid pipeline stands at £4.8bn; this pipeline reflects decisions that will be made in the next 12 months. So from the 30th of April this year, over that 12 months period we expect decisions on contracts totally £3.5bn annual value.

And you can see the stages where they are, in terms of where we've been invited into negotiation, where we are in bidding modes, either we have received and order of pay or are responding to that, or we haven't yet been invited into negotiation. Prospects is where we have - and RFP date in the next three to four months and then suspects are a bit further out.

And again you can see the concentration in terms of bigger opportunities, 300 plus opportunities of £2m plus annual value. To compare that to the slide 12 months ago I talked about 220 opportunities 12 months ago. So again you can see the push to more and more bigger bids. 60 of the opportunities are over £10m plus per annum, that compares to 55 12 months ago when I presented, so not quite a double digit increase. So our pipeline is looking very healthy.

And with that I'd like to hand back to Nick.

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Questions and Answers

Nick Buckles, Group CEO

Now time for some questions on those three presentations. Robert at the back.

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Rob Plant, JP Morgan
You've talked about the margin being flat for the next couple of years in the IMS last week. With all the initiatives you're pursuing and also the mix benefit from faster growth in higher margin business, should the margin in the long term go up and if not what do you think are the biggest risks to the margin?

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Nick Buckles, Group CEO
Yeah, what I said on the IMS call and we'd reiterate that our objective in the next couple of years is keep the margin around the 7% mark give or take a little bit. Because there's a lot of downward pressure on price, it's a very competitive market in a lot of the European arena for example. And I did say that we've got some problems around three businesses on margin currently. So there's some work to do to make sure we get there for this year.

Thereafter, I mean a lot of these initiatives we're talking about like the gross margin improvements, turning around underperforming businesses, overhead reductions; you know they should start to see the margin build over time clearly. But you know in the next couple of years with the recession we're experiencing, the pricing pressure, we're doing a lot of self-help to make sure we stay in that 7% range.

But then long term clearly the mix benefit of developing markets, the maths says that by 2019 the margin should be half a percent higher, just from the developing markets push. And you know hopefully with changing the businesses we've got, getting rid of the lower margin ones, investing in higher margin, higher growth we should see a benefit as well. But the next couple of years are going to be - you know it's reasonable to expect that if we stay around 7% that would be a good outcome basically.

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Charles Wilson, Goldman Sachs
On the slide you put up the differential between developing and developed market margins. Would you expect that differential to still be there by 2019, or that sort of target you're looking at and potentially why is that the case? And the second question is, would the gross margin on your bidding pipeline be similar to the Group average gross margin?

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Nick Buckles, Group CEO
Yeah, in answer to the first question, we've always seen a differential between developing and developed margins over the last 7 or 8 years. And I think what you'll see particularly from the Africa and AME presentation later this morning, the focus - the concentration of markets and the competitive landscape is very different in developing markets from developed. And the fact that we've got very high market shares, we're the only international company, strong brand means that we should, or will support a higher margin in developing markets. So I've got no issues about that.

We've been in Kenya for example for 40 years and we still make double digit margins. So as long as you stay ahead of the local competition I can't see why that would change.

The gross margin question is an interesting one, and a lot of the work we've been doing around organisational design, large bidding, etc, shows that you can actually bid at much lower gross margins on the big contracts because basically you don't need to increase your field overhead. And so you could see over time the gross margin coming down but the net profits improving because of our focus on larger bids.

To quote a very extreme example, if you take our regulated nuclear business in the US that actually operates on 7% gross margins and 5% net margin, there's only a 2% overhead basically because everything else is charged into the contracts. So clearly if you've got very large contracts which are self-supported with their own overhead you can actually go for fairly low gross margins. So I would imagine that the underlying gross margin will deteriorate over time, purely because we're winning larger bids basically.

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Jaime Brandwood, UBS
Good morning. Just on the bid pipeline I think you'd said under Salesforce.com you've got £3.5bn but then there's another £1.3bn that sits outside Salesforce.com is that how we should understand the £4.8bn?

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Nick Buckles, Group CEO
No, the 1.3 was beyond 12 months decision making. So it's in the pipeline, but it's not going to hit the numbers for at least 12 months. So it's a longer term opportunity basically.

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Jaime Brandwood, UBS
And do you have much visibility at all on the bid pipeline that sits outside of Salesforce.com?

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Nick Buckles, Group CEO
I would imagine the 75% we've rolled out is the bigger companies anyway isn't it Graham?

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Graham Levinsohn, Group Strategy and Development Director
Yeah, I mean we've got UK, US quite a lot of Asia already in there.

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Nick Buckles, Group CEO
So I think if we'd roll out the other 25% you wouldn't see a proportionate increase, you'll probably see another 4 or 500m added to the pipeline I'd imagine.

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Jaime Brandwood, UBS
And then just the point earlier on on margins and coming back to this prize of £50m, I mean how should we understand this £50m, is it just about the service excellence centres, or is it also about the £500m of procurement and other initiatives, so is the £50m is isolatable to the service excellence centres?

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Nick Buckles, Group CEO
I think we would target it to provide at least £50m, but I think in reality it won't hit that target and then it will come from procurement and overhead reductions. But just to give you an example and we do this exercise every year, and unfortunately the number doesn't change that much, is if we got all our businesses to Group margin it's an £80m profit benefit. But that does include - you know for example getting Canada cash services from 3% to 10% - so they've been there for a number of years but that's the prize basically. That's the prize that we're aiming for. But then for example putting in IT systems we think puts about 1 or 2% on the gross margin in a business. So the £50m is what we believe we can achieve through service excellence, but in terms of how we've put it in the numbers we wouldn't expect it to be that much.

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Jaime Brandwood, UBS
And so therefore it's also fair to say that effectively some of that £50m has to be kind of reinvested in the business just to keep your margin where it is?

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Nick Buckles, Group CEO
Yeah, exactly.

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Jaime Brandwood, UBS
Okay thanks.

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Ed Steele, Citigroup
Morning, right at the beginning of your slides Nick you talked about the IFM model in developed markets, you've obviously done a lot of work in the last 12 months on the marketplace and you said there that self-delivery is key for cost savings. There are of course a couple of large companies that subcontract and have reasonable success in the market. So could you just talk around why you've come to that conclusion and why you won't bid for large contracts in a subcontract where you don't have the skill sets please?

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Nick Buckles, Group CEO
I mean where we've been successful and you'll hear more about it from Kim in terms of some of the government outsourcing contracts, we may not have set off to self-deliver

but trying to find partners that can build that same sort of propositions as we can through owning all the elements has been quite difficult. So in the police opportunity we're self-delivering 95% now.

What we find is, depending on the contract, and they've got to really be in our sweet spot of security at the core of the outsourcing, that you just get much better process reengineering and better process redesign if you're in control of all the elements. And Kim will probably expand on that a little. I don't know if you want to say anything at that point about how self-delivery has helped us in that case?

Kim Challis, Group MD
Yeah, I mean on Lincolnshire Police, as Nick said 95% of it is now self-delivered. We do work with a partner, Capgemini who bring to it a specialism around kind of the ERP solution that we're using for the police market. But I think one the biggest feedbacks we had from the client is that accountability and that ownership. I mean Lincolnshire Police we underwrite the savings for the next three years, so to be able to reengineer that business process and to have source control over that is really critical in us being able to deliver that.

