G4S plc

Capital Markets Update – Q & A Session

12 November 2014

G4S

Ashley Almanza, Chief Executive Officer

Himanshu Raja, Chief Financial Officer

QUESTIONS FROM

Robert Plant, JPMorgan

Kean Marden, Jefferies

Stephen Rawlinson, Whitman Howard

Gideon Adler, Redburn

Sylvia Foteva, Deutsche Bank

Rory McKenzie, UBS

Allen Wells, Morgan Stanley

Andy Brook, RBC

George Gregory, UBS

Paul Checketts, Barclays Capital

Karl Green

Austen Earl, Marshall Wace

Questions and Answers

Telephone Operator
Thank you, Ladies and Gentlemen. If you would like to ask a question, please press *1 on the telephone keypad and you will be advised when to ask your question. We will pause for a moment while we gather the questions from the participants. Thank you.

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Helen Parris, Director Investor Relations
Whilst the operator is calling for the questions I have an email question from Robert Plant at JPMorgan. Robert asks - Ashley, you previously said that security markets and your market positions to support a 5 to 8% organic growth rate opportunity for the Group for the foreseeable future. You haven't mentioned that specifically today, do you still see it as achievable?

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Ashley Almanza, Chief Executive Officer
Thanks Rob. I think the first thing to say is that the financial outcome that we are aiming to achieve is firstly strong growth in earnings; secondly -

[Gap in Audio]

And third is leveraging our scale. A good example for these programmes are procurement and IT rationalisation. The fourth is overhead efficiency, and again we talked about some of the work we're doing in material de-layering our management structures. And finally enhanced cash flow through things like our working capital programmes.

In other words, our performance improvement plan one year on has a much broader base and we're addressing multiple sources of value. An important part of that is still revenue growth and both the external analysis that we look at and our own internal analysis built bottom-up, market by market, service by service, indicates that demand for our services in our markets can still support the growth rate of 5 to 8% for the foreseeable future.

But I think, you know, the pleasing thing one year on is that we've been able to put in place, resource and organise and get under way, a number of programmes much of which does address organic growth - we're investing quite heavily in our pipeline and in improving our sales performance - but alongside that we've got a number of other programmes that we believe will improve our performance and our cash performance as well.

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Telephone Operator
Thank you. We have a question from one of Kean Marden. Please go ahead.

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Kean Marden, Jefferies
Afternoon, all. Okay. I've got three, if I may? I'm just wondering whether you can flesh out a little more your comments on slide 19. So, you've mentioned that you've opened up negotiations with several key suppliers; you mention that there are eight categories. I'm just wondering whether your discussions are across all of those eight categories at the moment or have you dipped into some specific ones; and if that is the case whether you can talk about what those might be? And in particular - we can all guess the outcome - or your preferred outcome from the discussions - but are you looking to procure on a global basis, or on a regional basis or bundle and do your approach basically to that?

Secondly, I'm wondering if you're in a position to share with us - who you sold the US government business too?

And, thirdly. I appreciate you've made qualitative comments regarding profit and revenue growth in the first nine months, obviously, I think it's the margin evolution to your business that's the key to your share price performance, over the next couple of years; are you in a position to share with us whether the margins have strengthened sequentially, or year on year in the third quarter, or would you advise us to wait until the prelims for that data?

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Ashley Almanza, Chief Executive Officer
Thanks, Kean. We'll share the question between Himanshu and I. I'll just, if I may kick off on procurement. We're in the process of hiring experienced category managers who have a track record of procuring sufficiently - be that locally, regionally or globally - in the principal categories that we've identified as presenting us with an opportunity to buy more efficiently. And, so, when we talk about securing our first global procurement deal this year, it's not in all of the categories. Our team is up and running and we're addressing each of those categories but it is right to say that some are further ahead than others.

So, you've heard us, I think, talk before about spending 20% plus of our Group cash flow on IT and related services, so we have prioritised that and we would expect in the course of this year to make some progress there.

So I think you can anticipate our global procurement deal landing first in IT infrastructure, voice, data - some of the areas that Himanshu touched on when he talked about the IT transformation programme.

As to whether we do this regionally or globally - we're looking to do both depending on the specific service; but there's quite a lot of focus going into some global deals at the moment which we think can deliver significant benefits for us. Himanshu, do you want to add anything to that?

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Himanshu Raja, Chief Financial Officer
Just to say, Kean - good afternoon - some of the categories will lend themselves to global or regional as appropriate. So, the two I talked about in my piece around end-user computing and around productivity lend themselves to global deals and global capability. As we move

to telecommunications they will naturally fall regionally, but wherever possible we're determined to get the benefits of leveraging the size and spending power of the Group.

And our early experience on the two in progress show that we expect to realise significant savings as well as enhance the capability that our new purchasing power gives us. Of course, we wouldn't want to go into details of who and when so as not to compromise the discussions.

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Kean Marden, Jefferies
Understood.

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Ashley Almanza, Chief Executive Officer
Thanks, Himanshu. On US Government solutions, it's a private buyer, Kean, and we're working with them to get the customary and, we believe, fairly straightforward approvals in hand, and we and they will announce the identity of the buyer, I think, quite soon. Certainly I would expect to do that before our fourth quarter results, well before.

