NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 General information

G4S plc is a company incorporated in the United Kingdom under the Companies Act 1985. The consolidated financial statements incorporate the financial statements of the company and entities (its subsidiaries) controlled by the company (collectively comprising the group) and the group's interest in associates and jointly controlled entities made up to 31 December each year. The nature of the group's operations and its principal activities are set out in note 6 and in the Operating and Financial Review on pages 8 to 25. The group operates throughout the world and in a wide range of functional currencies, the most significant being the euro, the US dollar and sterling. The group's financial statements are presented in sterling, as the group's primary listing is in the UK. Foreign operations are included in accordance with the policies set out in note 3. The address of the registered office is given on page 117.

2 Statement of compliance

The consolidated financial statements of the group have been prepared in accordance with International Financial Reporting Standards adopted for use in the European Union (adopted IFRSs). The company has elected to prepare its parent company financial statements in accordance with UK Generally Accepted Accounting Practice (UK GAAP). These are presented on pages 101 to 110.

3 Significant accounting policies

(a) Basis of preparation

The consolidated financial statements of the group have been prepared under the going concern basis and using the historical cost basis, except for the revaluation of certain non-current assets and financial instruments. The principal accounting policies adopted are set out below. Judgements made by the directors in the application of these accounting polices which have a significant effect on the financial statements, and estimates with a significant risk of material adjustment, are discussed in note 4.

The comparative income statement for the year ended 31 December 2007 has been re-presented for operations qualifying as discontinued during the current year. Revenue from continuing operations has been reduced by £6.9m and PBT has been reduced by £0.7m compared to the figures published previously. Further details of discontinued operations are presented within note 7. In addition, the comparative balance sheet as at 31 December 2007 has been restated to reflect the completion during 2008 of the initial accounting in respect of acquisitions made during 2007. Adjustments made to the provisional calculation of the fair values of assets and liabilities acquired amount to £1.1m, with an equivalent decrease in the reported value of goodwill. The impact of these adjustments on the net assets acquired is presented in note 17.

(b) Basis of consolidation

Subsidiaries

Subsidiaries are entities controlled by the group. Control is achieved where the group has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities, determined either by the group's ownership percentage, or by the terms of any shareholder agreement.

On acquisition, the assets and liabilities and contingent liabilities of the acquired business are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. Any deficiency in the cost of acquisition below the fair values of the identifiable net assets acquired (i.e. discount on acquisition) is credited to the income statement in the year of acquisition. The cost of acquisition includes the present value of consideration payable in respect of put options held by minority shareholders. The interest of minority shareholders is stated at the minority's proportion of the fair values of the assets and liabilities recognised. Subsequently, any losses applicable to the minority interest in excess of the carrying value of the minority interest are allocated against the interest of the parent, except to the extent that the minority has both a binding obligation and the ability to make an additional investment to cover the losses.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of control or up to the effective date of disposal, as appropriate.

Joint ventures

A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control, in that strategic financial and operating decisions require the unanimous consent of the parties.

The group's interest in joint ventures is accounted for using the proportionate consolidation method, whereby the group's share of the results and assets and liabilities of a jointly-controlled entity is combined line by line with similar items in the group's consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

3 Significant accounting policies (continued)

(b) Basis of consolidation (continued)

Associates

An associate is an entity over which the group is in a position to exercise significant influence, but not control or joint control, through participation in the financial and operating policy decisions of the investee.

The results and assets and liabilities of associates are incorporated in the group's consolidated financial statements using the equity method of accounting. Investments in associates are carried in the balance sheet at cost as adjusted by post-acquisition changes in the group's share of the net assets of the associates, less any impairment in the value of individual investments. Losses of the associates in excess of the group's interest in those associates are not recognised.

Transactions eliminated on consolidation

All intra-group transactions, balances, income and expenses are eliminated on consolidation. Where a group company transacts with a joint venture or associate of the group, profits and losses are eliminated to the extent of the group's interest in the relevant joint venture or associate.

(c) Foreign currencies

The financial statements of each of the group's businesses are prepared in the functional currency applicable to that business. Transactions in currencies other than the functional currency are translated at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities which are denominated in other currencies are retranslated at the rates prevailing on that date. Non-monetary assets and liabilities carried at fair value which are denominated in other currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items measured at historical cost denominated in other currencies are not retranslated. Gains and losses arising on retranslation are included in the income statement for the period.

On consolidation, the assets and liabilities of the group's overseas operations, including goodwill and fair value adjustments arising on their acquisition, are translated into sterling at exchange rates prevailing on the balance sheet date. Income and expenses are translated into sterling at the average exchange rates for the period (unless this is not a reasonable approximation of the cumulative effect of the rate prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions). Exchange differences arising are recognised in equity, together with exchange differences arising on monetary items that are in substance a part of the group's net investment in foreign operations and on borrowings and other currency instruments designated as hedges of such investments where and to the extent that the hedges are deemed to be effective. On disposal translation differences are recognised in the income statement in the period in which the operation is disposed of.

In order to hedge its translation exposure to certain foreign currencies in which more than 1% of the group's consolidated net operating assets are denominated, the group utilises derivative financial instruments (see note 3(d) for details of the group's accounting policies in respect of such instruments).

(d) Derivative financial instruments and hedge accounting

In accordance with its treasury policy, the group only holds or issues derivative financial instruments to manage the group's exposure to financial risk, not for trading purposes. Such financial risk includes the interest risk on the group's variable-rate borrowings, the fair value risk on the group's fixed-rate borrowings, and foreign exchange risk on transactions, on the translation of the group's results and on the translation of the group's net assets measured in foreign currencies, to the extent that these are not matched by foreign currency borrowings. The group manages these risks through a range of derivative financial instruments, including interest rate swaps, fixed rate agreements, forward foreign exchange contracts and currency swaps.

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

Fair value hedge

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

Cash flow hedge

The change in the fair value of the portion of the hedging instrument that is determined to be an effective hedge is recognised in equity and subsequently recycled to the income statement when the hedged cash flow impacts the income statement. The ineffective portion of the fair value of the hedging instrument is recognised immediately in the income statement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

3 Significant accounting policies (continued)

(d) Derivative financial instruments and hedge accounting (continued)

Net investment hedge

The change in the fair value of the portion of the hedging instrument that is determined to be an effective hedge is recognised in equity and subsequently recycled to the income statement when the hedged net investment impacts the income statement. The ineffective portion of the fair value of the hedging instrument is recognised immediately in the income statement.

(e) Intangible assets

Goodwill

All business combinations are accounted for by the application of the purchase method. Goodwill arising on consolidation represents the excess of the cost of acquisition over the group's interest in the fair value of the identifiable assets and liabilities and contingent liabilities of a subsidiary, associate or jointly-controlled entity at the date of acquisition. Goodwill arising on the acquisition of an additional interest from a minority in a subsidiary represents the excess of the cost of the additional investment over the carrying amount of the net assets acquired at the date of exchange. Goodwill is stated at cost, less any accumulated impairment losses, and is tested annually for impairment or more frequently if there are indications that amounts may be impaired. In respect of associates, the carrying amount of goodwill is included within the net investment in associates. On disposal of a subsidiary, associate or jointly controlled entity, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Goodwill arising on acquisitions before transition to IFRS on 1 January 2004 has been retained at the previous UK GAAP amounts, subject to being tested for impairment at that date. Goodwill written off to reserves under UK GAAP prior to 1998 has not been reinstated and is not included in determining any subsequent profit or loss on disposal.

Acquisition-related intangible assets

Intangible assets on acquisitions that are either separable or arising from contractual rights are recognised at fair value at the date of acquisition. Such acquisition-related intangible assets include trademarks, technology, customer contracts and customer relationships. The fair value of acquisition-related intangible assets is determined by reference to market prices of similar assets, where such information is available, or by the use of appropriate valuation techniques, including the royalty relief method and the excess earnings method.

Acquisition-related intangible assets are amortised by equal annual instalments over their expected economic life. The directors review acquisition-related intangible assets on an ongoing basis and, where appropriate, provide for any impairment in value.

The estimated useful lives are as follows:

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

Other intangible assets – development expenditure

Development expenditure represents expenditure incurred in establishing new services and products of the group. Such expenditure is recognised as an intangible asset only if the following can be demonstrated: the expenditure creates an identifiable asset, its cost can be measured reliably, it is probable that it will generate future economic benefits, it is technically and commercially feasible and the group has sufficient resources to complete development. In all other instances, the cost of such expenditure is taken directly to the income statement.

Capitalised development expenditure is amortised over the period during which the expenditure is expected to be revenue-producing, up to a maximum of ten years. The directors review the capitalised development expenditure on an ongoing basis and, where appropriate, provide for any impairment in value.

Research expenditure is written off in the year in which it is incurred.

Other intangible assets – software

Computer software is capitalised as an intangible asset if such expenditure (both internally generated and externally purchased) creates an identifiable asset, if its cost can be measured reliably and if it is probable that it will generate future economic benefits. Capitalised computer software is stated at cost, net of amortisation and any provision for impairment. Amortisation is charged on software so as to write off the cost of the assets to their estimated residual values by equal annual instalments over their expected useful economic lives up to a maximum of five years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

3 Significant accounting policies (continued)

(f) Property, plant and equipment

Property, plant and equipment is stated at cost, net of accumulated depreciation and any provision for impairment. Depreciation is provided on all property, plant and equipment other than freehold land. Depreciation is calculated so as to write off the cost of the assets to their estimated residual values by equal annual instalments over their expected useful economic lives as follows:

Freehold and long leasehold buildings	up to 2%
Short leasehold buildings (under 50 years)	over the life of the lease
Equipment and motor vehicles	10% – 33.3%

Assets held under finance leases are depreciated over their expected useful economic lives on the same basis as owned assets or, where shorter, over the term of the relevant lease.

Where significant, the residual values and the useful economic lives of property, plant and equipment are re-assessed annually. The directors review the carrying value of property, plant and equipment on an ongoing basis and, where appropriate, provide for any impairment in value.

(g) Financial instruments

Financial assets and financial liabilities are recognised when the group becomes a party to the contractual provisions of the instruments.

Trade receivables

Trade receivables do not carry interest and are stated initially at their fair value. The carrying amount of trade receivables is reduced through the use of an allowance account. The group provides for bad debts based upon an analysis of those that are past due in accordance with local conditions and past default experience.

PFI assets

Under the terms of a Private Finance Initiative (PFI) or similar project, where the risks and rewards of ownership of an asset remain largely with the purchaser of the associated services, the group's interest in the asset is classified as a financial asset and included at its discounted value within trade and other receivables.

Current asset investments

Current asset investments comprise investments in securities, which are classified as held-for-trading. They are initially recognised at cost, including transaction costs, and subsequently measured at fair value. Gains and losses arising from changes in fair value are recognised in the income statement.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the group's cash management are included as a component of cash and cash equivalents for the purpose of the cash flow statement.

Interest-bearing borrowings

Interest-bearing bank overdrafts, loans and loan notes are recognised at the value of proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are recognised in the income statement on an accrual basis using the effective interest method.

Trade payables

Trade payables are not interest-bearing and are stated initially at fair value.

Equity instruments

Equity instruments issued by the group are recorded at the value of proceeds received, net of direct issue costs.

(h) Inventories

Inventories are valued at the lower of cost and net realisable value. Cost represents expenditure incurred in the ordinary course of business in bringing inventories to their present condition and location and includes appropriate overheads. Cost is calculated using either the weighted average or the first-in-first-out method. Net realisable value is based on estimated selling price, less further costs expected to be incurred to completion and disposal. Provision is made for obsolete, slow-moving or defective items where appropriate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

3 Significant accounting policies (continued)

(i) Impairment

The carrying value of the group's assets, apart from inventories and deferred tax assets, is reviewed on an ongoing basis for any indication of impairment and, if any such indication exists, the assets' recoverable amount is estimated. An impairment loss is recognised in the income statement whenever the carrying value of an asset or its cash-generating unit exceeds its recoverable amount.

The recoverable amount of an asset is the greater of its net selling price and its value in use, where value in use is assessed as the estimated pre-tax future cash flows deriving from the asset discounted to their present value using a pre-tax discount rate which reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash flows, the recoverable amount is determined with respect to the cash-generating unit to which the asset attaches.

The recoverable amount of goodwill is tested annually through assessing the carrying values of the cash generating units to which the goodwill attaches. An impairment loss recognised in respect of a cash-generating unit is allocated first so as to reduce the carrying value of any goodwill allocated to the cash-generating unit, and then to reduce the carrying value of the other assets in the unit on a pro-rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of any other asset, an impairment loss is reversed if there has been a change in the estimates used to determine its recoverable amount. The amount of the reversal is limited such that the asset's carrying amount does not exceed that which would have been determined (after depreciation and amortisation) if no impairment loss had been recognised.

(j) Repurchase of share capital

When share capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs net of any tax effects, is recognised as a deduction from equity. Where repurchased shares are held by an employee benefit trust, they are classified as treasury shares and presented as a deduction from equity.

(k) Employee benefits

Retirement benefit costs

Payments to defined contribution schemes are charged as an expense as they fall due. Payments made to state-managed retirement benefit schemes are dealt with as payments to defined contribution schemes where the group's obligations under the schemes are equivalent to those arising in a defined contribution retirement benefits scheme.

For defined benefit schemes, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at each balance sheet date. The discount rate used is the yield at the balance sheet date on AA credit rated corporate bonds that have maturity dates approximating to the terms of the group's obligations. The expected finance income on assets and the finance cost on liabilities are recognised in the income statement as components of finance income and finance cost respectively. Actuarial gains and losses are recognised in full in the period in which they occur and presented outside the income statement in the statement of recognised income and expense.

