



Ashley Almanza
Group Chief Executive Officer

Delivering sustainable profitable growth

“In 2013 we established a new strategic plan to transform G4S and deliver sustainable, profitable growth. In 2014, the group made good progress executing this strategic plan and I am pleased to report a 12% increase in underlying earnings (to £210 million) and a 25% increase in cash flow from operating businesses (to £526 million). The group's performance and prospects are reflected in the directors recommendation to increase the final dividend by 5% to 5.82 pence per share. Much remains to be done to realise the full potential of our strategy.”

2014 review

Our strategic plan combines cultural transformation with sustained investments in organic growth and productivity improvements, together with active portfolio management and disciplined financial and risk management. I'm pleased to report that we made good progress in all of these areas during 2014.

Our markets

As the world's leading global integrated security company, our mission is to create sustainable value for our customers and shareholders by being the supply partner of choice in all of our markets.

Independent studies indicate that global demand for security is expected to grow at a compound average rate of 7% per annum between 2013 and 2023, reaching c.£210 billion in annual revenues by 2023.

The main drivers of industry growth are diverse and include: the economic environment and GDP growth; infrastructure investment; levels of conflict and crime; customer attitudes to risk and focus on security; customer efficiency and outsourcing objectives; regulation and the regulatory environment; technological change and innovation; interest rates and the role and policies of central banks influence the cash handling industry.

Through its unique market positions, G4S has attractive exposure to the growing demand in global security markets. We also have a diverse and proven range of services and the expertise to address this organic growth potential.

Investing in organic growth

In 2014 we took action to strengthen our sales capability, customer relationships and customer service. We invested in strategic account management and also implemented a systematic approach to measuring and monitoring customer satisfaction.

We continued to invest in service and product innovation and strengthened our sales operations and our sales capacity. These investments have begun to improve our pipeline management and in 2014 we won new contracts with a total value of £2.1 billion.

In 2014, we achieved revenue growth of 8.9% in our emerging market businesses and 6.9% in our North American businesses. As expected, revenues in our UK & Ireland and Europe regions declined by 1%, reflecting the end of the Electronic Monitoring contract in the UK and the end of the prison service contract in the Netherlands.

Our People

It is essential for the successful and sustainable growth of our business that we attract, retain, develop and incentivise the best people in our industry.

During 2014 we made a number of key appointments to the Group Executive Committee (GEC). Peter Neden has been appointed to the role of Regional President, UK & Ireland. Peter is a proven service industry executive, covering both commercial and government sectors in the UK.

John Kenning joined us in the role of Regional CEO, North America and Technology, succeeding Grahame Gibson who retires this year. John has a successful track record in sales and security technology.

In July this year Jenni Myles will take up the role of group HR Director, succeeding Irene Cowden who retires in June. Jenni has held a number of senior HR positions at G4S including HR Director for our North American and Latin American businesses. Jenni brings a deep knowledge of our industry and company combined with a track record of leading and supporting large organisational change programmes. Grahame and Irene have each made an enormous and valuable contribution to G4S and they leave with our profound thanks and best wishes.

Mel Brooks was promoted to Group Strategy & Commercial Director after successfully managing our large Indian business. Mel brings security and technology expertise from a variety of senior leadership roles he has held both in G4S and in the defence industry.

Beyond the GEC, we continued to invest heavily in refreshing and strengthening our senior management team. Since spring 2013 we have made 114 senior appointments to our senior leadership cadre of 220 executives, comprising 64 external hires and 50 internal promotions. The new appointments cover key positions in general management, sales, business development, operations, technology, procurement, IT, finance and risk management. All of these changes have been designed to strengthen our organisation and support the group-wide transformation of G4S.

Our global leadership development programme was re-launched in 2014. We are also simplifying and reinforcing succession and development planning to ensure that our leaders of tomorrow are identified and given the appropriate opportunities to develop early in their careers. Our investment in training and development permeates the entire organisation and is nowhere more important than in customer-facing roles.