On margins, I think that you probably heard me say something broadly along the following lines before, which is our aim is to grow earnings and cash flow in the business and, you know, we look at risk adjusted margins. So, we would, I think quite comfortably take, for example, a low risk business, that's right in the sweet spot, that's stuff we know how to do, we've got the organisational capacity and capability - and I'm picking a number out of the air, it's not meant to steer anybody one way or another - but for that sort of business, you know, we are quite willing to accept a risk adjusted margin.

So, it's not all about the margin as far as we're concerned, it's about growing earnings in a disciplined way and executing in a way that we're content that we can manage the risks and be highly confident that we'll deliver a profitable contract over the life of the contract.

So, it is our aim to reduce costs and in principle improve our margins, yes. But I think I would just say, philosophically - again, this is not meant to be a steer - philosophically, we look at risk adjusted margins as opposed to just margins per se. So, I haven't really answered your question -

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Kean Marden, Jefferies
I didn't entirely expect you to. I suppose from our perspective, we don't have an assessment of the risks of individual contracts so the market will, as a short-hand, basically look to the absolute EBIT margin then obviously, you guys, if you can provide the narrative around that.

Obviously, the disclosed figures will be the margins and we will be talking about those in more detail in three or four months' time and obviously we don't have an assessment of the risks, hence I think the market will dwell on that initially rightly or wrongly hence why I think it's a focus at the moment.

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Ashley Almanza, Chief Executive Officer
Fair enough. We look forward to talking in more depth about all aspects of the business including the margins at the full year results.

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Kean Marden, Jefferies
Thank you, Ashley.

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Ashley Almanza, Chief Executive Officer
Okay.

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Helen Parris, Director of Investor Relations
A follow-up email on a similar subject which is from Stephen Rawlinson at Whitman Howard saying on slide 24 why do you review major contracts only quarterly that means me that means they could go wrong for a substantial period of time before the Centre finds out. One of your rivals now in trouble had that approach?

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Ashley Almanza, Chief Executive Officer
So, I'll ask Himanshu to comment. Stephen, thanks for the question. I think, in our quarterly basis, we don't say to our management teams in the operating businesses - if there are issues, if you have concerns, if the client is raising concerns or you on your own motion have concerns, wait for the next quarterly review to tell us - so, I think that's quite important to stress upfront, to say we're looking to build a continuous dialogue with our customers so that they tell us when things are not going right, that can often be a leading indicator. And, secondly, to have an open dialogue with our business unit leaders across the Group so they put their hand up sooner rather than later.

Alongside that, we do though want a structured process which, you know, has a regular rhythm to it, forms part of our performance management, looking at contracts in an holistic way - and that's, I think, what Himanshu was referring to on that slide. Himanshu, would you like to add to that.

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Himanshu Raja, Chief Financial Officer
Thanks, Ashley. Stephen, it is a great question. For the avoidance of doubt, we have a continuous cycle of - we invite management of our major contracts - I talked for some length about Contract 360 - that Contract 360 process is fundamentally driven by the contract team, then they bring in colleagues from across the Group based on issues identified within that 360 review. The appropriate actions are identified from engaging with the customer, to getting legal advice, to assessing each possibility; and as you'd expect a performance management cycle then kicks into place where, you know, there's a closed process around those actions.

So, it's continuous management of the in life performance of those contracts. The reference to quarterly cycle is to ensure the accounting is appropriate and sound at every balance sheet date. So, it's an 'and', I would stress, not an 'or' - it's absolutely that.

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Ashley Almanza, Chief Executive Officer
One further point, if I could just add to that. We think that, very often, these contracts - the profitability of the contract is to determine when you put ink to paper, so it all happens at the beginning. Not in every case, but that's obviously another really crucial point of control. And even though, I think - you know, I described before our new contract wins at the half year and I said the same about the nine months, they are exceptional, I think we've had a really good period this year with new contract wins - what I would say is that our two largest contract opportunities this year we, in the end, decided we would not bid and we didn't bid because we didn't feel we could manage the risk over the contact life.

That's really - it's like the capital project, you know, if you get it right at the start you really give yourself a much better chance of having a profitable contract that meets the needs of the customer, satisfied customer, and delivers a return for shareholders.

So, there's a quarterly review, as I think Himanshu said - it's a financial review of the financial performance of the contract; alongside that we want to strengthen our customer satisfaction inclination, so put in place a tool across the Group that enables us to measure more reliably and more frequently customer satisfaction, often kind of an issue that needs to be handled. And, through our CRM programmes for larger contracts and larger customers, also another way of getting to issues sooner rather than later. But, in my view, often the most important point of intervention is before you sign the contract.

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Telephone Operator
Thank you, we now have a question from the line of Gideon Adler. Please go ahead.

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Gideon Adler, Redburn
Hi, guys. Three questions, please, one on revenue attrition and what steps you're going to take to reduce the rate of attrition across the Group and aspirationally where you think the retention numbers should be?