Past service cost is recognised immediately to the extent that the benefits are already vested. Otherwise it is amortised on a straight-line basis over the average period until the benefits vest.

The retirement benefit obligation recognised in the balance sheet represents the present value of the defined benefit obligation as adjusted for unrecognised past service cost, reduced by the fair value of scheme assets. Any asset resulting from this calculation is limited to unrecognised past service cost plus the present value of available refunds and reductions in future contributions to the scheme.

Long-term service benefits

The group's net obligation in respect of long-term service benefits other than retirement benefits represents the present value of the future benefit that employees have earned at the balance sheet date, less the fair value of scheme assets out of which the obligations are to be settled directly.

Share-based payments

The group issues equity-settled share-based payments to certain employees. The fair value of share-based payments is determined at the date of grant and expensed, with a corresponding increase in equity, on a straight-line basis over the vesting period, based on the group's estimate of the shares that will eventually vest. The amount expensed is adjusted over the vesting period for changes in the estimate of the number of shares that will eventually vest, save for changes resulting from any market-related performance conditions.

The fair value of share-based payments granted in the form of options is measured by the use of the Black-Scholes valuation technique, adjusted for future dividend receipts and for any market-related performance conditions.

3 Significant accounting policies (continued)

(l) Provisions

Provisions are recognised when a present legal or constructive obligation exists for a future liability in respect of a past event and where the amount of the obligation can be estimated reliably. Items within provisions include loss-making contracts, claims against the group's captive insurance businesses, costs of meeting lease requirements on unoccupied properties and restructuring provisions for the costs of a business reorganisation where the plans are sufficiently detailed and where the appropriate communication to those affected has been undertaken at the balance sheet date.

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

(m) Revenue recognition

Revenue

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

Construction contracts

Where significant, security system installations with a contract duration in excess of one month are accounted for as construction contracts. Where the outcome of a construction contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the balance sheet date. This is normally measured by the proportion that contract costs incurred for work to date bear to the estimated total contract costs, except where this would not be representative of the stage of completion. Variations in contract work, claims and incentive payments are included to the extent that it is likely that they will be agreed with the customer.

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

Construction contracts are recognised on the balance sheet at cost plus profit recognised to date, less provision for foreseeable losses and less progress billings. Balances are not offset.

Government grants

Government grants in respect of items expensed in the income statement are recognised as deductions from the associated expenditure. Government grants in respect of property, plant and equipment are treated as deferred income and released to the income statement over the lives of the related assets.

Interest

Interest income is accrued on a time basis by reference to the principal outstanding and at the effective interest rate applicable. This is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Dividends

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

(n) Borrowing costs

All borrowing costs are recognised in the income statement.

(o) Profit from operations

Profit from operations is stated after the share of results of associates but before finance income and finance costs. Exceptional items of particular significance, including restructuring costs, are included within profit from operations but are disclosed separately.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

3 Significant accounting policies (continued)

(p) Income taxes

Tax is recognised in the income statement except to the extent that it relates to items recognised in equity, in which case it is recognised in equity. The tax expense represents the sum of current tax and deferred tax.

Current tax is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill in a business combination or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

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

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

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised.

(q) Leasing

Leases are classified as finance leases when the terms of the lease transfer substantially all of the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are recognised at the inception of the lease at their fair value or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Amounts due from lessees under finance leases are recorded as receivables at the amount of the group's net investment in the leases. Lease payments made or received are apportioned between finance charges or income and the reduction of the lease liability or asset so as to produce a constant rate of interest on the outstanding balance of the liability or asset.

Rentals payable or receivable under operating leases are charged or credited to income on a straight-line basis over the lease term, as are incentives to enter into operating leases.

(r) Segment reporting

A segment is a significant component of the group which is subject to risks and rewards distinguishable from those of other segments either by the nature of the services provided (business segment) or by the economic environment in which it transacts business (geographical segment).

(s) Non-current assets held for sale and discontinued operations

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

3 Significant accounting policies (continued)

(t) Dividends

Dividends are recognised as distributions to equity holders in the period in which they are declared. Dividends proposed but not declared are not recognised but are disclosed in the notes to the consolidated financial statements.

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

At the balance sheet date, the following were in issue but not yet effective:

- IFRS 8 *Operating Segments* will apply to the group from 1 January 2009. This standard supersedes IAS 14 *Segment Reporting* and will require the group to adopt the "management approach" to reporting on the financial performance of its operating segments. This standard introduces some additional disclosures but will not result in a significant change to the group's existing segmental analysis, which is closely aligned to management reporting;

- IFRIC 14 *IAS19 – The limit on a defined benefit asset, minimum funding requirements and their interaction* will apply to the group from 1 January 2009. This interpretation provides guidance on assessing the limit under IAS 19 on the amount of any surplus that can be recognised as an asset. It also explains how the pension asset or liability may be affected by a statutory or contractual minimum funding requirement. This interpretation does not have any impact on the group's financial statements as any minimum funding requirements in excess of eventual actual liabilities are recoverable by the group in the form of either refunds or reduced future contributions paid to the schemes;

- IAS 1 (revised) *Presentation of financial statements* will apply to the group from 1 January 2009. This revised standard introduces the concept of "total comprehensive income", being all changes in equity other than those changes resulting from transactions with owners in their capacity as owners. Total comprehensive income can be presented either within a single statement or in two statements, the first of which is the income statement. The group will elect to continue to present an income statement, but the presentation of the statement of other comprehensive income will differ from the current presentation of the statement of recognised income and expense; and

- IFRS 2 (amendment) *Share based payment* will apply to the group from 1 January 2009. This amendment clarifies the definition of vesting conditions in respect of share-based payments, but will have no impact on the group's presentation of its current share-based payment schemes.

At 31 December 2008, a number of statements, revisions, amendments and interpretations had been published by the IASB but not yet endorsed by the EU. The directors anticipate that the only one of these which, if endorsed, would have a material impact on the financial statements of the group is IFRS 3 (revised) *"Business combinations"*.

4 Accounting estimates, judgements and assumptions

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

4 Accounting estimates, judgements and assumptions (continued)

Valuation of acquired businesses

The initial accounting for an acquisition involves identifying and determining the fair values to be assigned to identifiable assets, liabilities and contingent liabilities as well as the acquisition cost. In some instances, this initial accounting can only be determined provisionally by the end of the period in which the acquisition is effected because the fair values and/or the cost is not known with full certainty. In such an event, the initial accounting can be completed using provisional values with any adjustments to those provisional values being completed within 12 months of the acquisition date. Additionally, in determining the fair value of acquisition-related intangible assets, in the absence of market prices for similar assets, valuation techniques are applied. These techniques use a variety of estimates including projected future results and expected future cash flows, discounted using the weighted average cost of capital. Furthermore, management make an assessment of the useful economic life of acquired intangible assets upon recognition. Full details of the fair values of assets and liabilities of acquired businesses are presented in note 17.

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

The group tests tangible and intangible assets, including goodwill, for impairment on an annual basis or more frequently if there are indications that amounts may be impaired. The impairment analysis for such assets is based principally upon discounted estimated future cash flows from the use and eventual disposal of the assets. Such an analysis includes an estimation of the future anticipated results and cash flows, annual growth rates and the appropriate discount rates. The full methodology and results of the group's impairment testing is presented in note 19.

Valuation of retirement benefit obligations

The valuation of defined retirement benefit schemes is arrived at using the advice of qualified independent actuaries who use the projected unit credit method for determining the group's obligations. This methodology requires the use of a variety of assumptions and estimates, including the appropriate discount rate, the expected return on scheme assets, mortality assumptions, future service and earnings increases of employees and inflation. Full details of the group's retirement benefit obligations, including an analysis of the sensitivity of the calculations to the key assumptions are presented in note 34.

5 Revenue

An analysis of the group's revenue is as follows:

	Notes	2008 £m	2007 £m
Continuing operations			
Sale of goods		**190.2**	105.3
Rendering of services		**5,633.3**	4,281.8
Revenue from construction contracts		**119.4**	96.4
Revenue from continuing operations as presented in the consolidated income statement	*6*	**5,942.9**	4,483.5
Discontinued operations			
Sale of goods		**–**	9.3
Rendering of services		**208.9**	266.1
Revenue from construction contracts		**8.0**	16.4
Revenue from discontinued operations	*6, 7*	**216.9**	291.8
Other operating income			
Interest income		**18.4**	15.1
Net gain in fair value of loan note derivative financial instruments and hedged items		**–**	0.2
Expected return on defined retirement benefit scheme assets		**86.5**	77.3
Total other operating income		**104.9**	92.6

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

6 Business and geographical segments

The group operates in two core product areas: secure solutions and cash solutions. The group operates on a worldwide basis and derives a substantial proportion of its revenue and PBIT from each of the following geographical regions: Europe (comprising the United Kingdom and Ireland, and Continental Europe), North America, and New Markets (comprising the Middle East and Gulf States, Latin America and the Caribbean, Africa, and Asia Pacific).

The current management structure of the group is a combination of product area and geography, within which the larger businesses generally report by product area. The group's primary segmentation is therefore by business segment and its secondary segmentation is by geography.

Segment information is presented below:

Segment revenue

Revenue by business segment	Continuing operations 2008 £m	Discontinued operations 2008 £m	Total 2008 £m	Continuing operations 2007 £m	Discontinued operations 2007 £m	Total 2007 £m
Secure Solutions						
UK and Ireland	929.9	–	929.9	593.0	–	593.0
Continental Europe	1,389.6	204.2	1,593.8	1,078.3	258.6	1,336.9
Europe	2,319.5	204.2	2,523.7	1,671.3	258.6	1,929.9
North America	1,222.3	–	1,222.3	1,043.8	–	1,043.8
Middle East and Gulf States	315.6	–	315.6	177.9	–	177.9
Latin America and the Caribbean	223.9	7.0	230.9	158.0	1.7	159.7
Africa	248.6	–	248.6	183.9	–	183.9
Asia Pacific	412.0	0.1	412.1	268.9	3.3	272.2
New Markets	1,200.1	7.1	1,207.2	788.7	5.0	793.7
Total Secure Solutions	4,741.9	211.3	4,953.2	3,503.8	263.6	3,767.4
Cash Solutions						
Europe	859.1	0.2	859.3	706.3	17.2	723.5
North America	87.0	–	87.0	78.0	–	78.0
New Markets	254.9	5.4	260.3	195.4	11.0	206.4
Total Cash Solutions	1,201.0	5.6	1,206.6	979.7	28.2	1,007.9
Total revenue	5,942.9	216.9	6,159.8	4,483.5	291.8	4,775.3

Revenue by geographical market	Total 2008 £m	Total 2007 £m
UK and Ireland	1,397.7	1,007.5
Continental Europe	1,985.3	1,645.9
Europe	3,383.0	2,653.4
North America	1,309.3	1,121.8
Middle East and Gulf States	353.9	202.5
Latin America and the Caribbean	272.6	203.3
Africa	343.6	257.2
Asia Pacific	497.4	337.1
New Markets	1,467.5	1,000.1
Total revenue	6,159.8	4,775.3

Revenue from internal and external customers by business segment	Total gross segment revenue 2008 £m	Inter-segment revenue 2008 £m	External revenue 2008 £m	Total gross segment revenue 2007 £m	Inter-segment revenue 2007 £m	External revenue 2007 £m
Secure Solutions	4,960.3	(7.1)	4,953.2	3,773.7	(6.3)	3,767.4
Cash Solutions	1,207.1	(0.5)	1,206.6	1,008.5	(0.6)	1,007.9
Total revenue	6,167.4	(7.6)	6,159.8	4,782.2	(6.9)	4,775.3

Inter-segment sales are charged at prevailing market prices.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

6 Business and geographical segments (continued)

Segment result

PBITA by business segment	Continuing operations 2008 £m	Discontinued operations 2008 £m	Total 2008 £m	Continuing operations 2007 £m	Discontinued operations 2007 £m	Total 2007 £m
Secure Solutions						
UK and Ireland	76.8	(0.5)	76.3	48.4	–	48.4
Continental Europe	74.9	(8.6)	66.3	61.5	(4.3)	57.2
Europe	151.7	(9.1)	142.6	109.9	(4.3)	105.6
North America	70.6	(1.6)	69.0	61.5	–	61.5
Middle East and Gulf States	26.4	–	26.4	14.2	–	14.2
Latin America and the Caribbean	14.8	(0.8)	14.0	10.3	(0.5)	9.8
Africa	22.4	–	22.4	16.0	–	16.0
Asia Pacific	32.6	(0.2)	32.4	22.9	(1.4)	21.5
New Markets	96.2	(1.0)	95.2	63.4	(1.9)	61.5
Total Secure Solutions	318.5	(11.7)	306.8	234.8	(6.2)	228.6
Cash Solutions						
Europe	94.0	(0.1)	93.9	77.4	(2.2)	75.2
North America	0.8	–	0.8	0.6	–	0.6
New Markets	38.6	(0.1)	38.5	29.0	0.1	29.1
Total Cash Solutions	133.4	(0.2)	133.2	107.0	(2.1)	104.9
Total PBITA before head office costs	451.9	(11.9)	440.0	341.8	(8.3)	333.5
Head office costs	(35.5)	–	(35.5)	(30.4)	–	(30.4)
Total PBITA	416.4	(11.9)	404.5	311.4	(8.3)	303.1
PBITA by geographical market						
Europe	245.7	(9.2)	236.5	187.3	(6.5)	180.8
North America	71.4	(1.6)	69.8	62.1	–	62.1
New Markets	134.8	(1.1)	133.7	92.4	(1.8)	90.6
Total PBITA before head office costs	451.9	(11.9)	440.0	341.8	(8.3)	333.5
Head office costs	(35.5)	–	(35.5)	(30.4)	–	(30.4)
Total PBITA	416.4	(11.9)	404.5	311.4	(8.3)	303.1