Nick Buckles, Group CEO
And another example, and where we have used partners is on the MoJ contract £50m a year in the UK FM space, we self-deliver everything but the hard FM in that. So we can work with partners, but we certainly believe just putting a thin level on top and buying in services is just a procurement process basically.

Kean Marden, Jefferies
Just again on the £50m, I'm wondering whether you can give us an equivalent gross margin uplift. So obviously you're talking about that across certain underperforming businesses, what sort of gross margin uplift in percentage points are we looking at that?

Nick Buckles, Group CEO
That's about half a percent.

Kean Marden, Jefferies
And then secondly on the global bid pipeline, I mean generally and I appreciate this is probably more of a UK phenomenon. But if contracts were expected to be awarded within the next 12 months you wouldn't expect a billion pounds worth of suspects to appear on the list, but normally there would be an OG process in place which tends to take quite some time. So I'm just wondering what sits with that billion suspects and the billion prospects line, because presumably we should have greater visibility on things that are coming to award over the next year?

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Graham Levinsohn, Group Strategy and Development Director
So prospects we've taken in our definition of things we'll be bidding in the next three to four months and then suspects is if you like in that longer term five to 12 month timeline.

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Nick Buckles, Group CEO
And in terms of timing, it doesn't mean they'll start, it means they've made a decision during that period of time.

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Alex Magni, HSBC
Good morning. Just on the £500m procurement, I think from memory you do about a billion, maybe a bit more in total external procurement. So are there any cost types, or regions that are not falling within the procurement saving programme?

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Nick Buckles, Group CEO
Yeah, I mean there's obviously a lot of elements of the external spend, I mean Trevor is running the exercise he could probably better answer the question. But of the £500m it's categories we think are easily addressable in the short term, they're global and you know they're areas we're can affect quickly. So it will be areas like telecoms, IT, property on a country by country basis, travel, uniforms, so that's the sort of areas that we're focused on.

But I think what one tends to find with procurement exercises is most of the value comes from reducing the activity, rather than reducing the prices. So there has to be quite a change in how we direct our businesses. David talked a lot about being a country led model with a Group overlay. To get procurement benefits you have to be a little bit more mandatory about how some of the contracts will work and how you control some of the demands. So that's quite a big cultural change for the organisation to push through.

And of course the other big element with the procurement benefits is actually recording them and making sure they stick in the organisation. But we're well on our way to planning that, there won't be any benefits coming through this year but we certainly expect them to come through early next year.

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Alex Magni, HSBC
And then just on the gross margin and the makeup of that. Beyond operational - or rather what's the proportion of your cost of sales made up by operational labour and what are the other major components that we should be thinking about?

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Nick Buckles, Group CEO
Above gross margin?

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Alex Magni, HSBC
So within the cost of sales?

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Nick Buckles, Group CEO
I mean basically it's nearly all direct labour. The only other element - in manned security it's 95% direct labour of the gross costs, in cash solutions it probably comes down to about 70% with the biggest secondary figure being fixed vehicle charging, which is usually operating lease, or depreciation. And fuel is typically only 3% of cost. So it is very much labour driven cost of sales.

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Alex Magni, HSBC
And the last one, just coming back to Ed's point just slightly, how much of the procurement or the gross margin improvement we're talking about is coming out of the change in use of subcontractors, if at all?

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Nick Buckles, Group CEO
No. No none, we don't have subcontractors really. We've probably got time for one more question if there is one? None on the call, okay we'll that's fine we'll move ahead now to the UK and Africa piece. I'd now like to reintroduce DTS to do an intro on the UK and Africa.

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Introduction to the UK and Africa

David Taylor Smith, COO & Regional CEO - UK & Africa
So a different hat now talking about the UK and Africa, so about 45 minutes on the UK and what we're going to do is share some of our recent wins, some of them are quite interesting first generation large contracts. And then after the break and some questions then Andy Baker will take us through our plans for Africa.

So I'll just give a sort of tee up to the region, and particularly focusing on the UK. So just a reminder of the region, these figures here are 2011, so a turnover of about £2.1bn and around 155,000 staff. Good market leadership positions, you can see on the left hand side there, our market leadership positions in a number of service lines within the UK and we think market leadership is important, it gives you density of operations which you can leverage. And then on the right hand side you can see a number of good market leadership positions at a country level in Africa and also at a continent level.

Just a brief description of what makes up the service lines within the UK and Africa. The darker shaded six blocks there are the principal business units in the UK. And you can see, I'll just describe a few of the service lines, you can see that the UK has a more sophisticated level of service development perhaps then other places, mainly because of our heritage. So within Secure Solution in addition to our manned security product we've got a number of specialisms around sectors like events, transport and borders and also the Olympics which we'll talk a little bit more about later. We have completely ring fenced the Olympics in terms of the management team that is delivering that.

And then underneath that Kim's area, government and outsourcing services, really pleased with progress in this area. It's where we are focusing our BPO activities. And Kim will describe that a little bit more later.

Our Care and Justice, Richard he heads our Care and Justice team, prisons, tagging, immigration, and he'll talk a little bit about that later. Our Cash Solutions businesses which are many of you are familiar with, cash transportation, processing, and then the management of ATM estates. Facilities Management within our Integrated Services business and then lastly our risk management business which has a number of specialist security services we operate globally, ordnance management, defence training and we also run some practices out of the UK for Iraq and Afghanistan.

Underneath that Ireland and Africa, and when it says all services typically that's looking at our three principal product lines in most markets. That's manned security, systems and cash.

Just a bit of an overview of the UK market, so this is our revenue split down between government and commercial. If you look on the left hand side you can see a particularly strong focus for FI, financial institutions in our cash business and then we're very pleased with our progress in our utilities space, which Kim heads up, we're experiencing very high double digit growth in that area and we'll talk about that in greater detail a bit later.

You can see there then on the right hand side our government work, which is around a billion, again very strong growth in that area and you can see that split between the number [short gap in audio] Ministry of Justice, Home Office, that's police, what we're particularly pleased with there is our progress with the Department of Work and Pensions where that is now in excess of £100m. it was an area we decided to focus on three years ago, put together a very good strategy, teams of associated, targeted some interesting bidding areas and we've had good success in that area.

Interestingly in the Welfare to Work service provision, as the new market entrant we are currently ranked number one in service provision.

You can also see we're included the Olympics in there, perhaps it's not government it's actually through LOCOG which is a private company, but backed by government.

Just some comments about our views around government and then around the commercial sector; so we've always been probably more optimistic than pessimistic about the current austerity programme. We think if you're going to go at the imbalance between £550bn in net reviews and just over £700bn in expenditure then outsourcing has to play a key role in reducing the budget deficit.

So we definitely see that some government departments have got this and they see it as a key way of driving cost savings. And what's interesting, and I think Kim will talk about this later, particularly with the police, our experience over many years with the police is actually budget pressure is probably the best mechanism for reform, rather than political pressure.

There are some interesting new types of contracts which are being formed, payment by results mechanisms, which we'll talk about a little bit later. And we're forming some interesting partnerships with voluntary organisations and also with government bodies.

Price is definitely a key determinant, there is no question that given the austerity drive on second and third generation bids it is the principal determinant. However we still think on first generation outsources technical competence to deliver is more important than price.

There's some new market entrants we've seen come in, if you look at the prison programme there's a vibrant, well-structured programme in place now and unsurprisingly that has generated some new domestic competition and foreign competition. And then also we're seeing an interesting convergence of BPO and FM. If you look at the last three police bids they've moved from being IT BPO led to being FM support services led and they're now somewhere in the middle.