The second one's on gross margin - last year, Himanshu, the focus of quite a lot of the presentation was around the regional disparity in growth margin within the divisional business, I was wondering if you could update us on, perhaps, what progress you've made there?

And the last one's on the US Government business sale - I mean it's quite a long and protracted sale process, are you happy that at the end of that you've got a decent price for that business?

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Ashley Almanza, Chief Executive Officer
Yeah, again we'll share the question. US Government Solutions, part of the reason it was protracted is that we stopped the initial process because we weren't satisfied that the process that we had in motion was going to give us a fair price, a good price; I think we can be reasonably satisfied that what we're getting now is a good price for the business. You know, we had to bear in mind that this is a proxy business; or rather it's a business that's managed through a proxy structure. But, no, we are, I think, stopping process, taking more time, has turned out to be the right thing to do.

On revenue attrition; we're, our retention historically, and it hasn't changed materially, has been just about 90% so inverse to that I suppose is just about 10% attrition. Our aspiration is to do better than that - I know that's not terribly precise, but the road to doing better, I think, you know, again, we have a number of levers. The first is operational reliability and delivery. So some of the things that we've talked about around performance management hiring new team managers, putting in place systems that give us better control over our operations - none of this is - flick of a light switch, it's all done and ready to go tomorrow, but those things, I think, will improve operational reliability over time. And we believe that has a positive effect on attrition rate.

The second very important thing is the work that we're doing to improve our understanding of customer satisfaction. So, there's a more frequent interaction with our customers, in a systematic way - large, medium and small customers - so that we can see early, or as early as possible, if there is an intervention that needs to be made. And, again, it's our view that that will enable us to improve retention.

We talked briefly about a more structured approach to CRM for our larger clients, and investing in global account management - you know, put simply hiring experienced global account managers and putting them to work on our most important accounts. And, again, we think that that will have a positive effect.

It's not all hypothesis, so, one of the great advantages of having a large business, a global business, is that you can run quite effective internal benchmarking exercises, and in deciding where to invest - so, you know, customer satisfaction tools, CRM programmes, global account management. And, coming to that view, we've performed internal benchmarking and looked at our businesses who are achieving consistently better retention rates, or lower attrition rates. And when we go and spend some time with those businesses, unsurprisingly, we find that they have a rigorous approach to measuring customer satisfaction, good operational reliability, all the things that I've just talked about.

So, that's what we've plan to do and we hope to do better is what I'm going to say at this stage. You know, I hope that in time we'll be able to report actual performance and improvement as opposed to our aspiration. I'm going to ask Himanshu to address the question on growth profit, please.

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Himanshu Raja, Chief Financial Officer
Thanks, Ashley. Good afternoon, Gideon. You are right, this time last year I set out the disparity across the Group by region. If you recall, both in gross margin as well as in overheads. And from that original hypothesis and the bottom-up business review we did this

time last year is really what informed some of the change programmes that we talked about today.

So, just to help you, the three programmes around direct labour efficiency with scheduling and telematics primarily addressed gross margin. Those on delayering and organisational efficiency, on procurement and on IT primarily addressed the opportunity that we see in overheads. And the process we went through is to assess the size of the prize and the ability to really attack those opportunities. And when we arrived on DLE at 39 countries covering 376,000 employees that's because we saw there the greatest opportunity to make the difference.

And, equally, when we look procurement the eight categories that we've identified, some of those naturally fall between gross margin and some between overheads. And again we sort to prioritised those where we see the earliest opportunity to go after the prize.

Of course, we'll report, as we talked about with Kean earlier today, the progress on gross margin or on PBITA margins region by region in our full year results. I'd say we've made satisfactory progress.

On gross margin, the nature of those programmes are going to be longer term, because they are about changing processes in the front line, they are about where appropriate about adding new capabilities, for example in route scheduling, or experienced people accustomed to direct labour scheduling. And then, over time, also bringing new software tools to automate scheduling, where today it's often done manually.

We talked about then on procurement some of the early opportunities two of which we hope to close before the end of this year and then we'll systematically graph them. So, satisfactory progress but definitely more to do to continue to reduce our disparity and to continue to guide improvements in gross margin.

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Ashley Almanza, Chief Executive Officer
Thanks, Gideon.

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Gideon Adler, Redburn
Thanks.

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Telephone Operator
The next question comes from Sylvia Foteva. Please go ahead.

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Sylvia Foteva, Deutsche Bank
Hi, good afternoon. Thank you for taking the questions. I've got three, please. So, first of all, on North America. It looks like Q2 was exceptionally strong, I believe 10% if my

calculations are correct. What is the end market goal, how sustainable is it and what is the incremental margin, please?

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Ashley Almanza, Chief Executive Officer
So, you are right. I don't know if it's precisely 10%, possibly a touch below that I think. The first thing to say is that what we're seeing in North America is really pleasing, is that it is, the progress we're making in the marketplace is broadly based. So there isn't a single industry segment or customer or one area of the North American market that is driving the growth - very broadly based.

The second thing is that there is a combination of growing existing customers, adding new services to customers as we establish our relationship with those customers, and secondly winning new customers.