Result by business segment	Continuing operations 2008 £m	Discontinued operations 2008 £m	Total 2008 £m	Continuing operations 2007 £m	Discontinued operations 2007 £m	Total 2007 £m
Total PBITA	416.4	(11.9)	404.5	311.4	(8.3)	303.1
Amortisation of acquisition-related intangible assets	(67.8)	–	(67.8)	(41.6)	–	(41.6)
Total PBIT	348.6	(11.9)	336.7	269.8	(8.3)	261.5
Secure Solutions	272.9	(11.7)	261.2	215.4	(6.2)	209.2
Cash Solutions	111.2	(0.2)	111.0	84.8	(2.1)	82.7
Head office costs	(35.5)	–	(35.5)	(30.4)	–	(30.4)
Total PBIT	348.6	(11.9)	336.7	269.8	(8.3)	261.5

Continuing PBIT as stated above is equal to PBIT as disclosed in the income statement. Discontinued PBIT as stated above is analysed in note 7.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

6 Business and geographical segments (continued)

Segment assets and liabilities

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

Total assets	2008 £m	2007 £m
By business segment		
Secure Solutions	3,962.7	2,144.3
Cash Solutions	639.3	954.8
Head office	180.5	103.5
Inter-segment trading balances	(86.6)	(64.1)
Total segment operating assets	4,695.9	3,138.5
By geographical segment		
UK and Ireland	1,541.3	938.1
Continental Europe	1,162.7	923.9
Europe	2,704.0	1,862.0
North America	953.1	615.5
Middle East and Gulf States	171.7	105.1
Latin America and the Caribbean	165.8	104.7
Africa	247.2	190.3
Asia Pacific	320.9	213.2
New Markets	905.6	613.3
Head office	219.6	103.4
Inter-segment trading balances	(86.4)	(55.7)
Total segment operating assets	4,695.9	3,138.5
Non-operating assets	880.8	547.1
Total assets	5,576.7	3,685.6

Total liabilities	2008 £m	2007 £m
By business segment		
Secure Solutions	(1,025.3)	(730.2)
Cash Solutions	(356.9)	(233.6)
Head office	(109.3)	(119.2)
Inter-segment trading balances	86.6	64.1
Total segment operating liabilities	(1,404.9)	(1,018.9)
Non-operating liabilities	(2,701.1)	(1,546.7)
Total liabilities	(4,106.0)	(2,565.6)

Non-operating assets and liabilities comprise financial assets and liabilities, taxation assets and liabilities and retirement benefit obligations.

Included within operating and non-operating assets are £64.5m (2007: £123.2m) and £6.5m (2007: £7.6m) respectively relating to assets classified as held for sale. Included within operating and non-operating liabilities are £58.4m (2007: £66.3m) and £15.7m (2007: £12.0m) respectively relating to liabilities associated with assets classified as held for sale. Disposal groups are analysed in note 27.

Other information by geographical location

By business segment	Impairment losses recognised in income 2008 £m	Depreciation and amortisation 2008 £m	Capital additions 2008 £m	Impairment losses recognised in income 2007 £m	Depreciation and amortisation 2007 £m	Capital additions 2007 £m
Secure Solutions	29.4	113.0	723.3	–	72.5	204.8
Cash Solutions	–	70.9	109.6	–	68.1	194.1
Head office	–	–	2.5	–	0.6	2.9
Total	29.4	183.9	835.4	–	141.2	401.8

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

6 Business and geographical segments (continued)

By geographical segment	Capital additions 2008 £m	Capital additions 2007 £m
UK and Ireland	506.3	84.8
Continental Europe	97.2	124.7
Europe	603.5	209.5
North America	72.1	13.2
Middle East and Gulf States	69.4	29.4
Latin America and the Caribbean	22.3	13.6
Africa	31.3	108.1
Asia Pacific	34.3	25.1
New Markets	157.3	176.2
Head office	2.5	2.9
Total	835.4	401.8

7 Discontinued operations

Operations qualifying as discontinued in the current year comprise primarily the security services businesses in France, which include principally Group 4 Securicor SAS, disposed of on 28 February 2009; and the security services businesses in Germany, which include principally G4S Sicherheitsdienste GmbH and G4S Sicherheitssysteme GmbH, Berlin, disposed on 15 May 2008.

Additionally, operations qualifying as discontinued in the prior year comprise primarily: G4S Cash Services (France) SAS, disposed of on 2 July 2007; the secure solutions businesses in France, which include principally Group 4 Securicor SAS; and the security services businesses in Germany, which include principally G4S Sicherheitsdienste GmbH and G4S Sicherheitssysteme GmbH, Berlin.

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

	2008 £m	2007 £m
Revenue	216.9	291.8
Expenses	(228.8)	(300.1)
Operating loss before interest and taxation (PBIT)	(11.9)	(8.3)
Net finance costs	(1.4)	(3.3)
Attributable tax credit	–	0.1
Total operating loss for the year	(13.3)	(11.5)
Profit on disposal of discontinued operations (note 18)	12.0	9.1
Goodwill impairment	(29.4)	–
Adjustment in respect of disposals in the prior year	1.6	2.9
Net (loss)/profit attributable to discontinued operations	(29.1)	0.5

The 2008 goodwill impairment charge relates to the security services businesses in France, which includes principally Group 4 Securicor SAS, to write down net assets to their recoverable amount based on the post year end disposal.

The 2008 adjustment in respect of disposals in the prior year comprises £0.1m relating to the finalisation of the disposal of Cognisa Transportation, Inc. and £1.5m to write off of assets and liabilities relating to the disposal of G4S Cash Services (France) SAS.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

7 Discontinued operations (continued)

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

	2008 £m	2007 £m
Net cash flows from operating activities	(21.1)	12.5
Net cash flows from investing activities	1.1	(1.4)
Net cash flows from financing activities	3.0	2.7
	(17.0)	13.8

8 Profit from operations before interest and taxation (PBIT)

The income statement can be analysed as follows:

Continuing operations	2008 £m	2007 £m
Revenue	5,942.9	4,483.5
Cost of sales	(4,627.9)	(3,479.2)
Gross profit	1,315.0	1,004.3
Administration expenses	(969.8)	(737.5)
Share of profit from associates	3.4	3.0
PBIT	348.6	269.8

Included within administration expenses is £67.8m (2007: £41.6m) of amortisation of acquisition-related intangible assets.

Revenue and expenses relating to discontinued operations are disclosed in note 7.

9 Profit from operations

Profit from continuing and discontinued operations has been arrived at after charging/(crediting):

	2008 £m	2007 £m
Cost of sales		
Cost of inventories recognised as an expense	83.1	92.4
Write-down of inventories to net realisable value	0.2	0.6
Administration expenses		
Amortisation of acquisition-related intangible assets	67.8	41.6
Amortisation of other intangible assets	11.1	8.5
Goodwill impairment	29.4	–
Depreciation of property, plant and equipment	105.0	91.1
Loss/(profit) on disposal of property, plant and equipment and intangible assets other than acquisition-related	2.1	(14.4)
Impairment of trade receivables	4.5	5.4
Litigation settlements	0.5	0.7
Research and development expenditure	3.5	2.1
Operating lease rentals payable	124.3	96.7
Operating sub-lease rentals receivable	(6.2)	(3.0)
Cost of equity-settled transactions	5.0	4.1
Government grants received as a contribution towards wage costs	(1.5)	(2.2)
Net foreign translation adjustments	2.4	(0.2)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

10 Auditors' remuneration

	2008 £m	2007 £m
Fees payable to the company's auditor for the audit of the company's annual report and accounts	1.0	1.0
Fees payable to the company's auditor and its associates for other services:		
The audit of the company's subsidiaries pursuant to legislation	3.2	2.6
Other services pursuant to legislation	0.1	0.2
Taxation services	0.3	0.3
Corporate finance services	0.4	0.4
Fees payable to other auditors for the audit of the company's subsidiaries pursuant to legislation	0.3	0.5

The Corporate Governance Statement on pages 33 to 35 outlines the company's established policy for ensuring that audit independence is not compromised through the provision by the company's auditor of other services.

11 Staff costs and employees

The average monthly number of employees, in continuing and discontinued operations, including executive directors was:

	2008 Number	2007 Number
By business segment		
Secure Solutions	520,766	466,035
Cash Solutions	40,811	41,255
Not allocated, including shared administration and head office	299	190
Total average number of employees	561,876	507,480
By geographical segment		
Europe	129,224	115,951
North America	51,918	53,414
New Markets	380,619	337,925
Not allocated, including shared administration and head office	115	190
Total average number of employees	561,876	507,480

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

	2008 £m	2007 £m
Wages and salaries	3,536.9	2,772.2
Social security costs	467.2	410.2
Employee benefits	113.3	75.3
Total staff costs	4,117.4	3,257.7

Information on directors' remuneration, share options, long-term incentive plans, and pension contributions and entitlements is set out in the Directors' Remuneration Report on pages 36 to 43.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

12 Finance income

	2008 £m	2007 £m
Interest income on cash, cash equivalents and investments	17.8	12.4
Other interest income	0.6	2.7
Expected return on defined retirement benefit scheme assets	86.5	77.3
Gain arising from change in fair value of derivative financial instruments hedging loan notes	–	14.3
Loss arising from fair value adjustment to the hedged loan note items	–	(14.1)
Total finance income	104.9	92.6

13 Finance costs

	2008 £m	2007 £m
Interest on bank overdrafts and loans	63.5	53.0
Interest on loan notes	31.6	13.5
Interest on obligations under finance leases	3.9	3.3
Other interest charges	6.3	4.2
Gain arising from change in fair value of derivative financial instruments hedging loan notes	(78.0)	–
Loss arising from fair value adjustment to the hedged loan note items	79.2	–
Total group borrowing costs	106.5	74.0
Finance costs on defined retirement benefit obligations	82.8	72.3
Total finance costs	189.3	146.3

Included within interest on bank overdrafts and loans is a debit of £1.5m (2007: credit of £2.1m) relating to cash flow hedges that were transferred from equity during the year.

14 Taxation

	Continuing operations 2008 £m	Discontinued operations 2008 £m	Total 2008 £m	Continuing operations 2007 £m	Discontinued operations 2007 £m	Total 2007 £m
Current taxation expense/(credit)						
UK corporation tax	10.5	–	10.5	2.6	–	2.6
Overseas tax	72.9	(0.2)	72.7	64.3	(0.1)	64.2
Adjustments in respect of prior years:						
UK corporation tax	(3.8)	–	(3.8)	(7.1)	–	(7.1)
Overseas tax	(4.0)	–	(4.0)	–	–	–
Total current taxation expense/(credit)	75.6	(0.2)	75.4	59.8	(0.1)	59.7
Deferred taxation (credit)/expense (see note 36)						
Current year	(12.1)	0.2	(11.9)	(7.4)	–	(7.4)
Adjustments in respect of prior years	6.7	–	6.7	3.6	–	3.6
Total deferred taxation (credit)/expense	(5.4)	0.2	(5.2)	(3.8)	–	(3.8)
Total income tax expense/(credit) for the year	70.2	–	70.2	56.0	(0.1)	55.9

UK corporation tax is calculated at 28.5% (2007: 30.0%) of the estimated assessable profits for the period. Taxation is calculated at the corporation tax rates prevailing in the relevant jurisdictions.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

14 Taxation (continued)

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

	2008 £m	2007 £m
Profit before taxation		
Continuing operations	264.2	216.1
Discontinued operations	(29.1)	0.4
Total profit before taxation	235.1	216.5
Tax at UK corporation tax rate of 28.5% (2007: 30.0%)	67.0	65.0
Expenses that are not deductible in determining taxable profit	10.1	2.2
Tax losses not recognised in the current year	3.1	1.5
Different tax rates of subsidiaries operating in non-UK jurisdictions	(8.9)	(9.3)
Adjustments for previous years	(1.1)	(3.5)
Total income tax charge	70.2	55.9
Effective tax rate	29.9%	25.8%

In addition to the income tax expense charged to the income statement, a tax credit of £50.3m (2007: tax charge of £14.0m) has been recognised in equity.