On commercial this has always been price competitive. When people say - you know is pricing pressure more extreme, it is always price competitive the commercial sector. We definitely see a convergence between security and FM and I'll talk about that in the next few slides. As I said utilities is a very high growth area for us. And although the cash environment - the cash services environment remains flat because of low interest rates there are some interesting, large outsourcing opportunities from financial institutions.

Just a brief few words around facilities management, the market estimates of the size of the facilities management market in the UK vary significantly. We've estimated it at around £72bn of which £42bn is outsourced. If you look in the pie chart at the bottom you can see the traditional, what's predominantly a manned security component around £7bn, there's also some systems in there. But what we've seen over the last five to ten years is a move from having some customers having their facilities management managed by what we would describe as integrators like JLL and Johnson Controls, to them moving to bundling and now increasingly look for TFM, total facilities management.

We're fortunate because we have a pretty good base because of heritage in that area borne out of the PFI industry. And I think you'll be surprised when I show you in a minute the progress we've made around facilities management.

Government is definitely a key driver of this trend; it's definitely seen this as a published mechanism for reducing cost. If you look at - this is our facilities management business and you can see this is all organic. And in 2011 we achieved a revenue of just over £200m, and we're well on track for a turnover of £250m this year. So a compound average growth rate of over 20%, so we're very pleased with that. Where would that put us? It would put us just around nine, ten in the FM marketplace. If we chose to describe our security services business in there we would be number six. So you can see we've got a good platform for FM in the UK.

Just to highlight now some recent wins and I'll talk a little bit about our pipeline in the UK. So we're very pleased with the rate of our recent wins. It is over 20% if you include the Olympics and double digits if you exclude the Olympics. So we're very pleased with that.

It's probably not that clear on here, but what we've done is try to colour them blue there - some of the recent wins, which we've got from capability acquisitions recently, so we've targeted some acquisitions because we think it'll enable us to do some interesting things. So you can see there Ministry of Justice and General Dynamics, both of those are facilities management contracts, which is greatly assessed by the acquisition of GSL in 2008.

On the Aviva Kim's going to talk about that later, that was a result of purchasing our investigation business a year ago.

This is our bidding pipeline - just over £1.6bn. You can see it's split between government and commercial. On the commercial side, again strong representation from energy and utilities and FIs, and then I think what's reassuring is you see the normal mix there of about £500m in what we would describe as kind of a traditional mix of customers where we're selling single service delivery.

On the left hand side there you can see the government pipeline which is very strong around the MoJ, the Ministry of Justice, the Home Office and the Department of Work and Pensions.

Just to give you a feel for that. So the top lot there is around prison management, we've now got waves of up to ten prisons a year. This is a well-structured, well delivered programme. We won two prisons in the last round which we're very pleased about and successfully mobilised Birmingham and we're mobilising Oakwood at the moment in Wolverhampton.

The electronic monitoring contract is currently under rebid process. At the bottom there what we've described as BPO FM are policing opportunities. I think what's particularly exciting with the Lincolnshire win is there are nine other forces on the framework and the benefit of that is they can purchase off that and we can therefore deliver them savings quickly, avoiding a procurement cost and also bringing savings in quickly. And for many police forces facing a hard end on budgets, that's proving to be attractive.

You can see here some utilities opportunities in smart metering which are sizable. There are some FM opportunities both commercial and governmental around FM and then at the bottom just to kind of demonstrate there are a number of FIs looking at cash outsourcing. On the earlier slide you may have picked up, particularly appropriate given where we are that we've recently won a £15m outsourcing opportunity with RBS to manage their remote on branch ATM estate. So a good example.

So just to introduce the team, so three of them are up on the panel here, so Kim who is the Group MD of our government and outsourcing business, Richard who is the Group MD of our care and justice business and Ian who taking off from the Olympics shortly, back again by lunchtime, who's our Olympics Director and the Andy who's sitting in the audience who will be talking after the break around Africa.

So I'd like to hand over now to Kim who is going to take you through some good and interesting opportunities around the government and outsourcing.

Government & Outsourcing Services

Kim Challis, Group MD
Good morning every one, I'm Kim Challis, Group Managing Director for Government and Outsourcing. I've been with the business for just over 14 years. I'm primarily responsible for looking after the UK BPO activity, which is made up of really seven key business units. Employment and support services, the main account there is the Department of Work and Pensions where we run the Welfare to Work Programme and the Workless Families Programme.

Police support services, which I'll go into in a bit more detail when I take you through the case study on Lincolnshire Police. Investigations, which is mainly focused on fraud, investigations, management of claims and also surveillance for primarily the insurance sector, as well as some major corporates.

Utility services is a business that G4S acquired through the GSL acquisition in 2008. With it came a legacy meter reading business, that market is in significant decline and will die over the next five years. So we've spent the last two and a half years reengineering the business to really tackle the opportunity that exists in the marketplace today, around smart metering.

Energy and environment services is the consultative end to the utility business, it also supports our FM business as well. Assessment service really focused on managing - fully managing accreditation schemes that government put out, things like Visit England, IIP and the customer service excellence. And IT solutions, a brand new business for us, really developed through our BPO activity. We don’t actually go out to the market and sell IT but this business actually absolutely supports and underpins all of our BPO activity in the UK today.

So we've had a very successful last 12 months with some significant contract wins. In the commercial sector in two main areas, firstly the utility sector. As I said currently our legacy market is in decline, however 45% of that market is still in source, so a huge opportunity as that marketplace declines, for us. And we've been successful in winning Scottish Power, that contract actually goes live on the 1st of June. So £36m total contract value over the next three years. We've also transformed the business into being able to deliver smart metering services, both in the field and in the back office.

In February this year we became market leaders in the commercial sector and we're now heavily focused on the residential sector, which is the high volume. We were successful also at securing British gas, for Centrica where we will install and manage a full end to end over 400,000 meters which will be rolled out.

We've also been successful at winning E.on again E.on will be rolling out themselves just over a million meters in the residential sectors, but all of that remote connection to those meters, all of the high volume data processing will be undertaken by G4S Utility Services.

David mentioned we acquired what was known as the Cotswold Group a year ago now called G4S Investigation Solutions. As a result of that acquisition we've been able to persuade Aviva to fully outsource all of their claims management and investigation staff. So 80 staff transferred across to us on the 1st of January, a major contract win for us in the area.

In Government again we've had some good successes around the Welfare to Work and Workless Families. Really where we've been focusing in helping long term unemployed back to work. A big contract for us, just over £250m over the next seven years and as David said we're currently at the top of the league tables, so we're very pleased about that.

We've also been successful as you know on wining Lincolnshire Police which is our first major police outsourcing for middle and back office services and again I'll go through that in a bit more detail as I take you through the case study.

So just a little bit about the market, the market is very strong for us, the Government pipeline is very, very strong, predominantly coming from the police sector, DWP and the Department of Energy and Climate Change. There is a real drive out there to outsource at the moment, driven by the fact that these departments have strong budget cuts and our focus is around BPO and ICT services where we see the pipeline kind of growth to around £5bn by 2015.