I think the other comment I'd like to make is that, I think, you know, that some analysis has suggested that the progress is to do with price increases coming, being put through to cover the cost of affordable care, and that's not the case. So, the growth that we're seeing in North America includes zero price increases related to ACA, Affordable Care Act, this is just straight forward progression with, as I say, very broadly based - small, medium and large customers.

And, Sylvia, we'll give a more detailed breakdown of regional profitability at the full year and we'll be able to share with you then what the margin impact is and how much leverage, operating leverage, we're capturing in North America. So I'll defer that aspect of your question to the full year results please. Does that cover all three?

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Sylvia Foteva, Deutsche Bank
Sorry?

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Ashley Almanza, Chief Executive Officer
Was there another part to your question?

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Sylvia Foteva, Deutsche Bank
There are more questions, yes. Thank you. Secondly I just want to check, the UK has obviously returned to growth as well in the third quarter, is that cash versus guarding or what are the trends please?

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Ashley Almanza, Chief Executive Officer
In the UK?

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Sylvia Foteva, Deutsche Bank
In the UK, yes.

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Ashley Almanza, Chief Executive Officer
So, well, in the UK - the UK and Europe was actually down 1% year on year revenues and that was as expected. We obviously had electronic monitoring dropping out anniversary day since we picked up the effect of electronic monitoring in the UK dropping out. And then, in Europe, obviously the big change there was the Dutch prisons contract dropped out year on year.

So, UK and Europe were down 1% and, actually, most of that was driven by our government services, Dutch prison service in the case of Europe and MoJ in the case of UK. You know, I wouldn't call out at this stage any particularly strong trends in either manned security or cash. The focus in our cash business this year has been to restructure, rationalise our branch network, and, you know, clearly still focussing on the marketplace - and we've had some wins and some losses in our cash and manned security businesses, but I don't think we've seen a trend per se.

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Sylvia Foteva, Deutsche Bank
Thank you, that's clear, thank you. Then, finally, also we had the update by Serco and they talked about a COMPASS contract in the UK, as an onerous contract - how is that going for you and is it an onerous contract for you?

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Ashley Almanza, Chief Executive Officer
So, we impaired a number of contracts last year - we did a big balance sheet review exercise, and we impaired a number of contracts last year, including - and I think we disclosed that they are related to UK Government, including, I think the majority of impairment related to UK Government.

So we're not, well I'll asked Himanshu's comment, but I'm not aware, Himanshu, that we're planning to run a big balance sheet review this year. So I think we captured most of our onerous contracts if not all. Like all good companies, I assume, we will continue to review our contracts on an annual basis but we're not expecting a big change.

Himanshu Raja, Chief Financial Officer
Ashley I can confirm we're not planning a major balance sheet exercise at the end of the year, we have very rigorous processes around the contract portfolio that I talked about at length. And there's a large portfolio within that we get some that over perform some that under perform. Sylvia I can confirm that the COMPASS contract will be within £26m of impairments we took in December last year.

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Sylvia Foteva, Deutsche Bank
Okay so it was a one off impairment rather than an impairment up front - some of them - Serco has obviously taken a provision up front and they're releasing that every year over the course of the contract so you've treated this differently?

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Ashley Almanza, Chief Executive Officer
We can't comment on the way Serco doing it I'm afraid.

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Sylvia Foteva, Deutsche Bank
Okay thank you.

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Ashley Almanza, Chief Executive Officer
Okay thanks Sylvia

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Telephone Operator
Thank you, the next question comes from the line of Rory McKenzie, please go ahead.

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Rory McKenzie, UBS
Good afternoon everybody, just two from me if I can really a follow up on the gross margins trends. So you talked a bit of colour around the geographic gross margin trends and differences and you'll give more detail at the full year, but could you turn to talking about the service and customer segment's gross margin and the trends there so that supply line where you break out your revenues. Particularly wondering about the pricing environment across your current sweep of services that's the first question please?

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Ashley Almanza, Chief Executive Officer
Afternoon Rory thanks, look as I mentioned a second ago some of our businesses, most of restructuring was concentrated in the UK and Europe and we started that programme last year. So we are starting to capture the benefits of that in our operations and in our overheads so we can expect to see in those businesses and those were, in the case of the UK, our cash business, we can expect to see some benefit of that in gross margin and net margin.

When we think about this, I think your question was more broadly based, when we look at this globally it literally is market by market, it depends gross margin very often is driven by the market structure and that varies considerably from market to market and it varies even within markets depending on service lines.

So I think the simplest way to answer that question is when we roll this all up as at a group level we can see changes where we've had significant and very targeted programmes such as restructuring our UK cash business, we can see that in both our gross and net margins.

For the group as a whole I think we will again defer to full year and I think you could see the progress for the half year and we'll defer to the full year to report on progress that we've seen at the gross and the net level. We can't predict the pricing environment you know one, two, three years down the road, but what we can say is that all of the programmes that we have underway including programmes to strengthen our sales price line and our cost reduction programme, all of those are designed to if you like strengthen the margins in the business. But we can't predict what the pricing environment's going to be down the track.

So I'm afraid it doesn't answer all of your questions.