15 Dividends

	Pence per share	DKK per share	2008 £m	2007 £m
Amounts recognised as distributions to equity holders of the parent in the year				
Final dividend for the year ended 31 December 2006	2.52	0.2766	–	32.0
Interim dividend for the six months ended 30 June 2007	2.11	0.2319	–	27.3
Final dividend for the year ended 31 December 2007	2.85	0.2786	36.4	–
Interim dividend for the six months ended 30 June 2008	2.75	0.2572	38.6	–
			75.0	59.3
Proposed final dividend for the year ended 31 December 2008	3.68	0.3052	51.8	

The proposed final dividend is subject to approval by shareholders at the Annual General Meeting. If so approved, it will be paid on 5 June 2009 to shareholders who are on the UK register on 1 May 2009 and on 8 June 2009 to shareholders who are on the Danish register on 1 May 2009 due to a Danish public holiday. The exchange rate used to translate it into Danish krone is that at 9 March 2009.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

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

	2008 £m	2007 £m
From continuing and discontinued operations		
Earnings		
Profit for the year attributable to equity holders of the parent	151.2	147.2
Effect of dilutive potential ordinary shares (net of tax)	0.2	0.2
Profit for the purposes of diluted earnings per share	151.4	147.4
Number of shares (m)		
Weighted average number of ordinary shares	1,357.7	1,275.2
Effect of dilutive potential ordinary shares	1.3	1.5
Weighted average number of ordinary shares for the purposes of diluted earnings/(loss) per share	1,359.0	1,276.7
Earnings per share from continuing and discontinued operations (pence)		
Basic	11.1p	11.5p
Diluted	11.1p	11.5p
From continuing operations		
Earnings		
Profit for the year attributable to equity holders of the parent	151.2	147.2
Adjustment to exclude loss/(profit) for the year from discontinued operations (net of tax) (note 7)	29.1	(0.5)
Profit from continuing operations	180.3	146.7
Effect of dilutive potential ordinary shares (net of tax)	0.2	0.2
Profit from continuing operations for the purpose of diluted earnings per share	180.5	146.9
Earnings per share from continuing operations (pence)		
Basic	13.3p	11.5p
Diluted	13.3p	11.5p
From discontinued operations		
Loss per share from discontinued operations (pence)		
Basic	(2.2)p	–
Diluted	(2.2)p	–
From adjusted earnings		
Earnings		
Profit from continuing operations	180.3	146.7
Adjustment to exclude net retirement benefit finance income (net of tax)	(2.7)	(3.6)
Adjustment to exclude amortisation of acquisition-related intangible assets (net of tax)	48.7	26.7
Adjusted profit for the year attributable to equity holders of the parent	226.3	169.8
Weighted average number of ordinary shares (m)	1,357.7	1,275.2
Adjusted earnings per share (pence)	16.7p	13.3p

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

17 Acquisitions

Current year acquisitions

The most significant acquisition in subsidiary undertakings in the period was the purchase of De Facto 1119 Limited, the holding company of the Global Solutions group ("GSL") an international leader in the provision of support services for governments, companies and public authorities, based in the UK, which was completed on 12 May 2008. Other principal acquisitions in subsidiary undertakings in the period include the purchases of ArmorGroup International plc, an international provider of defensive, protective security services, head-quartered in the UK; Touchcom, Inc., a security consultancy and design business in the US; RONCO Consulting Corporation, an international provider of humanitarian mine action and ordnance services, specialised security and training, head-quartered in the US; MJM Investigations, Inc., a provider of insurance fraud mitigation and claims services in the US; the Rock Steady group of companies, providing event security in the UK; Travel Logistics Limited, a provider of passport and visa services in the UK; and Progard, the market leader in professional security services in the Republic of Serbia.

In addition, the group completed the acquisition of a further 35% of Aktsiaselts G4S Baltics, increasing to 100% its holding in this company, the holding company of the G4S subsidiaries in Estonia, Latvia and Lithuania, which provide both secure solutions and cash solutions. This transaction was largely accrued at 31 December 2007 through the recognition of a put option. The group also acquired the 49% of G4S Macau Limitada, a provider of both secure solutions and cash solutions that it did not already own.

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

	Europe £m	North America £m	New Markets £m	**Total group £m**
Provisional fair value of net (liabilities)/assets acquired of subsidiary undertakings	(81.0)	21.3	15.0	**(44.7)**
Acquisition of minority interests	0.3	–	5.7	**6.0**
Total provisional fair value of net (liabilities)/assets acquired	(80.7)	21.3	20.7	**(38.7)**
Goodwill	304.4	34.0	70.1	**408.5**
Total purchase consideration	223.7	55.3	90.8	**369.8**

The following table sets out the book values of the identifiable assets and liabilities acquired and their provisional fair value to the group in respect of all acquisitions made in the year:

	Book value £m	Fair value adjustments £m	**Fair value £m**
Intangible assets	5.8	198.1	**203.9**
Property, plant and equipment	45.6	(16.3)	**29.3**
Investment in associates	1.4	–	**1.4**
Inventories	5.5	(0.8)	**4.7**
Trade and other receivables	140.0	(4.2)	**135.8**
Deferred tax assets	8.9	6.4	**15.3**
Cash and cash equivalents	58.4	1.5	**59.9**
Trade and other payables	(112.4)	(22.2)	**(134.6)**
Current tax liabilities	(2.7)	(1.0)	**(3.7)**
Obligations under finance leases	(13.5)	–	**(13.5)**
Provisions	2.9	(30.8)	**(27.9)**
Borrowings	(256.7)	–	**(256.7)**
Deferred tax liabilities	(1.3)	(57.3)	**(58.6)**
Net (liabilities)/assets acquired of subsidiary undertakings	(118.1)	73.4	**(44.7)**
Acquisition of minority interests	5.3	0.7	**6.0**
Goodwill			**408.5**
Total purchase consideration			**369.8**
Satisfied by:			
Cash			**339.0**
Transaction costs			**19.2**
Contingent consideration			**11.6**
Total purchase consideration			**369.8**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

17 Acquisitions (continued)

Current year acquisitions (continued)

Adjustments made to identifiable assets and liabilities on acquisition are to reflect their fair value. These include the recognition of customer-related intangible assets amounting to £180.5m. The fair values of net assets acquired are provisional and represent estimates following a preliminary valuation exercise. These estimates may be adjusted to reflect any development in the issues to which they relate.

The goodwill arising on acquisitions can be ascribed to the existence of a skilled, active workforce and the opportunities to obtain new contracts and develop the business. Neither of these meet the criteria for recognition as intangible assets separable from goodwill. Goodwill arising on acquisition includes £19.1m arising on the acquisition of minority interests.

From their respective dates of acquisition, the acquired businesses' contribution to the results of the group for the period was as follows:

Contribution from acquired businesses	Revenue £m	PBITA £m	Profit £m
GSL	316.9	30.0	11.0
ArmorGroup	111.2	6.0	2.4
Touchcom	4.8	(0.2)	(0.4)
RONCO	34.5	5.0	2.6
MJM	14.8	0.9	0.3
Rock Steady	10.5	1.0	0.3
Travel Logistics	7.7	1.3	0.7
Progard	8.2	1.2	0.6
Others	10.0	1.4	0.5
Total contribution from acquired businesses	518.6	46.6	18.0

If all the acquisitions had occurred on 1 January 2008 the results of the group for the period would have been as follows:

Group's results if all acquisitions had occurred on 1 January 2008	Revenue £m	PBITA £m	Profit £m
Group results for the period	5,942.9	416.4	164.9
Impact of backdating acquisitions to 1 January 2008			
GSL	158.5	15.0	5.6
ArmorGroup	55.6	3.0	1.2
Touchcom	3.4	(0.1)	(0.3)
RONCO	17.3	2.5	1.3
MJM	4.9	0.3	0.1
Rock Steady	3.5	0.3	0.1
Travel Logistics	1.5	0.3	0.2
Progard	8.2	1.2	0.6
Others	7.8	0.7	0.3
Group result for the period if all acquisitions had occurred on 1 January 2008	6,203.6	439.6	174.0

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

17 Acquisitions (continued)

Acquisition of GSL

The separately identifiable assets and liabilities of GSL as at the acquisition date are presented in the table below.

	Book value £m	Fair value adjustments £m	**Fair value £m**
Intangible assets	1.9	146.7	**148.6**
Investment in associates	1.4	–	**1.4**
Property, plant and equipment	18.8	(5.5)	**13.3**
Inventories	0.6	–	**0.6**
Trade and other receivables	75.7	(0.5)	**75.2**
Deferred tax assets	4.8	(0.3)	**4.5**
Cash and cash equivalents	54.7	–	**54.7**
Trade and other payables	(84.0)	(5.4)	**(89.4)**
Current tax liabilities	(1.2)	–	**(1.2)**
Obligations under finance leases	(12.6)	–	**(12.6)**
Provisions	3.2	3.9	**7.1**
Borrowings	(238.8)	–	**(238.8)**
Deferred tax liabilities	(1.9)	(41.5)	**(43.4)**
Net assets acquired of subsidiary undertakings	(177.4)	97.4	**(80.0)**
Goodwill			**256.1**
Total purchase consideration			**176.1**
Satisfied by:			
Cash			**167.7**
Transaction costs			**8.4**
Total purchase consideration			**176.1**

Prior year acquisitions

The group undertook a number of acquisitions in 2007, none of which were individually material. Principal acquisitions in subsidiary undertakings included the purchase of controlling interests in: Fidelity Cash Management Services (Pty) Ltd, in South Africa; al Majal Service Master LLC, a facilities management business in Saudi Arabia; and in RIG – PR Ltd, a specialist police recruitment agency in the United Kingdom. In addition, the group increased its interests in Israel and Mozambique, and recognised put options that increased the group's interest in the Baltic states.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

17 Acquisitions (continued)

Prior year acquisitions (continued)

At 31 December 2007, the fair value adjustments made against net assets acquired were provisional. The initial accounting in respect of acquisitions made during 2007 has since been finalised. The net assets acquired and goodwill arising in respect of all acquisitions made in the year are as follows:

	Book value £m	Fair value adjustments £m	**Fair value £m**
Acquisition-related intangible assets	–	41.5	**41.5**
Other intangible assets	1.0	(0.7)	**0.3**
Property, plant and equipment	26.3	(1.4)	**24.9**
Inventories	4.2	0.5	**4.7**
Trade and other receivables	50.6	(1.9)	**48.7**
Deferred tax assets	0.1	0.3	**0.4**
Cash and cash equivalents	11.6	0.8	**12.4**
Trade and other payables	(48.0)	(6.0)	**(54.0)**
Current tax liabilities	(1.6)	(1.5)	**(3.1)**
Provisions	(7.7)	(7.4)	**(15.1)**
Borrowings	(23.3)	(0.4)	**(23.7)**
Deferred tax liabilities	–	(10.6)	**(10.6)**
Minority interests	(10.7)	4.5	**(6.2)**
Net assets acquired of subsidiary undertakings	2.5	17.7	**20.2**
Acquisition of minority interests	17.8	6.1	**23.9**
Goodwill			**178.1**
Total purchase consideration			**222.2**
Satisfied by:			
Cash			**150.0**
Transaction costs			**5.6**
Contingent consideration			**66.6**
Total purchase consideration			**222.2**

Adjustments made to identifiable assets and liabilities on acquisition are to reflect their fair value. These include the recognition of customer-related intangible assets amounting to £41.5m. On completion of the fair value exercise during 2008, adjustments made to the provisional calculation amounted to £1.1m, with an equivalent decrease in the reported value of goodwill. The comparative balance sheet at 31 December 2007 has been restated accordingly.

The goodwill arising on acquisitions can be ascribed to the existence of a skilled, active workforce and the opportunities to obtain new contracts and develop the business. Neither of these meet the criteria for recognition as intangible assets separable from goodwill. Goodwill arising on acquisition includes £47.5m arising on the acquisition of minority interests.

In the year of acquisition, in aggregate, the acquired businesses contributed £171.2m to revenues, £10.0m to PBITA and £(0.3)m to profit for the part year they were under the group's ownership. If all acquisitions had occurred on 1 January 2007, group revenue would have been £4,572.2m, PBITA would have been £321.0m and profit for the year would have been £162.4m.

Post balance sheet acquisitions

A number of acquisitions were effected after the balance sheet date, but before the financial statements were authorised for issue, none of which were individually material. In aggregate, the acquisitions, primarily within Europe, Asia Pacific and Africa, were satisfied by total consideration of £26.5m.

It is considered impractical to disclose any further information in relation to acquisitions effected after the balance sheet date because the preliminary assessment of the fair value of assets and liabilities acquired is in progress.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

18 Disposal of subsidiaries

On 15 May 2008, the group disposed of the security services business in Germany, which principally comprises G4S Sicherheitsdienste GmbH and G4S Sicherheitssysteme GmbH.

On 31 July 2008, the group disposed of the security systems business in France, being G4S Telesurveillance SAS and G4S Technologie SAS.

On 28 February 2009, the group disposed of the manned security business in France, which includes principally Group 4 Securicor SAS.

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

The net assets of operations disposed of were as follows:

	2008 £m	2007 £m
Goodwill	**20.8**	–
Property, plant and equipment and intangible assets other than acquisition-related	**4.3**	12.9
Current assets	**13.0**	6.6
Liabilities	**(19.0)**	(8.3)
Net assets of operations disposed	**19.1**	11.2
Profit on disposal	**12.0**	9.1
Total consideration	**31.1**	20.3
Satisfied by:		
Cash	**31.1**	20.3

In the prior year, £12.4m was paid relating to the disposal of the German cash services business G4S Geld-und Wertdienste GmbH.

The impact of the disposals, combined with other operations qualifying as discontinued, on the group's results and cash flows in the current and prior year is disclosed in note 7.