So just a quick case study on Lincolnshire Police, you've probably heard a lot about this in the press over the last few months. This is the scope of Lincolnshire Police, three main categories, very clearly in blue are the activities that Lincolnshire Police retain, they are front line policing activities that will not be outsourced. The shaded colours where you see crime and management bureau, force control room, custody, firearms, CJU, CTO and collisions are shared services that we do in conjunction and in partnership with Lincolnshire Police, so large aspects of policing. And then the red activities where we are 100% delivering. Lincolnshire Police outsourced 18% of their annual budget to G4S for the next ten years.

Just to take you through, this is actually the transition plan, the transformation plan we presented to Lincolnshire Police when we were successful. These are real people on there that we've met along the bid process. So we let the customer try and recognise who they were as we went through.

We actually submitted our bid in November last year, we were given preferred supplier notice in - just before Christmas and we went live on the 1st of April. So firstly we come to what we call soft landing where we took in just under 600 staff, just over 18 functions and the aim is for the next three months to make sure we stabilise and do not disrupt the police force in any way. So as long as they don't see any difference we've done our job well and the first two months have gone pretty well.

We then move on to delivering what we call T Police, which is an ERP solution which we will do with our partners Capgemini. That allows us to actually rationalise all of the back office service around HR, finance, learning and development. We are currently undergoing planning permission for the design and build and then service of two new custody suites in the Lincolnshire area. We will also by the end of year three be fully operational with our shared service centre, which we will hopefully by then be delivering to other police forces on the framework as well. And by the end of year five we should have increased the position for Lincolnshire Police in the league tables around citizen engagement.

One key factor here is we have underwritten all the savings for the next ten years for Lincolnshire Police, so you know we're fairly convinced and pretty solid on our plans of what we've got to deliver there.

We have a strong police pipeline, made up of a number of opportunities, this slide is slightly different to the one in your pack, but I just want to pick out a couple of opportunities first. The Police Service Northern Ireland which is a bid that we have now submitted, we are due a decision at the end of July. A big opportunity for us, £22m per annum, where I believe we're in a race of one in three. West Midlands and Surrey, a large BPO opportunity that's come out in the marketplace, where we are actually - have already submitted our RFI, we should hear next week whether we've been shortlisted to the next round and then the bid process really commences in September with a contract award around about June/July next year.

And then off the Lincolnshire framework we are in discussions with a number of forces around a framework opportunity which is very exciting. That proposal goes to the Police Authority towards the end of July where we should know if we're through to the next round. The key to the Lincolnshire framework is that those police forces that buy off the framework will actually save about £2m in procurement costs and just over £15m to £20m by making sure we can accelerate those savings earlier, because if they had to run a procurement process it would take them 18 months to two years.

Very quickly the services you see in black here are the services that currently police forces are outsourcing, the ones in white, are frontline policing opportunities which will not be outsourced at this point in time.

Other Government opportunities just around the utilities sector, as I said we've become market leaders in the commercial sector, our aim is to now really focus on the residential, that's where the volume is. We currently have four major opportunities that we're in the bid process with around residential smart metering. As you will all know government has mandated by 2015 that all of the smart meters in the residential sector will actually be monitored through a central organisation called The Data Service Company. That is being tendered currently by Dec, G4S are exclusively backing IMB where we are down to the last four in the process as well.

Then with DWP we have just submitted on Monday morning our bid for the Personal Independence Payments. So government currently spends £12.8bn on the disability living allowance in terms of benefits, all of those individuals on those benefits will be reassessed over the next five years, that opportunity is now known as PIP. And we are also looking to work with DWP about creating an opportunity around benefit frauds and data analytics.

So in conclusion because I know I'm running over a little bit, we have had excellent bid conversion in the last 12 months. We've absolutely focused on making sure we mobilise correct, on time and right first time and I think all of my customers would absolutely say they've been delighted with our mobilisation.

There are significant opportunities for us around utilities, DWP, police and HMRC. We have a huge growing BPO capability, supported by solutions design, project management and change, and ICT and contact centres. And I'm really pleased and I think - you know we're on absolutely the right track to deliver a strong delivery record. Thank you. I'm just going to pass to Richard Morris.

Care & Justice Services

Richard Morris, Group MD

Good morning everybody, I'm Richard Morris, I'm the Group MD for our Care and Justice Services business in the UK. I've been with the Group for about nine years. And what I want to do now is just take ten minutes to give you a quick overview of our capabilities in this segment of government outsourcing. I'm also then going to take you through a high level view of the market as we see it today and how that could develop over the next few years. And then I'm going to focus specifically on prisons and illustrate what a tremendous growth prospect this particular area represents and why G4S is so well positioned to take advantage of that.

So you can see here the breadth and depth of our capability in this segment of government outsourcing is a key differentiator for G4S, it's unrivalled. We take market leading positions in Custodial and Detention Services, where we operate six adult prisons, three immigration detention facilities. We take a market leading position in Children's Services, where we provide secure, specialist care for children who are in the Criminal Justice System and similarly market leading positions in electronic monitoring and the more developmental businesses on monitoring technology, immigration, outsourcing and prison escorting and court custody which we operate in Scotland.

So that's a quick overview. As you heard from David earlier some recent contract wins in this part of the business include the Scottish Prison escorting contract that we were awarded last year. That was mobilised in January and the really important and pleasing thing for us was that was our first major contract in this space with the Scottish Government. So it provides us with a bit of a platform should there be any further forms of outsourcing by the Scottish Government of justice related activities.

Moving across we were awarded the COMPASS contracts by UK BA last year, they're currently being mobilised. Again this was quite symbolic for us in the sense that historically most of our work done with the UK Border Agency related to detention and secure provision of services. COMPASS is something quite different, it represents more a form of process outsourcing around case management of asylum seekers in the community. So we're very pleased to have been able to develop our relationship with the UK Border Agency and diversify the provision that we have in place.

The prisons I'm going to talk more about shortly, Birmingham, clearly a really important win for us, the first public sector prison to be transferred to a private sector operator and HMP Oakwood, the newest prison in the UK, it opened up four weeks ago and between now and October we'll mobilise that to become the largest prison in the UK; so again sort of a significant scale operation.

This just gives a high level overview of the market in an aggregate sense. The total market values there include all spend by the relevant government departments, both at central government level and local government level. And on the right hand side you can see an estimate of the current level of provision within the total market, which is delivered by non-public sector organisations. I think the more interesting view of the market though is this one, which shows what we believe is immediately addressable, given our position and capability.

And you can see here the total market is worth around £3.8bn and it's worth pointing out that of that £3.8bn around £1.3bn is currently delivered by non-public sector organisations. Which means a significant chunk of the £3.8bn, mainly in the adult prisons and the community / probation sections is still delivered by the public sector. However, the government has set in train for prisons a clear programme of opening up the market and similarly with probation services the government is currently consulting on opening up the provision of probation services worth £800m a year to the market. So that will give us significant new opportunity to deliver services in that form.

Just taking a view of the market by provider, you can see here - again it's dominated based on what I've just said by Her Majesty's Prison Service who currently operate £1.7bn worth of prisons and the public sector Probation Service, again all of that will become available to us in the form of competition over the next few years.

Of the non-public sector providers you'll see there that G4S takes a market leading position at around £320m turnover a year, closely followed by Serco and Sodexo and them some smaller players. The interesting point to note there, we have included, deliberately some third sector organisation which provide services in this space. There are a number of very impressive third sector organisations in the market, sometimes we collaborate with them, sometimes we compete with them. But it's certainly something that we take note of.