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Rory McKenzie
That's fair enough. And then secondly again maybe on the internal gross margin side that you can talk about, on direct labour efficiency can you give any kind of sense about what wastage you think there is either from the current level of non-billable hours or in terms of overlap where you might be employing more employees than you need for a contract. Can you, we're - it is quite easy to understand the scope of savings but can you maybe give us a few numbers around the potential direct labour efficiencies you think you can achieve?

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Ashley Almanza, Chief Executive Officer
Well I'll ask Himanshu to comment as well on this Rory but I think the starting point for us that in a business that employs you know 585,000 front line, 620,000 people, roughly 585,000 front line staff this is just an essential discipline, it's a basic requirement for us and right now we're not in the position that we want to be in. We know that again by a process of internal bench marking and closer inspection, looking at how we manage this aspect of the business on a case by case basis we've identified as we said earlier 39 countries which we want to prioritise.

So the size of the prize is potentially very large, you know after revenues this is the biggest number in our P&L. But I think as we've said before this is a very large, multiyear programme and again we'd like to get a bit more experience under our belts and achieve a bit more before we start scaling the benefits.

But ultimately this is I think not a difficult programme for us to prioritise because it must be the case that if we can, deploy our work force in a more controlled fashion and ensure that we're putting the right service to the customer at the right time at the right cost and ensuring that we minimise non-billable hours that there will be a benefit.

But I'm afraid again difficult to be more precise than that right now. Unless Himanshu you want to venture?

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Himanshu Raja, Chief Financial Officer
Well I'd simply reflect Ashley as we talked about this afternoon we'll be in a position to update you in March with the progress that we're making region by region. But undoubtedly when the SEC, the service excellence centre got in partnering with the business on this prioritised basis, they do the business review. We see tangible opportunities but those need to be worked in people, process and system terms and in terms of changing the behaviour on the ground.

So Ashley you've often talked about this being something that's long term and it's about changing the very DNA with which we do it and to replicate what in some circles we do exceptionally well right across the group. So I think we'll be continuing to talk about DLE for some time to come because that's the very essence of what we're trying to do.

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Ashley Almanza, Chief Executive Officer
Himanshu makes an important point that we do have a small number of businesses where this is done we think pretty well, you know we can always do better but it's done well. And what we're trying to prove out is the degree to which that can be transferred to other parts of the business.

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Rory McKenzie, UBS
Okay thank you, so looking forward to some more non-linear savings then, thanks.

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Ashley Almanza, Chief Executive Officer
Okay thanks Rory.

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Telephone Operator
Thank you, the next question comes from the line of Alan Wells, please go ahead.

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Allen Wells, Morgan Stanley
Good afternoon guys, a couple of questions from me. Sort of following on a little bit from Rory's question on sort of quantifying the cost savings, I guess it may be a similar answer but just looking at maybe at some of the opportunity around shared services. You talked about the first phase of the UK activity being done, second phase under way, rest of the world maybe at early stages but could you maybe provide some sort of split on how the costing behind the services splits between the regions i.e. how much does the UK actually represent of the ultimate prize versus US, rest of the world?

And basically what I'm trying to understand is a better of feeling of how we can at least, on back of the envelope work out how the timings of these benefits maybe can think about coming through?

Second question, quickly just on the US Government sale again, I notice that about $55m is to be paid in receivables in terms of your proceeds from that. And apologies I tried to look back but couldn't remember, could you maybe remind me as part of the sale proceeds did you impair or write down any of the receivables for that business as part of that sale process? And that's it for the moment, thank you.

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Ashley Almanza, Chief Executive Officer
Allen I think the answer to your last question is no we didn't but I'll ask Himanshu to confirm in a second.

The shared service centre question first, I think regardless of whether we're making an investment in a capex projects or it's a revenue investment, we apply the same economic criteria. And that is to say we expect all of our investments to generate an internal rate of return of 10% after tax and we're very, very interested in the cash profile of investment proposals whether it's an investment, as I say doesn't matter whether the P&L or the balance sheet we look at all of those investments, cash, shareholder funds that we're applying.

So these shared service centres have to go through clearly a rigorous what I call operational process to ensure that the plan can be delivered in a disciplined way because shared service projects or shared service centre projects the bigger they get the more likely they are to encounter complexity and I think there are many examples where companies have sort of gone at this in a way which has sort of led the project into trouble. All of that, what am I trying to say, we're quite cautious about this, we're approaching this in a progressive and disciplined fashion.

In terms or the regional breakdown right now today the biggest benefits are in developed markets and that's simply because that's where our, by some considerable distance, our highest cost is for shared services. So if you think about the sort of skills that we deploy that lend themselves to shared services they typically are in highly paid back office functions, now that frankly is developed markets, that's partly why we started in the UK, there were other good reasons to start there and it's partly why our second project out of the docks is in the US.

Himanshu's doing some good work on Europe at the moment and we may in due course put a project in train in Europe. So Himanshu anything to add to what I've said there?