I would like to thank the more than 623,000 colleagues across the world whose skill, energy and dedication to our customers and our company is reflected in the progress made by G4S in 2014.

Our Values

During 2014, we updated and re-launched our group values and mounted an awareness and training programme to ensure that G4S managers and employees understand how to put our group values into practice in everyday business activities. To support and reinforce this programme we have updated and re-launched our whistleblowing policy and compliance monitoring

now comes under the formal oversight of our group general counsel.

We established "Safety first" as a new group value and all senior executives completed mandatory safety leadership training which we are extending across the group in 2015. We established the new position of Group Head of Health and Safety and appointed an experienced safety professional to this role. Whilst we have been successful in raising safety awareness and strengthening our resources and systems, we remain fundamentally dissatisfied with our overall safety performance. I deeply regret to report that in 2014, 41 of our colleagues lost their lives in work-related incidents (2013: 49 work-related fatalities), including 14 colleagues who died in attack-related incidents, protecting our customers and their property.

Work-related fatalities have a devastating impact on families and colleagues at G4S and they motivate us to put Safety First. Zero harm remains our goal and each and every member of the global leadership team is committed to this goal. In 2014, we also established a UK corporate renewal plan and made good progress in implementing the plan. Implementation of this plan remains a priority in 2015.

Productivity

Over the past 18 months we have established a number of important programmes to improve the productivity of G4S. Given the scale and current stage of organisational maturity of G4S, these programmes address a material opportunity to improve our performance and create shareholder value. Our restructuring and organisational efficiency programmes made good progress in 2014 and we believe there are further opportunities to implement lean processes and more efficient organisation structures. Any new programmes will be subject to stringent financial, economic and operational criteria.

Our operational reliability and efficiency programmes broadly fall into two categories. Firstly, direct labour efficiency, which aims to ensure we deploy the correct service at the right time, thereby helping to improve customer service and reduce costs (see page 27). Secondly, route planning and telematics, which seeks to reduce vehicle and crew requirements and to reduce fuel and maintenance costs whilst simultaneously improving driver safety (see page 27).

In 2014, we established the new position of Chief Procurement Officer and recruited an experienced procurement leader and team. We aim to achieve

Our values at work – an integrated reporting framework

Our corporate values influence every aspect of our culture and day-to-day business activity, and we recognise that CSR strategies are best achieved when integrated into business practices. It is with that in mind that our CSR strategies and priorities are developed in conjunction with our operational businesses and help to improve the way we work and our approach to doing business. Our priority areas are business ethics and anti-bribery and

corruption, health and safety, and human rights. To better reflect the focus which our values have within our organisation and the importance we place upon ethics and sustainability, we have this year implemented an integrated CSR reporting framework which is led by our Annual Report and Accounts and supported by a CSR report and our website.

procurement efficiencies by using our global scale to consolidate supply chain management and secure better terms of business. We are also beginning to improve visibility, understanding and control of our buying behaviours to improve efficiency.

Last year we completed the first phase of our UK shared service centre to standardise key processes and reduce the cost of functional support. In 2015 we will extend the scope of shared services performed at our UK centre and we will consolidate our North American back office. We have begun to assess the feasibility of applying our shared service model in other regions.

We are undertaking a disciplined and progressive IT transformation programme. During 2014, we focused on building our IT leadership and development capability. We currently spend around £180 million on IT services and we are now progressively employing

IT service management models to improve consistency and efficiency in IT infrastructure, development and operations.

Active Portfolio Management

During 2014 we continued to apply the structured approach to portfolio management which we established in 2013. Since the inception of this management discipline we have completed the divestment of eight businesses at attractive exit multiples, generating aggregate proceeds of £248 million and an aggregate profit on disposal of £92 million. Businesses sold previously contributed revenue of over £700 million at an average net margin of 2.8%, well below the group average. We also discontinued a further 22 businesses. Portfolio management remains an important discipline in ensuring that we maintain strategic focus, capital discipline and effective financial performance across the group.

Delivering value through our key programmes

Our strategic plan encompasses key programmes which address multiple sources of value.