19 Intangible assets

2008	Goodwill	Acquisition-related intangible assets			Other intangible assets		Total
	£m	Trademarks £m	Customer related £m	Technology £m	Development expenditure £m	Software £m	£m
Cost							
At 1 January 2008	1,357.0	16.2	322.2	10.7	7.0	60.5	1,773.6
Acquisition of businesses	408.5	16.3	180.5	5.2	–	1.9	612.4
Additions	–	–	2.0	–	3.9	19.2	25.1
Disposals	–	–	(0.1)	–	–	(1.8)	(1.9)
Translation adjustments	328.8	1.0	50.8	3.5	1.5	23.9	409.5
At 31 December 2008	2,094.3	33.5	555.4	19.4	12.4	103.7	2,818.7
Amortisation and accumulated impairment losses							
At 1 January 2008	(25.7)	(11.0)	(106.7)	(7.2)	(0.8)	(35.4)	(186.8)
Amortisation charge	–	(4.0)	(61.2)	(2.6)	(1.7)	(9.4)	(78.9)
Disposals	–	–	–	–	–	1.1	1.1
Translation adjustments	(8.2)	(1.4)	(18.9)	(3.1)	(0.4)	(8.5)	(40.5)
At 31 December 2008	(33.9)	(16.4)	(186.8)	(12.9)	(2.9)	(52.2)	(305.1)
Carrying amount							
At 1 January 2008	1,331.3	5.2	215.5	3.5	6.2	25.1	1,586.8
At 31 December 2008	**2,060.4**	**17.1**	**368.6**	**6.5**	**9.5**	**51.5**	**2,513.6**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

19 Intangible assets (continued)

2007	Goodwill	Acquisition-related intangible assets			Other intangible assets		Total
		Trademarks	Customer related	Technology	Development expenditure	Software	
	£m	£m	£m	£m	£m	£m	£m
Cost							
At 1 January 2007	1,218.0	16.4	274.8	10.9	4.8	47.1	1,572.0
Acquisition of businesses	178.1	–	41.5	–	0.2	0.1	219.9
Additions	–	–	–	–	2.3	15.1	17.4
Disposals	–	–	–	–	(0.1)	(0.3)	(0.4)
Disposal of businesses	–	–	–	–	–	(1.3)	(1.3)
Reclassified as held for sale	(85.1)	(0.7)	–	–	(0.3)	(3.2)	(89.3)
Translation adjustments	46.0	0.5	5.9	(0.2)	0.1	3.0	55.3
At 31 December 2007	1,357.0	16.2	322.2	10.7	7.0	60.5	1,773.6
Amortisation and accumulated impairment losses							
At 1 January 2007	(42.4)	(7.9)	(68.4)	(5.2)	(0.3)	(29.4)	(153.6)
Amortisation charge	–	(3.3)	(36.2)	(2.1)	(0.7)	(7.8)	(50.1)
Disposals	–	–	–	–	0.1	0.2	0.3
Disposal of businesses	–	–	–	–	–	1.0	1.0
Reclassified as held for sale	27.8	0.4	–	–	0.2	2.6	31.0
Translation adjustments	(11.1)	(0.2)	(2.1)	0.1	(0.1)	(2.0)	(15.4)
At 31 December 2007	(25.7)	(11.0)	(106.7)	(7.2)	(0.8)	(35.4)	(186.8)
Carrying amount							
At 1 January 2007	1,175.6	8.5	206.4	5.7	4.5	17.7	1,418.4
At 31 December 2007	1,331.3	5.2	215.5	3.5	6.2	25.1	1,586.8

Included within software is internally generated software with a gross carrying value of £6.7m (2007: £4.7m), and accumulated amortisation of £0.9m (2007: £2.2m), giving a net book value of £5.8m (2007: £2.5m). During the year, additions amounted to £3.9m (2007: £1.2m) and the amortisation charge associated to these assets was £0.9m (2007: £0.8m).

Customer-related intangibles comprise the contractual relationship with customers and the customer relationships which meet the criteria for identification as intangible assets in accordance with IFRS. Customer contracts and relationships recognised upon the acquisition of Securicor plc on 19 July 2004 are considered significant to the group. The carrying amount at 31 December 2008 was £138.6m (2007: £152.3m), and the amortisation period remaining in respect of these assets is five and a half years.

Goodwill acquired in a business combination is allocated to the cash generating units (CGUs) which are expected to benefit from that business combination. The majority of goodwill was generated by the merger of the security services businesses of Group 4 Falck and Securicor in 2004 which was accounted for as an acquisition of Securicor by Group 4 Falck.

The group tests tangible and intangible assets, including goodwill, for impairment on an annual basis or more frequently if there are indications that amounts may be impaired. The annual impairment test is performed prior to the year end when the budgeting process is finalised and reviewed post year end. The group's impairment test compares the carrying value of each CGU to its recoverable amount. CGUs are identified on a country level basis including significant business units, as per the group's detailed management accounts. Under IAS 36 *Impairment of Assets*, an impairment is deemed to have occurred where the recoverable amount of a CGU is less than its carrying value.

The recoverable amount of a CGU is determined by its value in use which is derived from discounted cash flow calculations. These calculations include forecast pre-tax cash flows for a period of five years. The five year cash flow forecasts are based on the budget for the following year (year one) and the business plans for years two and three, the results of which are reviewed by the board, and projections for years four and five, all of which reflect past experience as well as future expected market trends. Budgeted and forecast cash flows are based on management's assessment of current contract portfolio, contract wins, contract retention and price increases. Cash flows beyond the five year forecast period are projected into perpetuity at the lower of the planned growth rate in year three and the forecast underlying economic growth rate for the economies in which the CGU operates.

Where the planned growth rate in year three exceeds the forecast underlying economic growth rate, the excess is reduced progressively in the projections for years four and five. Growth rates across the group's CGUs range from 0% to 20%, and the into-perpetuity growth rates for the significant CGUs are disclosed in the table below. Future cash flows are discounted at a pre-tax, weighted average cost of capital which for the group is 11.4% (2007: 11.3%), and the discount rates for the significant CGUs are disclosed in the table below. Pre-tax cash flows discounted using pre-tax discount rates broadly approximate to post-tax cash flows discounted at post-tax rates. The group rate is adjusted where appropriate to reflect the different financial risks in each country in which the CGUs operate. Risk-adjusted discount rates applicable to group entities range from 7.7% in Singapore to 71.7% in Madagascar.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

19 Intangible assets (continued)

In applying the group's model, no impairment has been identified and recognised in any of the group's CGUs for the year ended 31 December 2008 or for the year ended 31 December 2007. Management believe that there is currently no reasonably possible change in the underlying factors used in the impairment model which would lead to a material impairment of goodwill.

The following CGUs have significant carrying amounts of goodwill:

	Discount rate 2008	Discount rate 2007	Growth rate 2008*	Growth rate 2007*	Goodwill 2008 £m	Goodwill 2007 £m
US secure solutions (manned security)	**10.1%**	11.0%	**5.0%**	3.0%	**388.9**	246.6
GSL	**11.4%**	–	**5.3%**	–	**256.1**	–
UK cash solutions	**11.4%**	11.3%	**5.3%**	4.4%	**244.5**	226.1
Netherlands secure solutions	**10.5%**	9.9%	**3.9%**	3.0%	**136.6**	103.8
UK secure solutions (manned security)	**11.4%**	11.3%	**5.3%**	4.4%	**122.8**	65.7
UK secure solutions (justice services)	**11.4%**	11.3%	**5.3%**	4.4%	**95.3**	105.8
Baltics secure solutions and cash solutions	**14.3%**	15.8%	**3.9%**	5.5%	**76.1**	55.8
Other (all allocated)					**740.1**	527.5
Total goodwill					**2,060.4**	1,331.3

* Growth rate is the long-term into-perpetuity growth rate

The key assumptions used in the discounted cash flow calculations relate to the discount rates and underlying economic growth rates for each CGU. With all other variables being equal, a 1% increase in the group discount rate from 11.4% to 12.4% with equivalent increases to the discount rates in all countries would result in a goodwill impairment to the group of £15m, however no impairment would be required to any of the significant CGUs. A significant increase of 3% in the group discount rate from 11.4% to 14.4%, and an equivalent increase in all countries, would result in a group impairment of £125m including impairments of £65m to GSL and £26m to Netherlands secure solutions.

A decrease in the underlying growth rate in all countries of 1% would result in a group impairment of £10m, with no impairment required for any of the significant CGUs. A more dramatic decrease of 3% in growth rate would result in a group impairment of £93m including impairments to GSL of £40m and to Netherlands secure solutions of £17m. These approximations indicate the sensitivity of the impairment test to changes in the underlying assumptions. However, it is highly unlikely that any variations in the assumptions would impact on all CGUs at the same time.

20 Property, plant and equipment

2008	Land and buildings £m	Equipment and vehicles £m	Total £m
Cost			
At 1 January 2008	158.5	630.5	789.0
Acquisition of businesses	7.4	21.9	29.3
Additions	36.4	132.2	168.6
Disposals	(2.3)	(65.4)	(67.7)
Translation adjustments	29.8	142.2	172.0
At 31 December 2008	229.8	861.4	1,091.2
Depreciation and accumulated impairment losses			
At 1 January 2008	(35.6)	(350.2)	(385.8)
Depreciation charge	(10.6)	(94.4)	(105.0)
Disposals	1.3	53.4	54.7
Translation adjustments	(14.3)	(112.2)	(126.5)
At 31 December 2008	(59.2)	(503.4)	(562.6)
Carrying amount			
At 1 January 2008	122.9	280.3	403.2
At 31 December 2008	**170.6**	**358.0**	**528.6**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

20 Property, plant and equipment (continued)

2007	Land and buildings £m	Equipment and vehicles £m	Total £m
Cost			
At 1 January 2007	137.8	540.4	678.2
Acquisition of businesses	4.0	20.9	24.9
Additions	34.5	105.1	139.6
Disposals	(12.4)	(35.9)	(48.3)
Disposal of businesses	(12.4)	(11.9)	(24.3)
Reclassified as held for sale	(0.6)	(21.6)	(22.2)
Translation adjustments	7.6	33.5	41.1
At 31 December 2007	158.5	630.5	789.0
Depreciation and accumulated impairment losses			
At 1 January 2007	(30.5)	(292.8)	(323.3)
Depreciation charge	(12.1)	(79.0)	(91.1)
Disposals	6.9	19.1	26.0
Disposal of businesses	3.5	8.2	11.7
Reclassified as held for sale	0.3	16.8	17.1
Translation adjustments	(3.7)	(22.5)	(26.2)
At 31 December 2007	(35.6)	(350.2)	(385.8)
Carrying amount			
At 1 January 2007	107.3	247.6	354.9
At 31 December 2007	122.9	280.3	403.2

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

	2008 £m	2007 £m
Net book value	**59.5**	50.8
Accumulated depreciation	**68.2**	47.9
Depreciation charge for the year	**16.6**	14.0

The rights over leased assets are effectively security for lease liabilities. These rights revert to the lessor in the event of default.

The carrying amount of equipment and vehicles includes the following in respect of assets leased by the group to third parties under operating leases:

	2008 £m	2007 £m
Net book value	**39.2**	32.5
Accumulated depreciation	**74.1**	49.0
Depreciation charge for the year	**9.4**	7.5

The net book value of land and buildings comprises:

	2008 £m	2007 £m
Freeholds	**57.2**	52.2
Long leaseholds (50 years and over)	**9.8**	17.0
Short leaseholds (under 50 years)	**103.6**	53.7

At 31 December 2008 the group had entered into contractual commitments for the acquisition of property, plant and equipment amounting to £3.3m (2007: £2.1m).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

21 Investment in joint ventures

At the year end the group owned 59% of the equity of Bridgend Custodial Services Ltd and 50% of the equity in STC (Milton Keynes) Ltd. In both cases, the group jointly shares operational and financial control over the operations and is therefore entitled to a proportionate share of the results of each, which are consolidated on the basis of the equity shares held. The group's correctional facilities in South Africa are under a similar arrangement other than that the group's holding is 20%.

The group's 100% interest in the equity of Wackenhut Services, Inc ("WSI"), previously classified as a joint venture, is now accounted for as a subsidiary as the group now exercises sufficient influence over WSI's operations for it to be so classified. WSI is governed through a proxy agreement under which the group is excluded from access to certain information relating to its business.

The results of each of the jointly controlled operations are prepared in accordance with group accounting policies. Amounts proportionately consolidated into the group's financial statements are as follows:

Results	2008 £m	2007 £m
Income	30.8	320.6
Expenses	(27.4)	(307.1)
Profit after tax	3.4	13.5

Balance sheet	2008 £m	2007 £m
Assets		
Non-current assets	4.0	54.5
Current assets	47.8	92.6
	51.8	147.1
Liabilities		
Current liabilities	(11.3)	(56.3)
Non-current liabilities	(18.1)	(52.5)
	(29.4)	(108.8)
Net assets	22.4	38.3

22 Investment in associates

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

	2008 £m	2007 £m
Total assets	11.6	14.2
Total liabilities	(4.2)	(4.0)
Net investment in associates	7.4	10.2
Revenue	76.3	75.8
Profit for the year	3.4	3.0

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

23 Inventories

	2008 £m	2007 £m
Raw materials	**23.4**	12.7
Work in progress	**11.5**	7.4
Finished goods including consumables	**50.6**	38.1
Total inventories	**85.5**	58.2

24 Investments

Investments comprise primarily listed securities of £70.2m (2007: £61.6m) held by the group's wholly-owned captive insurance subsidiaries stated at their fair values based on quoted market prices. Use of these investments is restricted to the settlement of claims against the group's captive insurance subsidiaries.

25 Trade and other receivables

	2008 £m	2007 £m
Within current assets		
Trade debtors	**1,220.2**	789.7
Allowance for doubtful debts	**(59.4)**	(36.4)
Amounts owed by associated undertakings	**4.4**	3.3
Other debtors	**88.3**	65.3
Prepayments and accrued income	**89.1**	51.6
Amounts due from construction contract customers (see note 26)	**10.6**	11.3
Derivative financial instruments at fair value (see note 32)	**9.6**	2.3
Total trade and other receivables included within current assets	**1,362.8**	887.1
Within non-current assets		
Derivative financial instruments at fair value (see note 32)	**143.6**	15.1
Other debtors	**11.1**	13.9
Amounts receivable under PFI contracts	**43.3**	40.4
Total trade and other receivables included within non-current assets	**198.0**	69.4

Credit risk on trade receivables

There is limited concentration of credit risk with respect to trade receivables, as the group's customers are both large in number and dispersed geographically in over 110 countries.