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Himanshu Raja, Chief Financial Officer
I think Ashley you've captured the essence of it. Allen the UK shared service centre is about consolidating from nine locations in six platforms to one here in the UK. So this is not about a shared service centre that is offshore and we're, for all the reasons that Ashley cites, the transaction processing activities are highly integrated within operations. And we'll continue to be focussed as a company on getting that right balance between making sure we continue to meet our commitments to customers and associated the prime attendance and billing practices that go with that so it's a conservative approach.

But nonetheless 9 to 1 UK geography to UK geography you know there is a prize. Similarly a different type of prize when you look in emerging markets where really the consolidation opportunity is not so much a labour arbitrage opportunity because we're going from low cost to low cost but there we'll get a different kind of benefit which will still give us a financial prize. But that will be as much about driving efficiency and effectiveness where because of the federated nature in which those businesses have grown up they don't always have the right level of systems and process maturity that they can gain access to by moving to a shared service environment.

And then lastly my reference to captive which is the one we do in house versus outsourcing is we're also evaluating whether there's really any competitive differentiation in running shared service centres ourselves. And if there are others that can do it better than us and we can ride those platform then we'll seek to do that.

And I illustrated that when we talked about procurement for example in the end user computing tender, a key requirement was that the vendors can stand up on a global platform that with immediate effect will allow us to control, track, monitor all of our end user computing devices which means I don't have to wait 3 to 5 years before I can get access to global systems.

So we're trying to be quite innovative but quite conservative about managing the change but in each case making sure that we've got a line of sight of the financial benefits. It probably doesn't give you quantification you're looking for but hopefully gives you some colour on the type and nature of the opportunities we're pursuing.

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Allen Wells, Morgan Stanley
Great thank you guys.

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Telephone Operator
And we're going to take another email question from Andy Brook at RBC. Andy asks does the Tesco contract loss in the UK mean further cost action is needed in the UK cash services over and above what has been already done? Is the cash services market becoming more competitive?

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Ashley Almanza, Chief Executive Officer
Thanks Andy. I mean look we're in the services business and that is a competitive market everywhere that we operate. We don't have in my view any market which we could say, well there isn't very much competitive intensity in those markets. So it is the nature of the business that we win some contracts and on occasions customers decide to give the business to someone else, that's the nature of the business and you know I'm pleased to say I think the team's done a terrific job in the first nine months. I'm pleased to say that we won more than we lost; we've had in my view an exceptional contract win rate this year.

Do we need to restructure more well we took the view a year ago that we needed to restructure our UK business, that work is not finished it's well advanced and you know we're continuing with that work. I think that our aim is not just to sit back and in any business whether it's UK cash or any cash or manned security or systems business anywhere in the world if we lose the contract to say oh immediately we have to shrink that business; because we have another option, which is to go into the marketplace and keep building the revenue.

So we take the view that you know we need a combination of our revenue wins and cost efficiency. I think Himanshu touched on this in his presentation, we rationalised our UK branch network with 20% fewer branches, reduced our headcount by 1,200.

So I think we can say with some confidence that today we have a much more competitive business in the marketplace and we want to use that to our advantage, not just to shrink the business further but rather to go into the marketplace and win some in the certain knowledge that we won't win all of them and in some cases customers as we expect will decide to take their business elsewhere.

One thing that you can be sure of we will always put our best foot forward and we talked about this earlier on the call we put our best foot forward on a risk adjusted basis, we look at the reward available to shareholders and the interest in the contract and you know sometimes that can change and it can get better. And other times you know we can put our best foot forward and still not win, that's the nature of the business.

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Telephone Operator
Thank you, the next question comes from the line of George Gregory, please go ahead.

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George Gregory, UBS
Good afternoon everyone, I had three questions if I may. Firstly perhaps we could dig into your pipeline and order wins analysis, you mentioned that it's an exceptional rate the A70 to date. Clearly if we annualise that and net off attrition the implied growth rate is somewhere around 7% organic, in isolation perhaps that wouldn't be that impressive but clearly your pipeline is up about 9% on a nine month view. Is there any reason why that shouldn't be implying a continued acceleration in the organic growth rate towards a rate of perhaps 6 or 7% or am I missing something? I'll take the other two in turn please.

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Ashley Almanza, Chief Executive Officer
Well I do regard the wins as exceptional we know that our new contract accretion has been better than it's been on average historically. I think I said at the half year that in part that's just a function of wins, you know the timing of bids and the award dates, they don't come along at an even pace but I don't want to take away the credit due to our sales and BD that have been effective in the marketplace.

I think we can broadly - you have to make an assumption about the rate at which we continue to win so to come directly to your question going forward there also is an assumption about the rate at which those contracts mobilise. So not all of these mobilise at full throttle on the 1st of January 2015 for example, typically contracts will ramp up. And the other thing you have to factor in, somebody asked the question earlier is the rate of attrition and again we don't know that, we've no reason to believe it will go up or down any time soon, the actions that we've put in hand to improve retention reduced attrition.

I think we'll take a bit of time George to take hold so I think broadly you know the - our methodology that you're describing is sound, maybe one or two other factors to improve in there such as I say when these contracts mobilise, the rate at which they mobilise and whether we can continue to win at the same rates and experience the same attrition rate. But when we talk about going into 2015 with good momentum it's partly the function of the contract wins that we've had in the first nine months which has been again broadly based.