So moving on to HMP Birmingham, I think many of you may have read in the media last year, this was a hugely symbolic outsourcing event in the UK. And it was hugely symbolic for a number of reasons. First of all it was the first public sector prison to be put up for competition and transition to the private sector. And I think it acted and has acted as an important catalyst to ongoing transformation of the Justice System by the government, it's giving them the confidence, and the steer and the drive to push on with competition in the provision of offender services in the UK.

So very symbolic in that sense, and also I think symbolic for public sector, or public service reform in general, given that all of the doubters around taking a public sector prison into the private sector cited frequently industrial relations meltdown. Well actually HMP Birmingham now sets a benchmark about how if you do it right and you select the right partner you can successfully transition big public sector delivery into the private sector.

What it involved was us taking over the running of a very complex prison, one of the largest prisons in the country and it's a mixture of old buildings and new buildings. The oldest building actually is 160 years old; we take on the facilities management responsibility for that. We took over around 700 employees and by implementing our own staffing model we've been able to take the headcount down to just over 500, which has involved delivering significant savings to the taxpayer of around £140m over the 15 years of the contract. So it's a pretty compelling proposition for the government and the taxpayer with regard to budget deficit reduction.

This just shows some of the media coverage that was around at the time. And you see the rather dramatic statement on the top right there where the Secretary of State was facing down the union by saying that he would use the military if necessary to handle any industrial action. And I think in the end we, with the client, were extremely focused on building the right type of relationships with the employees and with the trade unions to make sure that the transition was done in a very effective and smooth way.

The progress to date, we started on the 1st of October, so we're in month eight. As I said we focused massively on employee relations, it's a huge part of taking over these large public sector prisons. We've implemented our new staffing model and we're now embarking on, or actually almost midway through a two year transformation programme which involves changing and reengineering operating procedures, redesigning what we call the prisoner journey, this is the experience of the prisoner within the prison and using technology to drive improvement.

So what does that look like at a market level? Well if you just step back and think that there are 139 prisons in England and Wales, only 10% of those are currently operated by the private sector. There is a phase of competition underway as we speak and that involves eight prisons, seven of which are public sector, so this I think is the signal that - you know Birmingham was a success, the government can kick on and do more and do it more quickly.

We'll expect a contract announcement relating to the competition in October of this year and thereafter we expect a new wave of competition to be announced at the back end of this year. And our estimate is that that could include around ten prisons with the sort of average value shown there creating a very buoyant pipeline in this area.

So I think we're very well positioned for success, we've got a hugely experienced team working on this both in terms of the operational delivery, the mobilisation and the bidding. We've got an extremely strong track record which differentiates us from the competition in regard to mobilising and transitioning these prisons from the public to the private sector and we do that with a really compelling mix of innovation and improved value for money.

So if you took the 109 prisons that are in scope for market testing, the reason why that's a lower number is that high security prisons won't be included in market testing, there are only eight of those nationally. You can see that there is a potential annual value on this pipeline of 1.5 to £2bn.

Now we're not sure how quickly that will materialise but it's well under way and it's something that we expect to see continue gathering momentum over the next few years. So in summary we've had a really good year at converting our bid pipeline, with some good successes, the prospect of further outsourcing in this space is very strong. Not just in prisons, but in probation, there's a transformation programme underway in the Court Service, which we think we're well positioned for and there's a transformation programme underway in the UK Border Agency that we're well positioned for as well.

And I think just to summarise, a strong track record of improved value for money, innovation around delivery, good synergies with other facilities and leveraging our scale and breadth of capability. And also some good opportunities around extending contracts. And actually just yesterday we signed a three year contract extension with the UK Border Agency for the three detention facilities that we operate at Gatwick Airport. And I think that's a good sign of really good account management, good relationships with the client and our ability to offer innovation and improved value for money results in us being able to do a deal with some good contract extensions.

Okay thank you very much I'll just hand over to Ian now who's going to talk about the Olympics.

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London 2012 Olympic & Paralympic Games

Ian Horseman Sewell, Managing Director - G4S Global Events
Good morning ladies and gentlemen, my name is Ian Horseman Sewell and I look after what is now a global events practice based here within our UK Secure Solutions business.

I'm just going to take a few minutes of your time to tell you about a programme of work that started in 2006 when I first joined G4S from the BPO industry and David asked me to start looking at how G4S might first win, and then deliver services to the Olympic and Paralympic Games.

Before I start with the overview however we'd like to just play you a video which forms a major part of the coms programme that we have going on in support of our sponsorship of the Games.

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Video played

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Ian Horseman Sewell, Managing Director - G4S Global Events
So over the next couple of months between now and the middle of September G4S will be right in the spotlight of processing some 11 million ticket holders and their secure entry into, and enjoyment of the Olympic Games. This exposure will be added to working with some 205 National Olympic Committees and 170 National Paralympic Committees. It's worth remember that whilst the Olympic Games is the most extraordinary event that we're proud to be associated with the Paralympic Games itself some two weeks later is much larger in itself than any Winter Olympics, so it's a big old event.

21,000 members of the media will be involved, and again we'll be involved in their secure entry to the venues and some four billion spectators will be watching the Games and what we assume will be a safe and secure Games which we're proud to support.

How does that look in terms of scope? Well G4S is responsible for securing some 34 competition venues, something which we've developed into a very large operation, starting in 2008 when we were awarded a contract by the Olympic Delivery Authority to secure the Olympic Park during its phenomenal construction phase. A piece of work which we are proudly using elsewhere in the world as a significant credential in the security of major construction projects.

We've already started providing services at many of these competition venues and also at something over a hundred non-competition venues that range from hotels to material screening facilities in and around London and across the entire United Kingdom.

Our actual project scope, as I say started in 2008 with an operation that grew to the beginning of 2010 to something just under a thousand people securing the Olympic Park. Then in 2010 in parallel with being appointed as an official provider to the Olympic Games we were awarded a framework contract for the provision of a venue security workforce, which at the time was scaled, largely for pricing purposes, at a benchmark 10,000 people. 2,000 of which we were required to provide through our own recruitment sources and a balancing 8,000 was going to come out of a further education college based scheme, inspired by the government called Bridging the Gap.

Over the subsequent year through to December 2011 we were involved in a very significant planning process with LOGOG the organising committee and the Home Office and other security stakeholders which led to the expansion of our contract and of the venue security workforce to a total of 23,700 people a mixture of personnel, drawn from G4S, the military and the Bridging the Gap scheme as well as a number of volunteer personnel who will be fulfilling voluntary roles within the overall security operation.

How are we seeking to deliver this massive workforce? Well the key thing as David has already said is that we've created a ring fenced project management organisation based in Canary Wharf, some 750 people, most of whom are on fixed term contracts. Some of whom will move into our wider events business going forward, but most importantly all of whom focus exclusively on the delivery of the Olympics and are not involved in the delivery of the core G4S UK business.

Progress since December 2011 has been very significant. We've interviewed now over 104,000 people for roles in the security operation in the Games. And as I stand here we've got well over 10,000 undergoing training of one form or another in order to deliver services from the beginning of July.

Our main surge will of course come around the Opening Ceremony on the 27th of July and our peak deployment will be on the 4th of August.

We've already done a lot of our testing work and most recently we were involved in a test - in a major test of events which you may have seen in the media which saw us deploying 3,700 people to the Olympic Park across a weekend.