Credit terms vary across the group and can range from 0 to 90 days to reflect the different risks within each country in which the group operates. There is no group-wide rate of provision, and provision is made for debts that are past due according to local conditions and past default experience.

The movement in the allowance for doubtful debts is as follows:

	2008 £m	2007 £m
At 1 January	**(36.4)**	(25.7)
Amounts written off during the year	**3.8**	5.4
Increase in allowance	**(26.8)**	(16.1)
At 31 December	**(59.4)**	(36.4)

Included within trade receivables are trade debtors with a carrying amount of £384m (2007: £290m) which are past due at the reporting date for which no provision has been made as there has not been a significant change in credit quality and the group believes that the amounts are still recoverable. The group does not hold any collateral over these balances. The proportion of trade debtors at 31 December 2008 that were overdue for payment was 36% (2007: 39%). The group-wide average age of all trade debtors at year end was 68 days (2007: 58 days).

The directors believe the fair value of trade and other receivables, being the present value of future cash flows, approximates to their book value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

25 Trade and other receivables (continued)

Amounts receivable under PFI contracts

Amounts receivable under PFI contracts comprise the group's proportion of amounts receivable in respect of the Private Finance Initiative (PFI) projects undertaken by the group's joint ventures. During the year the group acquired a share of Bloemfontein Correctional Contracts (Pty) Ltd within the acquisition of GSL Global Ltd. The group's interests under PFI contracts consist primarily of the design, construction, financing and management of HM Prison and Young Offenders Institution Parc in Bridgend, South Wales, for the Home Office; and the Oakhill Secure Training Centre for young people in Milton Keynes for the Youth Justices Board. The Bridgend contract commenced in January 1996 and expires in December 2022. The Milton Keynes contract commenced in June 2003 and expires in June 2028. Both contracts can be terminated by the customer either in the event of a severe failure to comply with the contract or voluntarily with six months notice and the payment of appropriate compensation. The specified assets remain the property of the customers. The group's joint ventures have the right to provide services using the specified assets during the life of the contracts. There is currently no obligation to acquire or build further assets and any such obligation would be agreed with the customers as variations to the contracts. The pricing basis is inflation-indexed.

Amounts receivable under PFI contracts are pledged as security against borrowings of the group.

26 Construction contracts

Contracts in place at the balance sheet date are as follows:

	2008 £m	2007 £m
Amounts due from contract customers included in trade and other receivables	10.6	11.3
Amounts due to contract customers included in trade and other payables	(2.6)	(1.7)
Net balances relating to construction contracts	8.0	9.6
Contract costs incurred plus recognised profits less recognised losses to date	23.6	32.2
Less: Progress billings	(15.6)	(22.6)
Net balances relating to construction contracts	8.0	9.6

At 31 December 2008, advances received from customers for contract work amounted to £6.0m (2007: £2.8m). There were no retentions held by customers for contract work at either balance sheet date. All trade and other receivables arising from construction contracts are due for settlement within one year.

The directors believe the fair value of amounts due from and to contract customers, being the present value of future cash flows, approximates to their book value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

27 Disposal groups classified as held for sale

Disposal groups classified as held for sale as at 31 December 2008 comprise primarily the assets and liabilities associated with the manned security business in France, which includes principally Group 4 Securicor SAS.

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

	2008 £m	2007 £m
ASSETS		
Goodwill and acquisition-related intangible assets	15.1	57.6
Property, plant and equipment and intangible assets other than acquisition-related	4.2	5.8
Interest in associates	(0.8)	3.3
Trade and other receivables	45.2	56.6
Deferred tax asset	2.3	–
Cash and cash equivalents	5.0	7.6
Total assets classified as held for sale	71.0	130.9
LIABILITIES		
Bank overdrafts	(11.3)	(8.3)
Bank loans	(1.0)	(0.6)
Trade and other payables	(58.1)	(62.3)
Current tax liabilities	(2.6)	(2.0)
Retirement benefit obligations	(0.8)	(1.1)
Provisions	(0.3)	(4.0)
Total liabilities associated with assets classified as held for sale	(74.1)	(78.3)
Net (liabilities)/assets of disposal group	(3.1)	52.6

28 Cash, cash equivalents and bank overdrafts

A reconciliation of cash and cash equivalents reported within the consolidated cash flow statement to amounts reported within the balance sheet is presented below:

	2008 £m	2007 £m
Cash and cash equivalents	562.1	382.1
Bank overdrafts	(195.1)	(110.7)
Cash, cash equivalents and bank overdrafts included within disposal groups classified as held for sale	(6.3)	(0.7)
Total cash, cash equivalents and bank overdrafts	360.7	270.7

Cash and cash equivalents comprise principally short-term money market deposits, current account balances and cash held in ATM machines and at 31 December 2008 bore interest at a weighted average rate of 1.2% (2007: 3.3%). The credit risk on cash and cash equivalents is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

The group operates a multi-currency notional pooling cash management system which included in excess of 90 group companies at 31 December 2008. It is anticipated that the number of participants in the group will continue to grow. At 31 December 2008 £128.4m (2007: £82.9m) of the cash balances and the equivalent amount of the overdraft balances were effectively offset for interest purposes within the cash pool.

Cash and cash equivalents of £33.7m (2007: £28.1m) are held by the group's wholly-owned captive insurance subsidiaries. Their use is restricted to the settlement of claims against the group's captive insurance subsidiaries.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

29 Bank overdrafts, bank loans and loan notes

	2008 £m	2007 £m
Bank overdrafts	**195.1**	110.7
Bank loans	**965.7**	809.7
Loan notes	**901.9**	290.4
Total bank overdrafts, bank loans and loan notes	**2,062.7**	1,210.8
The borrowings are repayable as follows:		
On demand or within one year	**283.0**	191.3
In the second year	**10.0**	10.7
In the third to fifth years inclusive	**900.8**	702.1
After five years	**868.9**	306.7
Total bank overdrafts, bank loans and loan notes	**2,062.7**	1,210.8
Less: Amount due for settlement within 12 months (shown under current liabilities):		
– Bank overdrafts	**(195.1)**	(110.7)
– Bank loans	**(87.9)**	(80.6)
	(283.0)	(191.3)
Amount due for settlement after 12 months	**1,779.7**	1,019.5

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

	Sterling £m	Euros £m	US Dollars £m	Others £m	Total £m
Bank overdrafts	64.0	55.0	36.2	39.9	195.1
Bank loans	236.6	351.5	313.6	64.0	965.7
Loan notes	69.0	–	832.9	–	901.9
At 31 December 2008	**369.6**	**406.5**	**1,182.7**	**103.9**	**2,062.7**
Bank overdrafts	64.8	12.4	2.6	30.9	110.7
Bank loans	184.9	329.2	242.2	53.4	809.7
Loan notes	–	–	290.4	–	290.4
At 31 December 2007	249.7	341.6	535.2	84.3	1,210.8

Of the borrowings in currencies other than sterling, £1,272m (2007: £821m) is designated as net investment hedging instruments.

The weighted average interest rates on bank overdrafts, bank loans and loan notes at 31 December 2008 were as follows:

	2008 %	2007 %
Bank overdrafts	**2.2**	6.0
Bank loans	**4.6**	5.7
Loan notes	**6.4**	5.9

The group's committed bank borrowings comprise two multicurrency revolving credit facilities totalling £1,087m with a maturity date of June 2012 and a revolving credit facility of £45m maturing March 2010, and the group's uncommitted facilities amount to £578.0m (2007: £410.9m). At 31 December 2008, undrawn committed available facilities amounted to £350.4m (2007: £427.9m). Interest on all committed bank borrowing facilities is at prevailing Libor or Euribor rates, dependent upon the period of drawdown, plus an agreed margin, and repriced within one year or less.

Borrowing at floating rates exposes the group to cash flow interest rate risk. The management of this risk is discussed in note 33.

The group issued fixed rate loan notes in the US Private Placement market totalling US$550m (£382.5m) on 1 March 2007. The notes mature in March 2014 ($100m), March 2017 ($200m), March 2019 ($145m) and March 2022 ($105m).

The group issued further fixed rate loan notes in the US Private Placement market totalling US$513.5m (£357.1m) and £69m on 15 July 2008. The notes mature in July 2013 ($65m), July 2015 ($150m), July 2016 (£25m), July 2018 ($224m) and (£44m), and July 2020 ($74.5m).

The committed bank facilities and the loan notes are subject to one financial covenant (net debt to EBITDA ratio) and any non-compliance with the covenant may lead to an acceleration of maturity. The group complied with the financial covenant throughout the year to 31 December 2008 and the year to 31 December 2007. The group has not defaulted on, or breached the terms of, any material loans during the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

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

Bank overdrafts, bank loans and the loan notes issued in July 2008 are stated at amortised cost. The loan notes issued in March 2007 are stated at amortised cost recalculated at an effective interest rate current at the balance sheet date as they are part of a fair value hedge relationship. The directors believe the fair value of the group's bank overdrafts, bank loans and the loan notes issued in March 2007, calculated from market prices, approximates to their book value. US$265m (£184.3m) of the loan notes issued in July 2008 have a fair value market gain of £60.9m. The fair value of the remaining notes approximates to their book value.

30 Obligations under finance leases

	Minimum lease payments 2008 £m	Minimum lease payments 2007 £m	Present value of minimum lease payments 2008 £m	Present value of minimum lease payments 2007 £m
Amounts payable under finance leases:				
Within one year	**24.0**	18.7	**22.1**	16.2
In the second to fifth years inclusive	**55.9**	40.3	**49.3**	35.6
After five years	**16.3**	11.2	**14.3**	10.4
	96.2	70.2	**85.7**	62.2
Less: Future finance charges on finance leases	**(10.5)**	(8.0)		
Present value of lease obligations	**85.7**	62.2		
Less: Amount due for settlement within 12 months (shown under current liabilities)			**(22.1)**	(16.2)
Amount due for settlement after 12 months			**63.6**	46.0

It is the group's policy to lease certain of its fixtures and equipment under finance leases. The weighted average lease term is eight years. For the year ended 31 December 2008, the weighted average effective borrowing rate was 7.2% (2007: 5.4%). Interest rates are fixed at the contract date. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

The directors believe the fair value of the group's finance lease obligations, being the present value of future cash flows, approximates to their book value.

The group's obligations under finance leases are secured by the lessors' charges over the leased assets.

31 Trade and other payables

	2008 £m	2007 £m
Within current liabilities:		
Trade creditors	**197.0**	141.1
Amounts due to construction contract customers (see note 26)	**2.6**	1.7
Amounts owed to associated undertakings	**0.5**	0.7
Other taxation and social security costs	**182.6**	129.1
Other creditors	**519.5**	411.4
Accruals and deferred income	**294.7**	153.0
Derivative financial instruments at fair value (see note 32)	**19.2**	15.1
Total trade and other payables included within current liabilities	**1,216.1**	852.1
Within non-current liabilities:		
Derivative financial instruments at fair value (see note 32)	**39.1**	6.7
Other creditors	**24.4**	32.0
Total trade and other payables included within non-current liabilities	**63.5**	38.7

Trade and other payables comprise principally amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 40 days (2007: 46 days). The directors believe the fair value of trade and other payables, being the present value of future cash flows, approximates to their book value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

32 Derivative financial instruments

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

	Assets 2008 £m	Assets 2007 £m	Liabilities 2008 £m	Liabilities 2007 £m
Forward foreign exchange contracts	–	–	28.6	13.6
Cross currency swaps designated as cash flow hedges	60.9	–	–	–
Interest rate swaps designated as cash flow hedges	–	3.1	28.6	8.2
Interest rate swaps designated as fair value hedges	92.3	14.3	–	–
Commodity swaps	–	–	1.1	–
	153.2	17.4	58.3	21.8
Less: Non-current portion	(143.6)	(15.1)	(39.1)	(6.7)
Current portion	9.6	2.3	19.2	15.1

Derivative financial instruments are stated at fair value, based upon market prices where available or otherwise on discounted cash flow valuations. The source of the market prices is Bloomberg and in addition the third party relationship counterparty banks. The relevant currency yield curve is used to forecast the floating rate cash flows anticipated under the instrument which are discounted back to the balance sheet date. This value is compared to the original transaction value giving a fair value of the instrument at the balance sheet date.

The mark to market valuation of the derivatives has risen by £99.3m during the year.

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

	Assets 2008 £m	Assets 2007 £m	Liabilities 2008 £m	Liabilities 2007 £m
Within one year	–	0.1	3.2	0.1
In the second year	–	1.0	4.0	0.9
In the third year	–	0.6	7.8	1.1
In the fourth year	–	0.7	10.0	2.2
In the fifth year or greater	60.9	0.7	4.7	3.9
Total carrying value of cash flow hedges	60.9	3.1	29.7	8.2

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

	Assets 2008 £m	Assets 2007 £m	Liabilities 2008 £m	Liabilities 2007 £m
Within one year	2.3	1.7	11.1	1.6
In the second year	1.6	0.6	10.7	3.1
In the third year	1.6	0.4	4.9	1.7
In the fourth year	1.6	0.2	2.1	0.9
In the fifth year or greater	54.5	0.2	1.4	0.9
Total cash flows	61.6	3.1	30.2	8.2

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

33 Financial risk

Capital management

The group's capital management objective is to ensure that the businesses within it can continue and develop as going concerns whilst returns to stakeholders are maximised. The group believes that these returns are maximised when the group's Weighted Average Cost of Capital (WACC) is minimised and that this is the case when the group broadly has the characteristics of an investment grade BBB rated entity. The group therefore aims generally to maintain its net debt expressed as a multiple of cash generated from operations broadly within a range corresponding to those of BBB rated entities. On 9 March 2009 the group obtained a BBB credit rating from Standard & Poor's.