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George Gregory, UBS
Okay that's great.

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Ashley Almanza, Chief Executive Officer
In sectors right across the portfolio, service lines across the portfolio and in geographies right across the portfolio and that perhaps from our point of view has been the most satisfying thing about the performance.

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George Gregory, UBS
Very, very clear. Second question just following up on Himanshu's comments on the H1, H2 capex split, Himanshu I didn't fully understand your comment around regional versus global and what that would therefore imply for second half in 2015 capex?

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Himanshu Raja, Chief Financial Officer
George so that's end of the half year, what we saw in the first half I didn't sense it would represent the run rate and that is because as you set up these global or regional programmes what we did in the first half would go and intercept those activities that might otherwise have taken place locally. So a simple example might be one of our businesses in the Middle East was planning an ERP upgrade that would have been done locally and we've said don't spend that money it doesn't make sense to spend it locally for your business, let's fold it into a bigger programme, there wasn't a global platform in order to change that system out.

So we folded that into a regional programme and therefore I'm expecting - seeing some catch up in spend during the nine month period and further in the second half and I'll be in a position to update you at the full year as well give you guidance on where we think the run rates will settle. We're just going through our final cycle as we speak and seeing which programmes we prioritise and which we don't.

So the first half is not representative, but second half seeing some pick up in run rate second half going through our final cycle and update you fully with full guidance when we meet in March.

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George Gregory, UBS
Okay that's understood. Final question slide 12 at the bottom of that slide you state an operating cash flow range of 105 to 125%, forgive me if I've missed this is the past but that looks new to me perhaps you could explain what you mean by that number please?

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Himanshu Raja, Chief Financial Officer
Yes so this is, George our three year plan which we put into the incentive programme so you'll recall that we changed when we through the reset last year our strategy and our plan, we also took forward a revised incentives programme and that includes a proportion of the long terms incentives tied to management improving cash flow generation. And we set out in some detail the basis of that and it's to get our operating cash flow up and the range is 105 to 125%. And depending on, you can guess where we're aiming, and depending on what we achieve that will affect long term incentives for the management team.

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George Gregory, UBS
That's as a proportion of EBITDA?

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Helen Parris, Director of Investor Relations
I think that's listed on page 78 of the annual report.

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George Gregory, UBS
78 perfect I'll have a look. Thanks very much.

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Telephone Operator
Thank you, the next question comes from the line of Paul Checketts, please go ahead.

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Paul Checketts, Barclays Capital
Hi everyone I've got three but hopefully quick. The first is now you've had a chance to re-look at the portfolio I'm wondering if there are types of work within it that have been done historically that you're less likely to do in the past, you talked a bit about turning away from stuff because of risk but are there other things in there that are maybe lower margin, maybe you can help talk us through that?

The second one is one the global procurement contract that you've signed; can you give us a sense of how much you did actually save as a result of that?

And the last one is on the cash business, one year further on I wonder if you still so firmly have the view it should be part of the group and there are benefits from having both parts within it? Thanks.

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Ashley Almanza, Chief Executive Officer
Paul, thanks. Look on the cash business first, I think you're referring to the unsolicited approach we had from Charterhouse about a year ago, and I don't think we're of a different - in fact I'm sure we're not of a different view. The Board I believe is pretty confident that that was the right decision to take. That in no way represented fair value for the business. You'll have seen that as part of our portfolio review, to answer the first part of your question, we had sold cash businesses. We sold out Canadian cash business and we sold a small cash business in Eastern Europe as well. So we're not sentimental about this and we don't have a rigid view of all cash businesses are bad and all let's say manned security are good, or vice versa. Each business has to earn its place in the portfolio and that applies to our cash business. And our portfolio review programme is not a one off exercise, it's a continuous programme where we look at all of our businesses, how they're performing and whether their prospects have changed.

I think the only other comment I'd make is that when we talked about this last year it was clear to us that there isn't a global cash market. So our cash businesses operate typically in national markets, and those markets have very different characteristics. Some markets are growing, some markets are mature, some have got a very favourable market structure, there might be two players really who are the main established players in that market. Others will have many players organised, you know, buyers, tough labour markets, tight labour markets. So there isn't a one size fits all answer to that question.

The best way I could sum it up is are we content that the cash businesses that we have in the portfolio today are performing well. I think the answer is they're performing satisfactorily. We have plans to improve their performance, but like any business we'll keep the prospects of all of our businesses under review, including our cash businesses.

Types of work, on slide 10 we set out the principle service lines that we sell into the market today, and I think that is our - you know there are not large tranches of those works or those services that we're turning away from. We are taking I think a more rigorous approach to signing up contracts regardless of the service line, you know that we're talking about. We want to have I think a pretty realistic understanding of the risks, the service level requirements in a contract, and the reward that's offered in exchange for delivering that service at the required service level. And as I said earlier, we've turned down some meaningful, large contracts because we're not comfortable that we can balance the risk with the potential return. But there isn't segment, if you like, that we view less favourably or are contemplating withdrawing from.