Overall this means that we are recruiting through our own resources some 10,000 people, we are bringing on in addition to that a further 3,000 from the Bridging the Gap scheme. We're training our people and subcontract personnel to the tune of something over 15,000 people. And in the overall 27,000 security workforce, including the volunteers we're supporting the vast majority of them in ways which range from training through to uniforming and food and beverage and a range of other operational support services.

What will our guys and gals all be doing? Well 70% of what we'll be doing and this has particular significance for our aviation business is we'll be providing aviation style search and screening services at competition venues. As part of what will be 100% lock down environment for all spectators, athletes and members of the media. We won't be just be providing the shop floor personnel at each of the search areas or other areas, we will also be providing duty management and some of the command and control functions such as CCTV operation in the very many venue security control centres that will be operating across the Olympic estate.

Perhaps most importantly I just want to spend a few minutes telling you how we're developing this expertise and seeking to leverage it across the group. We've already moved beyond our core contract with LOCOG now to be providing services to what we call the Olympic Family, organisations who are also sponsoring the Games, or also supplying the Games are looking to G4S to help secure their facilities their assets and their people. These are organisations such as Coca Cola and McDonalds and excitingly some of these relationships are now transitioning into recurrent revenue contracts, where we will be working for the first time with some of these organisations, well beyond the Games.

Beyond 2012 what we're doing is creating a global events practice, very much in line with the strategy of service centres of excellence and seeking to leverage what is very much a UK based centre of excellence and focus of subject matter expertise to target three lines of business across the globe. We want to do first of all more of these what we call world event, not just in sport but also in international affairs and commerce. We want to and are starting to provide services to certain key international accounts. These are large organisations, both public and private sector organisations like Formula One and the United Nations that own a series of events across the globe and are interested in master services type agreements with us to provide consistency of service across the globe.

And we're also targeting 18 countries in which we think the presence of a centralised global event business will allow us to drive up domestic events business in their home markets. This slide shows you those 18 markets and also the top ten world events that we're targeting over the next six years. Many of these events are events - or the organising committees are organisations with which we're already in in significant dialogue and we'll be looking to secure contracts with them over the coming 12 month period, particularly those that are going to take place in 2014.

Finally, just to give you an idea of the scale of some of these world events. This is total published security spend on some of the recent and soon to be world events. So this is both security infrastructure and services. In summary what this slide is telling you is the sort of background information to a figure which we've derived from all of our own research that in the top ten, just sporting events that take place in each four year cycle we now believe there is over $10bn of addressable security spend for G4S and our purpose in creating a G4S global events practice is to seek to address all of that and win as large a share as possible of it.

Thank you very much. I'm now going to hand over to David to summarise what you've heard.

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UK Summary & Conclusions

David Taylor Smith, COO & Regional CEO - UK & Africa
Thanks Ian. So I'll just sum up, I hope you've enjoyed that brief summary of some of our opportunities and recent contract wins. So we're really delighted with our recent track record of wins. We're targeting over 20% organic growth in the UK this year and that's double digit, excluding the Olympics.

We're well on track; our performance year to date - if look at this month is double digit so we're well on track with that.

Our pipeline remains strong, and we're well positioned with a number of government departments that have a propensity to outsource. Some of that's good luck with our heritage and some of it's good management in us thinking about that and then positioning ourselves for wins and I think the Department of Work and Pensions fits into that well.

Security remains key for us, many clients still wish to buy security as a lead and single service, but increasingly FM is becoming important and I think we've got a good platform in the UK to respond to that.

Good high growth areas - UK government, utilities, FM, then after the break Andy will talk about some in Africa. Clearly the Olympics is a key focus for us in 2012, at its peak we'll have over 700 people in the management structure to deliver that, so that will be a key focus for us and we'll have that ring fenced.

We've got some good acquisitions in our pipeline and I think as these major wins come on we've got a good platform for 2013. And a key focus and a challenge that we've set as a team is to replace the profit that we'll lose in 2013 from the Olympics - so that we don't step backwards. I'd now like to hand over to Nick who's going to handle the questions and answers. Thanks.

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Questions and Answers

Nick Buckles, Group CEO
Thanks very much team, excellent presentations, I think you'll agree some exciting opportunities. Now before we have coffee break we're happy to take some questions and I'm sure they'll be loads. So to Kean in the front please.

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Kean Marden, Jefferies
I wanted to ask some questions on two areas. First of all on the Olympics there was a recent Select Committee meeting with LOCOG which mentioned that G4S revenues were around £280 - £285m, so I'm just wondering how we reconcile between the £200m that you have on your slide? And secondly the £100m annual revenue that you've quoted for the PIP, does that basically cover all five of the lots, or have you made an assumption there about you guys winning some rump areas in particular?

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Nick Buckles, Group CEO
Kim do you want to do the PIP one first?

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Kim Challis, Group MD
Sure. There are four lots; we've made an assumption that we'll win one of the smallest lots to start with which is about £100m. But the largest lot could be as high as £200m.

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Nick Buckles, Group CEO
Annualised value?

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Kim Challis, Group MD
Those are total contract values.

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Nick Buckles, Group CEO
The annualised values are I think between 24 and 40 mil aren't they, that sort of level?

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Kim Challis, Group MD
Yeah.

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Nick Buckles, Group CEO
Of the different sized lots.

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Kean Marden, Jefferies
Okay maybe we can hook up on that later, I think there are five lots because there's one national one as well that sits outside the original for that was in the OG?

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Kim Challis, Group MD
Yeah, there is but we don't believe they'll award national so we've kind of ignored that.

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Nick Buckles, Group CEO
And the first question, yeah the 280 is quite simple, that's the spend over the whole life of the contract including the ODA, 2008 onwards. So it's every bit of revenue we've billed on Olympics related through to the end of the Olympics. So £50m last year, £200m this year and a bit more before and then obviously the additional incremental work we're expecting as well this year basically.

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David Hancock, Morgan Stanley
Two on competition if I may, one around police and smart metering perhaps for Kim, I mean who are the competitors you come up against most frequently, I guess the obvious candidates come from slightly different backgrounds as well, so what is it that you bring to the table in both police and smart metering that some of the others don't?

And then the second one is around prisons, how keen is the government to encourage new entrants in the prison arena please?

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Nick Buckles, Group CEO
So Kim first your competitors on smart metering?

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Kim Challis, Group MD
Okay, our competitors are in smart metering are twofold, so first in the field services we compete along the lines of PH Jones, Enterprise, Carillion. Also the in-sourced teams within the big six as well, so all of the big six, Centrica, N Power, E.on have their own field teams as well, so quite a diverse landscape there.

In terms of actually smart metering and the data processing side, we actually compete across what we would traditionally call the system integrators, so the likes of HP, Logica, IBM, Accenture as well. And we have won E.on now against where we were against Logica and HP in the final round.

Nick Buckles, Group CEO
Very good and your competitors on police?

Kim Challis, Group MD
On police we've got Serco, we also have some of the systems integrators, because …

Nick Buckles, Group CEO
Sorry Kim, just on that first one and how do we out compete the others in terms of the field and the IT end?

Kim Challis, Group MD
On the field we have a good model in terms of we employ all of our staff so we can actually deliver a high quality service. We actually blend the work between legacy and smart so we can actually deliver quite a cost effective service as well and maintain density as smart metering starts to grow. On the data processing side for smart metering it's been a learning curve for us but I think we've really got good systems and processes in place now to be able to demonstrate our capability to process high volumes. And we're talking about E.on alone with process about 40 million transactions in six months.