1. Transform our culture through our people and values (p14)

Building capacity in our people

- Strengthened global leadership team – 114 appointments to top 220 executive roles (50 internal, 64 external)
- Re-launched leadership programmes

Re-focusing our values

- Greater emphasis on Health and Safety (Safety first)
- Employee communications and training to reinforce group values
- Enhanced whistleblowing and case management

Managing risk

- Investment in improved risk management

Enhancing our performance management

- Increased rigour in our performance contracts
- Aligned incentives with values and performance



2. Invest in organic growth, customer service and operational excellence (p20)

Strengthening organic sales and business development capability – invested additional c£20m

- Appointed new sales leaders across the group
- Investment in sector and technology specialists
- Appointed 385 additional new hires into sales and business development roles in the past 21 months

Improving sales operations

- More proactive management of sales pipeline
- Investing in customer relationship and global account management
- Better alignment of sales incentives with customer satisfaction
- Extending proven services from one market to another



3. Make our organisation more productive (p24)

Investing in organisational efficiency

De-layering our organisation

- Shorter lines of communication, reduced costs and increased time focused on customers

Globalising key functions

- Improve consistency, efficiency and effectiveness of our support functions

Creating shared service centres for back office functions

- Leverage scale of organisation and standardise processes
- Implemented first phase in finance in UK in 2014
- US shared service centre in 2015

IT transformation

- Progressive, disciplined change programme to improve efficiency and consistency in IT infrastructure, development and operations

Disciplined risk and financial management

During 2014 we established an enterprise risk management system based on the “three lines of defence” model. As noted above we have invested heavily in strengthening our senior leadership teams and reinforcing our group values, both of which are important components of our risk and financial management systems. We also strengthened our contract risk management processes and made significant investments in financial control resources and audit and assurance capacity.

The importance of contract risk management was highlighted again last year with the £116 million settlement of the electronic monitoring contract and a further charge to profits of £45 million relating to provisions on legacy UK contracts.

Outlook

G4S' strategy and plan address a positive, long term demand outlook for our core services and seek to deliver sustainable, profitable growth.

We are making good progress with the implementation of our strategic plan and this was reflected in the group's commercial, operational and financial performance in 2014. The group's performance and prospects are also reflected in the directors' recommendation to increase the final dividend by 5%. There remains much to be done to realise the full potential of our strategy and we expect to make further progress in 2015.

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Group Chief Executive Officer



4. Actively manage our portfolio and performance (p30)

Reviewed 56 under performing or immaterial businesses in 2014

- Eight businesses sold in 2014 including US Government Solutions
 - raised gross proceeds of £177m in 2014 and gross proceeds £248m since 2013
- 20 discontinued; 22 under review and 14 to be retained with performance improvement plans
- Businesses sold had revenue of more than £700m and an average net margin of 2.8%



5. Embed disciplined financial and risk management (p32)

Soundly financed

- Investment grade credit rating and £998m of unutilised credit facilities

Global capex rationing – central pool of capital

- Investment hurdle rate 10% post tax IRR
- Rebalance investment towards organic growth

Improve sustainable free cash flow and working capital management

- Implementing a “cash matters” culture

Strong focus on financial stewardship

- Strengthened capability and capacity in audit, risk and financial management
- Strengthened contract review process

Investing in operational excellence – accelerated best practice (ABP)

Direct labour efficiency

- Uses subject matter experts working with local line managers to deploy the correct service at the right time, improving customer service and reducing costs
- Multi-year programme covering 39 businesses and 376,000 employees in the first phase

Telematics and route scheduling programmes for our fleet

- Telematics
 - reduces fuel and maintenance costs; improves driver safety
 - In 4,500 vehicles at the end of 2014
- Route scheduling
 - fewer vehicles and efficient crew requirements leading to improved customer service
 - 7,000 vehicles to be covered by end of 2015

New global procurement programme

- Baseline study identified addressable spend of £1.3bn (70% in eight categories)
 - material opportunities to reduce costs
- Negotiating with a number of key suppliers with the first global procurement deals signed
- Leveraging our scale