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Himanshu Raja, Chief Financial Officer
Your procurement question, we have not yet signed major procurement deals. We're in the advanced stages of two. And all I'd say is that what we're seeing are significant savings opportunities. We recognise that with how we've evolved as a business we are a very attractive proposition to global suppliers. They want to work us, we're a good reference site and equally give us the opportunity to modernise where we started which is the IP infrastructure in this state, whilst at the same time driving significant savings and bringing

that operating leverage that comes with a global approach. So not yet signed but in the advanced stages and watch this space.

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Paul Checketts, Barclays Capital
And what would you definition of significant be? Are we talking single digits, double digits?

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Himanshu Raja, Chief Financial Officer
Well look you can imagine amongst the people who are listening in on this call are the very suppliers that we're engaged with so it wouldn't be appropriate to comment. They know and we know that we're in engaged in global tenders that give us the advantage of scale that we've never accessed before.

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Paul Checketts, Barclays Capital
Understood. Thank you.

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Ashley Almanza, Chief Executive Officer
Thanks Paul.

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Telephone Operator
Thank you. The next question comes from the line of Karl Green. Please go ahead.

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Karl Green
Yeah, thanks very much. Just following on on this subject of risk adjusted returns. Can you indicate whether the contract wins year to date have been towards the lower end of the risk spectrum as you'd define that? And sort of similarly on the sales pipeline, how do you see the spread of contract risks in there?

And then following on from Paul's same question, you're not really distinguishing by service line, but are you distinguishing between geographies in terms of geographies that you would regard as more attractive from a risk perspective, or is that again very contract by contract basis?

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Ashley Almanza, Chief Executive Officer
So Karl I'd say that our objective is not to become a low risk operator, that's - I mean if I've given that impression I'd like to clarify that now, which is our objective is to ensure that we've got the capability to manage the risk. Some of the services we deliver today are complex, but so inherently if you looked at a complex service you say inherently that's more risky.

However I am entirely comfortable that in those areas we have highly developed capability and very skilled management teams. So it's quite possible that we can look at a contract that is complex, but at the same time we have a team in place that's very capable, very experienced, knows what they're doing, can deliver that sort of business. So our objective is not to accumulate low risk work. Our objective is to build capability so that we can manage complex services in a disciplined way, and therefore reduce the risk, manage the risk effectively.

Geography, no not really. There isn't a particular pattern or trend. If you look at, you know, the portfolio work that we have done so far, we have exited businesses in a variety of geographies. We sold two large businesses in North America for example, yet that happens to be a market where the business is performing incredibly well. Well the reason for that is that we offer other service lines and we have a very capable team in North America with a good service proposition.

So there isn't a geography driver in this, it's really looking at each business regardless of the geography it's in and each service line and saying, is this business performing? If it's not performing does it have the potential to turn around? What do the prospects look like for this business, for this service line, and can we manage the risks on each contract? Do we have the team in place to manage those risks?

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Karl Green
So it's more about costs from your perspective than actually getting the pricing right. The pricing will be what the customer puts out to a point but it's more about you being able to have the costs and the infrastructure and the knowhow to deal with it?

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Ashley Almanza, Chief Executive Officer
Well that - I mean some customers or some contracts rather are bid on purely on price, and others are bid on for combinations, don't normally bid on combination and not just price, but the quality of your proposal and your technical capability and best value. So it depends again on the nature of the competition, but ultimately yes we want to ensure that we put sufficient resource into that contract to manage the risk. And you know ultimately the customer and the market will set the price, and we will decide whether or not that's a good piece of business for our shareholders or not.

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Karl Green
Okay, thank you.

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Ashley Almanza, Chief Executive Officer
You're welcome.

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Helen Parris, Director of Investor Relations
This is just the last question I am going to read from the websites and then any other questions I'll follow up offline. So the question comes from Austen Earl at Marshall Wace saying regarding your comments about North American growth all being volume, will you have to increase prices for the Affordable Care Act, and by how much to cover your higher cost?

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Ashley Almanza, Chief Executive Officer
Thanks very much Helen. Our healthcare programme in North America has for some time been at the, let's say, premium end of the spectrum. We have had typically better healthcare programmes for our employees in North America. Another way of putting that is that our existing health programmes were largely compliant with the Affordable Care Act when that act came into force. So we did not have to and don't envisage having to make substantial changes to our healthcare programmes.

How this sort of rolls out over time remains to be seen, but we've not seen the need to increase prices at this stage, and certainly you know in the near term we don't anticipate doing that. I think this is not a static picture in North America. I mean the regulations around how precisely it's going to work are not stable, and we know that for example auto enrolment was deferred and it looks like it's possible at least that it might be deferred again. But I think from everything we can see at the moment our plans meet the required standard with minor adjustments, and we don't at the moment see the need to increase prices as a result of that. Thanks very much.

Ladies and gentlemen that concludes the Q&A session. Thank you very much for joining the conference call this afternoon. We look forward to seeing you at our fourth quarter results in person, or if you join by webcast, and if not then, then before then. So thank you very much for joining. Goodbye.

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