Nick Buckles, Group CEO
So back to the police, your competitors?

Kim Challis, Group MD
On the police side we compete against the likes of Serco, Capita, we'll also Mitie as well may come into play as well. We also will compete against the traditional SIs again, so IBM, Accenture, Capgemini, Atos as they all enter the BPO market because ICT forms a large piece of that.

Nick Buckles, Group CEO
And the reason we won Lincoln?

Kim Challis, Group MD
Lincolnshire I think came down to two views, one our self-delivery model, so we talked earlier about accountability and the ability to actually drive that business transformation through self-delivery. And I think the second one is good account management, we have really good client relationships and if you're going to go into a ten year relationship with somebody that transparency and trust is really important.

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Nick Buckles, Group CEO
I think I'm right in saying as well, on the West Midlands and Surrey RFI I think one of our competitors persuaded them to split the custodial element away from the back office so they had at least a chance of winning it didn't they?

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Kim Challis, Group MD
Yeah on West Mids and Surrey they've put out as a separate procurement the design and build, but the service aspect will come into the main BPO opportunity.

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Nick Buckles, Group CEO
Thank you and Richard on prisons, new entrants?

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Richard Morris, Group MD
So I think if you look over the last 20 years since the first prison was operated by a private company in the UK there have only been three providers in the market, that's ourselves, Serco and Sodexo. And I think in recognising that the government have taken quite a logical and conscious decision to say - well if we want to undertake a transformational programme of competition which involves a significant ramp up in the number of prisons being put out to competition they need to manage market capacity and stimulate the market accordingly.

So they have gone about that in a relative effective way and what we're seeing is a number of new entrants bidding in the current competition from a number of different backgrounds. So on the one hand there's a US company called MTC, they have a heritage in corrections in the US and have been attracted into this competition. But on the other hand, Inter Serve who have a background in building prisons have been attracted to bid for the operating of the prisons.

So yeah I think they've recognised that if they want to go at ten prisons a year they need to mix it up a bit and get some new players in the market, both from a capacity point of view and just to get some healthy competitive tension.

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Nick Buckles, Group CEO
I think our view is though to give a new entrant a public to private transition is quite a big ask isn't it?

Richard Morris, Group MD
Yeah, I think particularly one that doesn't have any background in running prisons. And the client will be very careful about assessing transition risk, because as soon as anything - you know if they get the transition risk side of this wrong it could curtail the whole process. So you know I think they are building into their evaluation framework a very strong focus on the ability and capability to do an effective transition.

Jaime Brandwood, UBS
Thanks. Just to start with, just in terms of defining we've heard about today is I think you talked about £1.7bn of UK and Ireland revenue and I think in your accounts you've got just over £2bn of UK and Ireland revenue. What's the missing £300m that we haven't discussed?

Female
UK Cash.

Jaime Brandwood, UBS
UK cash, okay. And then just in terms of the bid pipeline that you spoke about …

Nick Buckles, Group CEO
Sorry that was UK cash the answer if you didn't hear it.

Jaime Brandwood, UBS
The £1.6bn pipeline, obviously a big chunk of that is private sector, how much of that renewals versus brand new revenue, incremental revenue for G4S?

Nick Buckles, Group CEO
On the commercial side I would imagine the bulk of it is renewals. It's one of the numbers that we haven't pulled out of Salesforce yet. We will have a rebid element to it. I think that's probably right isn't it Graham?

Graham Levinsohn, Group Strategy and Development Director
Yes.

Nick Buckles, Group CEO
Because on the government side most of it is new business.

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Jaime Brandwood, UBS
And just a couple of small ones, on DWP are there any specific headwinds that you might be facing over the next year or two in terms of payments that were previously guaranteed where you're now moving to a complete payment by results mechanism. Anything like that that we should be mindful of over the next year or two on your DWP business, particularly on the Welfare to Work side?

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Kim Challis, Group MD
No, on our current contract with DWP we're already on payment by results, 100%.

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Jaime Brandwood, UBS
Okay, so there's no sort of fixed?

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Kim Challis, Group MD
Absolutely not.

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Jaime Brandwood, UBS
And then just lastly a little bit of talk about BPO today and clearly you've got a huge guarding business in India, we saw a competitor buy something out in India from a more BPO perspective a year ago. Is there any strategic thinking around Indian BPO as part of the portfolio or capability?

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Nick Buckles, Group CEO
No. I think - I mean to be fair in the police example it would have been a completely bad move to say you're offshoring anything, they're very, very keen to onshore everything. So no I think ours is much more at the technical expertise delivery end than it is on necessarily call centres and we've no intention of going to India for IT.

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Jaime Brandwood, UBS
Thanks.

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Daniel Patterson, SEB Enskilda
On the Olympics you said that you are ring fencing the whole contract, could you give us a little bit more flavour on how you're going to ensure that there's no negative repercussions on your core business, sort of in and around the execution?

David Taylor Smith, COO & Regional CEO - UK & Africa
Yeah, we set up in 2008 and Olympic project board and part of the work of that team was to win the Olympics and then part of it was to make sure that we deliver it on time and to budget. And we recognised early on that risk. So we have put - the core management team have been recruited solely to do the Olympics and then we augment that with a bit of expertise from elsewhere in the Group. But as I said the management structure in there will be over 700 strong by the time we deliver the Games and all but a small handful, sub ten will be on fixed term contracts for the Olympics. So that is something we've kept a razor focus on.

Nick Buckles, Group CEO
I think certainly what we've learnt from previous companies experiences the legacy costs of having a workforce laying idle after the Olympics almost does away with the benefits of doing it in the first place. So we're very clear that that's an issue and we will have some excellent management onboard who are on fixed term contracts and clearly there will be a wish for us to try and keep some of them, but we don’t have to, that's the main point.

Daniel Patterson, SEB Enskilda
Maybe following up on the Olympics, any sort of positive knock on effects you're hoping for in the second half or your core business?

Nick Buckles, Group CEO
No not really directly from the Olympics, I think it's a standalone project. Ian mentioned that we're probably getting some better relationships with some corporates on inbound security that we hope to take forward afterwards, but no real financial impact in the short term.

Daniel Patterson, SEB Enskilda
One final question, I think this is for Kim, within the public services, maybe this is even a little bit sort of philosophical, but is outsourcing really the solution to the government deficit problems, simply outsourcing, trying to gain some scale and cut costs, or are you trying to push more sort of innovation through when you're bidding and trying to persuade government to do things in totally new ways, totally different ways? How do you think about this when you're speaking to the government decision makers?

Kim Challis, Group MD
We talk about - we use the term transformational change. So it's not just about outsourcing what they do today. I mean we can do that and it is more cost effective,

but the whole point, if you take Lincolnshire Police as a good example, if all we did was take on the service in the identical way they did it today they would get some savings, but it would actually land them in exactly the same place they're in today from a budget constraint in a few years' time.

The aim is to actually reengineer the way that they do their work, through rationalisation, introduction of technology, automation, just removing what we would call sort of dead time and wasted time in terms of some of the key processes so that they could actually move a step forward in terms of transformational change. So it's absolutely about innovation and reengineering the way they do their activities today.

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David Taylor Smith, COO & Regional CEO - UK & Africa
So about two years ago we embarked upon a negotiation with the Cabinet Office who were looking to reduce spend with their top 20 suppliers. And that I'd say is characterised in three phases, the first phase was about seeking to reduce our profit, which actually if you add up all the top 20 suppliers and you look at profit it's just not going to address the public deficit. So in that phase what we tried to get the government focused on was - well actually if you're interested it's reducing our charges to you and we can do that through service redesign. So we delivered savings to the government in excess of £20m whilst protecting our profit.

But throughout that we then said to the government is the really interesting piece is in the transformational programmes you could run where you can deliver 15 to 20% savings by aggregating certain activity. And certainly they keep - at the heart of government, in the Cabinet Office, a delivery team in the Efficiency and Reform Group a desire to deliver that. And the truth is some departments have gone on and done that and some have not. And it's a bit patchy, some of that is just around their own capability to deliver those programmes.

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Andrew Ripper, Merrill Lynch
I've got a couple if I may. First of all just in terms of the police bidding activity, can you talk about what sort of returns profile you think you can get on the Lincs contract? And in terms of sort of West Midlands and Surrey what sort of follow through do you think there could be from that, do you see other forces joining in on the framework basis, or do you think there's going to be a way to go in terms of proving that it works before the market sort of opens up beyond those first two forces?

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Nick Buckles, Group CEO
Yeah I think on the returns side we're looking for the high single digits after 12 months that would be our expectation, we won't get there straightaway but that's the sort of level. It's not going to be a strong double digit outsourcing contract that's our view. And I think I said before the IT companies were approaching it as a mid-teens to 20% opportunity and you're just not going to deliver margins like that in police outsourcing in the short term in our view.

But in terms of the framework, I mean we talked about some opportunities on the framework of the Lincolnshire deal and there are some real opportunities and they won't be waiting to see how successful our operations is, I think it fair to say on the Lincolnshire framework?

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Kim Challis, Group MD
Yeah, there are ten other forces on the Lincolnshire framework and as I say a number of those are already in discussions with us today about where one of their options is to buy straight off that framework a number of the services. If they choose to do that that'll start this year, so they're not waiting to see the full transformation of Lincolnshire complete.

In terms of West Midlands and Surrey, every force I think has signed up to that framework agreement with the exception of Derbyshire, I'm not sure why they've decided to not sign up, including the forces on the Lincolnshire framework. But I think the police have a good history of wanting to do their own thing and they'll make their own decisions and a number of them are already coming out to market well in advance of West Mids and Surrey actually going through the full process. So I think again it will be on an individual force by force basis.

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Andrew Ripper, Merrill Lynch
And then secondly just going back to the point that you were talking about at the beginning in terms of the change in the contract mix, with some higher return contracts sort of dropping out, the new business coming through, one of which is Lincs Police, obviously DWP Welfare to Work, Birmingham, etc, do you think ultimately the returns on the new business will match the legacy work that has dropped away, or do you think is the capital component changing a little bit, how would you sort of see the UK return profile, normalising over the next 12 to 36 months as the contracts bed down?

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Nick Buckles, Group CEO
I mean we've got lots of contract movement so I think it's fair to say that's difficult to predict. I said at the year end result we had an exceptionally high margin in the UK last year from benefits of contract terminations with provisions written back, etc, and very low start-up costs relative to this year, or start up margins. And so our long term prognosis for the UK is it will be a higher margin business than Group average, it won't be as high as 9.5% again. It will probably end up somewhere around the 8.5 mark I would guess, but that is guessing with the mix of business we've got. But it does depend on these new contracts, how quickly we get them into the sort of high single digit range. But it won't be as high as we've had previously. And government rebids generally, or government bidding generally is going to be lower margin than it has been in the past.

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Andrew Ripper, Merrill Lynch
And then just finally looking at the prisons opportunity and the slide on Birmingham I think references about a 200 headcount reduction which seems very significant, it's something like 25% of headcount. How are you able to do that? Why couldn't the Prison Service do it themselves? And is that illustrative of the opportunity on the next wave in terms of changing the way the prisons are managed to drive savings?

Richard Morris, Group MD
The way we do that is we start with a blank bit of paper and we build the staffing model up from scratch and that's based on making sure that we can deliver a safe, secure, decent prison. And we apply the similar principles that we've adopted in the other prisons that we've successfully operated for up to 20 years in other parts of the UK.

In answer to the question, well why hasn't that happened previously? To some extent the public sector has embarked on and progressed on a workforce modernisation programme, it's just that I think the progress of that has been impeded through industrial relations and I think the Ministry of Justice is using competition as the way of driving change. And the public sector will bid in those competition and they'll need to design staffing models similar to the ones that we do which drive out inefficiency and improve productivity of the workforce.

Nick Buckles, Group CEO
I think it's fair to say that the in house bid on Birmingham didn't have dissimilar numbers in?

Richard Morris, Group MD
That's correct.

Nick Buckles, Group CEO
And our benefit was continuous improvement and the fact that our staffing model over time replaces the existing employees with lower cost employees. So there is a continuous improvement benefit in our operating model which is hard to replicate in the in house model basically.

Andrew Ripper, Merrill Lynch
Presumably that's reflecting things like different pension arrangements for the new employees?

Nick Buckles, Group CEO
Exactly yeah.

Andrew Ripper, Merrill Lynch
Thank you.

Nick Buckles, Group CEO
Probably one more before we go.

Paul Checketts, Barclays Capital
Maybe on the prisons side if we continue that it looks like the average contract value of the next ten might be lower than what we've seen already, is that right and why?

Richard Morris, Group MD
Well it could be, the reason why Birmingham is one of the largest prisons in the country. The average size of the prison is about 600 to 700 beds; Birmingham is more than twice the size of that. So you won't get of the 100 and odd that I talked about they're not all 1400 place prisons. And it's just reflecting that as we move through the programme of competition we'll see the average size will be of the smaller order, but obviously still significant in terms of a 15 year contract.

Nick Buckles, Group CEO
For example the first one every outsourced was Wolds I believe which is ours and that's one of the ones that's out for rebid and I think that's only £10m a year or something.

Richard Morris, Group MD
Yeah, it's 350 places for example.

Paul Checketts, Barclays Capital
And on the prison officer side, what are you running say Birmingham at, prison officers to tenants?

Nick Buckles, Group CEO
Inmates.

Paul Checketts, Barclays Capital
Inmates and how does that compare to what the government was doing and how does it compare Birmingham versus new ones, and finally how does it compare to Scotland where I know they're run a lot leaner if you happen to know the numbers?

Richard Morris, Group MD
I didn't know Scotland was leaner - we'll need to take a look at that. So Birmingham 1500 prisoners at any one time with about 400 prison officers, so that's the sort of ratio and we see on average that being 20 to 25% more efficient than the public sector.

Nick Buckles, Group CEO
I think in the end we would hope that all those ratios are very similar for the prisons we run. The only difference is the design issues. If you've got a badly designed old prison where you haven't got the same lines of sight you'll get a slightly different ratio, but they shouldn't change hugely Richard should they?

Richard Morris, Group MD
Yeah, that's a good point. If you look at the brand new prison that we've opened you can design in efficiency relating to where the prisoners are and how you can figure the movements and that kind of thing. So in a brand new prison you would expect greater efficiency than an older prison because of that.

Nick Buckles, Group CEO
Thanks very much team it's bang on schedule, we're back after coffee - at 11.50 we'll have a half an hour break and you can follow our people around, ask them questions, I'm sure you'll want to. So thanks very much.

Coffee Break