The group has a range of return on capital targets in respect of potential acquisitions, depending upon their size. Most proposals for "bolt-on" acquisitions must demonstrate a post-tax return of at least 12% on the capital investment within three years. Medium-sized acquisitions are required to return a minimum of 10% within this timeframe and relatively rare, large, strategic acquisitions a minimum equal to the group's WACC. The group's calculation of its post-tax WACC at 31 December 2008 was 8.2%.

The group monitors the financial performance of acquired businesses during the years following acquisition against the return targets. In addition, the group monitors the Return on Net Assets (RONA) of all its businesses on a monthly basis. The group regards RONA as a measure of operational performance and therefore calculates it as EBITA divided by net assets excluding goodwill, tax, dividends payable and retirement benefit obligations.

The group has no current intention to commence a share buy-back plan. The group operates a programme to purchase its own shares on the market on a regular basis so as to provide a pool of shares from which to satisfy share awards to employees as the awards vest.

The group is not subject to externally-imposed capital requirements and there were no changes in the group's approach to capital management during the year.

Liquidity risk

The group mitigates liquidity risk by ensuring there are sufficient undrawn committed facilities available to it. For more details of the group's bank overdrafts, bank loans and loan notes see note 29.

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

31 December 2007	38%
31 March 2008	29%
30 June 2008	24%
30 September 2008	16%
31 December 2008	19%

The availability of undrawn committed facilities during 2008 has been impacted by the deterioration in the value of sterling against the US dollar and euro, being currencies in which a significant proportion of drawn facilities is denominated. To reduce re-financing risk, group treasury obtains finance with a range of maturities and hence minimises the impact of a single material source of finance terminating on a single date.

The group's committed facilities have the following maturity dates:

March 2010	£45m
June 2012	£1,087m
July 2013	£45m
March 2014	£70m
July 2015	£104m
July 2016	£25m
March 2017	£139m
July 2018	£200m
March 2019	£101m
July 2020	£52m
March 2022	£73m

Re-financing risk is further reduced by group treasury opening negotiations to either replace or extend any major facility at least 18 months before its termination date.

The group will continue to seek to diversify its sources of finance and reduce further the proportion of bank supplied finance.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

33 Financial risk (continued)

Market risk

Currency risk and forward foreign exchange contracts

The group conducts business in many currencies. Transaction risk is limited since, wherever possible, each business operates and conducts its financing activities in local currency. However, the group presents its consolidated financial statements in sterling and it is in consequence subject to foreign exchange risk due to the translation of the results and net assets of its foreign subsidiaries. The group hedges a substantial proportion of its exposure to fluctuations in the translation into sterling of its overseas net assets by holding loans in foreign currencies.

Translation adjustments arising on the translation of foreign currency loans are recognised in equity to match translation adjustments on foreign currency equity investments as they qualify as net investment hedges.

The group enters into forward foreign exchange contracts so as to hedge a high proportion of the translation risk not hedged by way of loans. The group hedges those foreign currencies in which more than 1% of the group's consolidated net operating assets are denominated, provided there is a sufficiently liquid and large enough foreign exchange market in which to hedge the currency. Other currencies below the 1% threshold will also be considered where the cost of hedging is acceptable. Gains and losses on such forward foreign exchange contracts are recognised in equity. The notional value of outstanding forward foreign exchange contracts at 31 December 2008 was £304.8m (2007: £373.2m). All these contracts had matured by 28 February 2009. All the foreign exchange hedging instruments are designated and fully effective as net investment hedges and movements in their fair value have been deferred in equity.

At 31 December 2008, the group's US dollar, euro, Canadian dollar and Danish krone net assets were approximately 89%, 97%, 86% and 70% respectively hedged by foreign currency loans and foreign exchange forward contracts (2007: US dollar 98%, euro 90%, Canadian dollar 93% and Danish krone 83%).

The financial instruments used to hedge the foreign currency translation exposure had a fair value loss of £28.6m at 31 December 2008. Assuming a 1% depreciation of sterling against each of the hedged currencies, the fair value loss on these instruments would increase by a further £3.4m. This additional fair value loss would be posted to equity.

Following maturity of the forward foreign exchange contracts in February, the contracts were not renewed. The group is currently assessing its options with regards to hedging this portion of translation risk.

Cross currency swaps with a nominal value of £134.2m were arranged to hedge the foreign currency risk on US$265m of the second US Private Placement notes issued in July 2008, effectively fixing the sterling value of this portion of debt at an exchange rate of 1.9750.

Interest rate risk and interest rate swaps

Borrowing at floating rates as described in note 29 exposes the group to cash flow interest rate risk, which the group manages within policy limits approved by the directors. Interest rate swaps and, to a limited extent, forward rate agreements are utilised to fix the interest rate on a proportion of borrowings on a reducing scale over forward periods up to a maximum of five years. At 31 December 2008 the nominal value of such contracts was £246.9m (in respect of US dollar) (2007: £213.5m) and £271.7m (in respect of euro) (2007: £183.6m), their weighted average interest rate was 5.0% (US dollar) (2007: 4.9%) and 3.8% (euro) (2007: 3.8 %), and their weighted average period to maturity was two and a half years. All the interest rate hedging instruments are designated and fully effective as cash flow hedges and movements in their fair value have been deferred in equity.

The US Private Placement market is predominantly a fixed rate market, with investors looking for a fixed rate return over the life of the loan notes. At the time of the first issue in March 2007, the group was comfortable with the proportion of floating rate exposure not hedged by interest rate swaps and therefore rather than take on a higher proportion of fixed rate debt arranged fixed to floating swaps effectively converting the fixed coupon on the Private Placement to a floating rate. Following the swaps the resulting average coupon on the US Private Placement is Libor + 60bps. These swaps have been documented as fair value hedges of the US Private Placement fixed interest loan notes, with the movements in their fair value posted to profit and loss at the same time as the movement in the fair value of the hedged item.

The interest on the US Private Placement notes issued in July 2008 was kept at fixed rate.

The core group borrowings are held in US dollar, euro and sterling. Although the impact of rising interest rates is partly shielded by fixed rate loans and interest rate swaps which fix a portion of the exposure, some interest rate risk remains. Assuming a 1% increase in interest rates across the yield curve in each of these currencies and keeping the 31 December 2008 debt position constant throughout 2009, an additional interest charge of £8.1m would be expected in the 2009 financial year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

33 Financial risk (continued)

Market risk (continued)

Commodity risk and commodity swaps

The group's principal commodity risk relates to the fluctuating level of diesel prices, particularly affecting its cash solutions businesses. Commodity swaps and commodity options are frequently used to fix synthetically part of the exposure and reduce the associated cost volatility. Commodity swaps hedging 24 million litres of projected 2009 diesel consumption were in place at 31 December 2008.

Counterparty credit risk

The group's strategy for credit risk management is to set minimum credit ratings for counterparties and monitor these on a regular basis.

For treasury-related transactions, the policy limits the aggregate credit risk assigned to a counterparty. The utilisation of a credit limit is calculated by applying a weighting to the notional value of each transaction outstanding with each counterparty based on the type and duration of the transaction. The total mark to market value outstanding with each counterparty is closely monitored. For short-term transactions (under one year), at inception of the transaction, the financial counterparty must be investment grade rated by either the Standard & Poor's or Moody's rating agencies. For long-term transactions, at inception of the transaction, the financial counterparty must have a minimum rating of A+/A1 from Standard & Poor's or Moody's.

Treasury transactions are dealt with the group's relationship banks, all of which have a strong investment grade rating. At 31 December 2008 the largest two counterparty exposures related to treasury transactions were £61.8m and £36.3m and both held with institutions with long term Standard & Poor's credit ratings of A+. These exposures represent 40% and 24% of the carrying values of derivative financial instruments, with a fair value gain at the balance sheet date. Both of these banks had significant loans outstanding to the group at 31 December 2008.

The group operates a multi-currency notional pooling cash management system with a wholly owned subsidiary of a AA rated bank. At year end, credit balances of £131.0m were pooled with debit balances of £128.4m, resulting in a net pool balance of £2.6m. There is legal right of set off under the pooling agreement.

At an operating level the minimum investment grade rating criteria applies. Exceptionally, where required by local country circumstances, counterparties with no, or a non-investment grade, rating can be approved as counterparties for a period of up to 12 months. Due to the group's global geographical footprint and exposure to multiple industries, there is minimal concentration risk.

34 Retirement benefit obligations

The group operates a wide range of retirement benefit arrangements which are established in accordance with local conditions and practices within the countries concerned. These include funded defined contribution and funded and unfunded defined benefit schemes.

Defined contribution arrangements

The majority of the retirement benefit arrangements operated by the group are of a defined contribution structure, where the employer contribution and resulting income statement charge is fixed at a set level or is a set percentage of employees' pay. Contributions made to defined contribution schemes and charged to the income statement totalled £95.6m (2007: £57.9m).

In the UK, following the closure of the defined benefit schemes to new entrants, the main scheme for new employees is a contracted-in defined contribution scheme.

Wackenhut Services, Inc ("WSI") is the administrator of several defined benefit schemes. WSI is responsible for making periodic cost-reimbursable deposits to the various defined benefit schemes as determined by independent actuaries. In each instance, the US Department of Energy ("DOE") acknowledged within the contract entered between the DOE and WSI its responsibility for all unfunded pension and benefit liabilities. Therefore, these schemes are accounted for as defined contribution schemes.

In the Netherlands, most employees are members of industry-wide defined benefit schemes which are not valued on an IAS 19 basis as it is not possible to identify separately the group's share of the schemes' assets and liabilities. As a result the schemes are accounted for as defined contribution schemes. Contributions made to the schemes and charged to the income statement in 2008 totalled £7.3m (2007: £4.7m). The estimated amounts of contributions expected to be paid to the schemes during the financial year commencing 1 January 2009 in respect of the ongoing accrual of benefits is approximately £7.5m assuming consistent exchange rates.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

34 Retirement benefit obligations (continued)

Defined benefit arrangements

The group operates a number of defined benefit retirement arrangements where the benefits are based on employees' length of service. In most cases these are calculated on the basis of final pensionable pay other than for the smallest of the three UK schemes and one scheme in the Netherlands where they are based on career average pay. Liabilities under these arrangements are stated at the discounted value of benefits accrued to date, based upon actuarial advice.

Under unfunded arrangements, the group does not hold the related assets separate from the group. The amount charged to the income statement in respect of these arrangements in 2008 totalled £2.3m (2007: £1.8m). Under funded arrangements, the assets of defined benefit schemes are held in separate trustee-administered funds. The pension costs are assessed on the advice of qualified independent actuaries using the projected unit credit method. The group operates several funded defined retirement benefit schemes. Whilst the group's primary schemes are in the UK, it also operates other material schemes in the Netherlands, Ireland, Canada and Israel. During 2007, two defined benefit schemes (one in the Netherlands and one in Israel) were reclassified, for disclosure purposes, into the material funded defined retirement benefit schemes category.

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

	2008 £m	2007 £m
UK	**256.2**	121.6
Rest of World	**30.0**	13.9
Net liability on material funded defined retirement benefit schemes	**286.2**	135.5
Unfunded and other funded defined retirement benefit obligations	**41.3**	31.9
	327.5	167.4
Less: Amounts included within current liabilities	**(48.9)**	(47.3)
Included within non-current liabilities	**278.6**	120.1

The defined benefit schemes in the UK account for 90% of the net balance sheet liability on material funded defined retirement benefit schemes. They comprise three arrangements: the pension scheme demerged from the former Group 4 Falck A/S with total membership of approximately 8,000, the Securicor scheme, responsibility for which the group assumed on 20 July 2004 with the acquisition of Securicor plc, with total membership of approximately 20,000 and the GSL scheme, responsibility for which the group assumed on 12 May 2008 with the acquisition of GSL, with total membership of approximately 2,000. Regular actuarial assessments of the schemes are carried out, the latest being at 31 March 2007 in respect of the Group 4 scheme, 5 April 2006 in respect of the Securicor scheme and 5 April 2005 in respect of the GSL scheme. Pension obligations stated in the balance sheet take account of future service and earnings increases, have been updated to 31 December 2008 and use the valuation methodologies specified in IAS 19 *Employee Benefits.*

The weighted average principal assumptions used for the purposes of the actuarial valuations were as follows:

	UK	Rest of World
Key assumptions used at 31 December 2008		
Discount rate	6.3%	5.8%
Expected return on scheme assets (as at 1 January 2008)	6.9%	6.2%
Expected rate of salary increases	4.9%	2.9%
Future pension increases	3.1%	2.0%
Inflation	3.1%	2.0%
Key assumptions used at 31 December 2007		
Discount rate	5.8%	5.5%
Expected return on scheme assets (as at 1 January 2007)	6.7%	6.2%
Expected rate of salary increases	5.2%	3.3%
Future pension increases	3.4%	2.1%
Inflation	3.4%	2.2%

In addition to the above, the group uses appropriate mortality assumptions when calculating the schemes' obligations. The mortality tables used for the schemes in the UK are as follows:

- Current and future pensioners — 125% of PMA92 (YOB) Medium Cohort — Male
- Current and future pensioners — 115% of PFA92 (YOB) Medium Cohort — Female

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

34 Retirement benefit obligations (continued)

The amounts recognised in the income statement in respect of these defined benefit schemes are as follows:

	UK £m	Rest of World £m	Total £m
Amounts recognised in income 2008			
Current service cost	(11.8)	(3.6)	(15.4)
Finance cost on defined retirement benefit obligations	(77.8)	(5.0)	(82.8)
Expected return on defined retirement benefit scheme assets	82.2	4.3	86.5
Total amounts recognised in income	(7.4)	(4.3)	(11.7)
Amounts recognised in income 2007			
Current service cost	(11.5)	(4.1)	(15.6)
Finance cost on defined retirement benefit obligations	(68.4)	(3.9)	(72.3)
Expected return on defined retirement benefit scheme assets	73.9	3.4	77.3
Total amounts recognised in income	(6.0)	(4.6)	(10.6)

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

	2008 £m	2007 £m
Cost of sales	**(11.1)**	(11.3)
Administration expenses	**(4.3)**	(4.3)
Finance income	**86.5**	77.3
Finance costs	**(82.8)**	(72.3)
Total	**(11.7)**	(10.6)

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

	2008 £m	2007 £m
At 1 January	**(7.8)**	(72.5)
Actuarial (losses)/gains recognised in the year	**(196.9)**	64.7
At 31 December	**(204.7)**	(7.8)

The amounts included in the balance sheet arising from the group's obligations in respect of its defined benefit schemes are as follows:

	UK £m	Rest of World £m	Total £m
2008			
Present value of defined benefit obligations	1,296.3	110.8	1,407.1
Fair value of scheme assets	(1,040.1)	(80.8)	(1,120.9)
Deficit in scheme recognised in the balance sheet	256.2	30.0	286.2
2007			
Present value of defined benefit obligations	1,291.3	84.6	1,375.9
Fair value of scheme assets	(1,169.7)	(70.7)	(1,240.4)
Deficit in scheme recognised in the balance sheet	121.6	13.9	135.5
2006			
Present value of defined benefit obligations	1,328.8	61.1	1,389.9
Fair value of scheme assets	(1,118.1)	(45.4)	(1,163.5)
Deficit in scheme recognised in the balance sheet	210.7	15.7	226.4
2005			
Present value of defined benefit obligations	1,199.3	61.1	1,260.4
Fair value of scheme assets	(1,004.5)	(39.3)	(1,043.8)
Deficit in scheme recognised in the balance sheet	194.8	21.8	216.6
2004			
Present value of defined benefit obligations	1,038.6	87.0	1,125.6
Fair value of scheme assets	(845.8)	(59.6)	(905.4)
Deficit in scheme recognised in the balance sheet	192.8	27.4	220.2

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

34 Retirement benefit obligations (continued)

Movements in the present value of defined benefit obligations in the current year and the fair value of scheme assets during the year were as follows:

2008	UK £m	Rest of World £m	Total £m
Obligations			
At 1 January 2008	1,291.3	84.6	1,375.9
Service cost	11.8	3.6	15.4
Interest cost	77.8	5.0	82.8
Contributions from scheme members	4.6	2.5	7.1
Actuarial gains	(129.2)	(5.6)	(134.8)
Benefits paid	(45.9)	(1.5)	(47.4)
Acquisitions of subsidiary undertakings	85.9	–	85.9
Translation adjustments	–	22.2	22.2
At 31 December 2008	**1,296.3**	**110.8**	**1,407.1**
Assets			
At 1 January 2008	1,169.7	70.7	1,240.4
Expected return on scheme assets	82.2	4.3	86.5
Actuarial losses	(315.1)	(16.6)	(331.7)
Actual return on scheme assets	(232.9)	(12.3)	(245.2)
Contributions from the sponsoring companies	47.5	5.1	52.6
Contributions from scheme members	4.6	2.5	7.1
Benefits paid	(45.9)	(1.5)	(47.4)
Acquisition of subsidiary undertakings	97.1	–	97.1
Translation adjustments	–	16.3	16.3
At 31 December 2008	**1,040.1**	**80.8**	**1,120.9**

2007	UK £m	Rest of World £m	Total £m
Obligations			
At 1 January 2007	1,328.8	61.1	1,389.9
Service cost	11.5	4.1	15.6
Interest cost	68.4	3.9	72.3
Contributions from scheme members	3.3	1.9	5.2
Actuarial gains	(77.5)	(8.4)	(85.9)
Benefits paid	(44.5)	(1.3)	(45.8)
Other	1.3	15.9	17.2
Translation adjustments	–	7.4	7.4
At 31 December 2007	1,291.3	84.6	1,375.9
Assets			
At 1 January 2007	1,118.1	45.4	1,163.5
Expected return on scheme assets	73.9	3.4	77.3
Actuarial losses	(16.6)	(4.6)	(21.2)
Actual return on scheme assets	57.3	(1.2)	56.1
Contributions from the sponsoring companies	34.2	3.8	38.0
Contributions from scheme members	3.3	1.9	5.2
Benefits paid	(44.5)	(1.3)	(45.8)
Other	1.3	15.7	17.0
Translation adjustments	–	6.4	6.4
At 31 December 2007	1,169.7	70.7	1,240.4

The contribution from sponsoring companies in 2008 included £26.9m (2007: £26.1m) of additional contributions in respect of the deficit in the schemes and a one-off £5.4m special payment in respect of the acquired GSL scheme. The other movements in the rest of the world in 2007 represent the reclassification as material of two funded plans.

34 Retirement benefit obligations (continued)

The composition of the scheme assets at the balance sheet date is as follows:

Analysis of scheme assets	UK	Rest of World	Total
2008			
Equity instruments	57%	39%	56%
Debt instruments	28%	27%	28%
Property	1%	4%	1%
Other assets	14%	30%	15%
	100%	100%	100%
2007			
Equity instruments	68%	50%	67%
Debt instruments	30%	21%	30%
Property	–	4%	–
Other assets	2%	25%	3%
	100%	100%	100%

None of the pension scheme assets are held in the entity's own financial instruments or in any assets held or used by the entity.

The expected weighted average rates of return on scheme assets for the following year at the balance sheet date are as follows:

	UK	Rest of World	Total
2008 (return expected in 2009)	6.3%	5.9%	6.3%
2007 (return expected in 2008)	6.9%	6.2%	6.9%
2006 (return expected in 2007)	6.7%	6.2%	6.7%

The expected rates of return on individual categories of scheme assets are determined with respect to bonds by reference to relevant indices, and with respect to other assets by reference to relevant indices of the historical return and economic forecasts of future returns relative to inflation in respect of assets of a similar nature. The overall expected rate of return is the weighted average of the rates on the individual asset categories.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

34 Retirement benefit obligations (continued)

The history of experience adjustments is as follows:

2008	UK	Rest of World	Total
Experience adjustments on scheme liabilities			
Amount (£m)	0.1	0.5	0.6
Percentage of scheme liabilities (%)	–	1	–
Experience adjustments on scheme assets			
Amount (£m)	(315.1)	(16.6)	(331.7)
Percentage of scheme assets (%)	(30)	(21)	(30)
2007			
Experience adjustments on scheme liabilities			
Amount (£m)	5.5	(3.1)	2.4
Percentage of scheme liabilities (%)	–	(4)	–
Experience adjustments on scheme assets			
Amount (£m)	(16.6)	(4.6)	(21.2)
Percentage of scheme assets (%)	(1)	(7)	(2)
2006			
Experience adjustments on scheme liabilities			
Amount (£m)	29.0	0.1	29.1
Percentage of scheme liabilities (%)	2	–	2
Experience adjustments on scheme assets			
Amount (£m)	45.4	2.6	48.0
Percentage of scheme assets (%)	4	6	4
2005			
Experience adjustments on scheme liabilities			
Amount (£m)	(17.5)	1.1	(16.4)
Percentage of scheme liabilities (%)	(1)	2	(1)
Experience adjustments on scheme assets			
Amount (£m)	99.0	2.4	101.4
Percentage of scheme assets (%)	10	6	10
2004			
Experience adjustments on scheme liabilities			
Amount (£m)	(2.7)	–	(2.7)
Percentage of scheme liabilities (%)	(1)	–	(1)
Experience adjustments on scheme assets			
Amount (£m)	30.2	3.7	33.9
Percentage of scheme assets (%)	4	6	4

The estimated amounts of contributions expected to be paid to the schemes during the financial year commencing 1 January 2009 in respect of the ongoing accrual of benefits is approximately £20m and it is anticipated that these will remain at a similar level in the medium term subject to changes in financial conditions. Additional contributions of at least £28m will also be made in 2009 in respect of the deficit in the schemes.

IAS 19 specifies that pension liabilities should be discounted at appropriate high quality corporate bond rates. The directors consider that it is appropriate to apply the average of the yields on those AA corporate bonds which most closely approximate to the timescale of the liability profile of the schemes and have therefore used such a rate, being 6.3%, in respect of the UK schemes at 31 December 2008 (5.8% at 31 December 2007). The effect of a 0.1% movement in the discount rate applicable in the UK is to alter reported liabilities (before associated deferred tax) by approximately £25m.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

34 Retirement benefit obligations (continued)

Liability calculations are also impacted heavily by the mortality projections included in the actuarial assumptions. The weighted average life expectancy of a male member of the UK schemes currently aged 65 has been assumed as 20.3 years. The weighted average life expectancy at 65 of a male currently aged 52 has been assumed as 21.1 years. The directors consider, on actuarial advice, these assumptions to be appropriate to the profile of the membership of the schemes. The effect of a one year change in this UK life expectancy assumption is to alter reported liabilities (before associated deferred tax) by approximately £42m.

Pension obligations in respect of deferred members increase in line with inflation. Increases in salaries and increases in pensions-in-payment generally move in line with inflation. Inflation is therefore an important assumption in the calculation of defined retirement benefit liabilities. The effect of a 0.1% movement in the rate of inflation assumption applicable in the UK is to alter reported liabilities (before associated deferred tax) by approximately £14m.

35 Provisions

	Employee benefits £m	Restructuring £m	Claims reserves £m	Onerous contracts £m	Total £m
At 1 January 2008	11.0	7.5	30.3	13.0	61.8
Additional provision in the year	8.0	3.4	20.6	1.1	33.1
On acquisition of subsidiary	0.8	1.3	2.3	34.7	39.1
Utilisation of provision	(7.6)	(10.8)	(18.2)	(7.5)	(44.1)
Unused amounts reversed	–	0.4	(1.0)	–	(0.6)
Reversals on disposal of a subsidiary	–	–	0.1	–	0.1
Translation adjustments	8.6	3.3	11.1	12.8	35.8
At 31 December 2008	**20.8**	**5.1**	**45.2**	**54.1**	**125.2**

Included in current liabilities	33.9
Included in non-current liabilities	91.3
	125.2

Employee benefits

The provision for employee benefits is in respect of any employee benefits which accrue over the working lives of the employees, typically including items such as long service awards and termination indemnity schemes.

Restructuring

Restructuring provisions include amounts for redundancy payments, and the costs of closure of activities in acquired businesses and discontinued operations. Settlement of restructuring provisions is highly probable. The timing is uncertain but is generally likely to be short term.

Claims reserves

The claims reserves are held by the wholly-owned captive insurance subsidiaries in Guernsey, Luxembourg and the US which underwrite part of the group's cash solutions, general liability, workers' compensation and auto liability policies. The provisions are subject to regular actuarial review and are adjusted as appropriate. Settlement of these provisions is highly probable but both the value of the final settlements and their timing is uncertain, dependent upon the outcome of ongoing processes to determine both liability and quantum in respect of a wide range of claims or possible claims.

Onerous contracts

The onerous contract provision comprises mainly the provision against future liabilities for loss-making contracts, all properties sub-let at a shortfall and for long-term idle, leased properties. The provision is based on the value of future net cash outflows. Whilst the likelihood of settlement of these obligations is considered probable, there is uncertainty over their value and duration.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

36 Deferred tax

The following are the major deferred tax liabilities and assets recognised by the group and movements thereon during the current and prior reporting periods:

	Retirement benefit obligations £m	Intangible assets £m	Tax losses £m	Other temporary differences £m	Total £m
At 1 January 2007	73.2	(61.2)	6.8	15.2	34.0
(Charge)/credit to the income statement	(14.6)	14.9	(1.7)	5.2	3.8
Acquisition of subsidiaries	–	(10.6)	–	0.4	(10.2)
(Charge)/credit to equity	(22.2)	–	–	6.9	(15.3)
Translation adjustments	0.7	(3.7)	–	(0.7)	(3.7)
At 31 December 2007	37.1	(60.6)	5.1	27.0	8.6
At 1 January 2008	37.1	(60.6)	5.1	27.0	8.6
(Charge)/credit to the income statement	(7.5)	19.1	1.9	(8.3)	5.2
Acquisition of subsidiaries	(4.7)	(56.2)	–	17.6	(43.3)
Credit/(charge) to equity	56.7	–	–	(6.4)	50.3
Translation adjustments	–	(15.5)	0.6	14.1	(0.8)
At 31 December 2008	**81.6**	**(113.2)**	**7.6**	**44.0**	**20.0**

Certain deferred tax assets and liabilities have been offset where permitted. The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes:

	2008 £m	2007 £m
Deferred tax liabilities	(135.0)	(75.9)
Deferred tax assets	155.0	84.5
Total deferred tax position	20.0	8.6

At the balance sheet date, the group has unutilised tax losses of approximately £526.8m (2007: £126.5m) potentially available for offset against future profits. A deferred tax asset of £7.6m (2007: £5.1m) has been recognised in respect of approximately £22.9m (2007: £19.3m) of gross losses. No deferred tax asset has been recognised in respect of the remaining £503.9m (2007: £107.2m) of gross losses due to the unpredictability of future profit streams in the relevant jurisdictions and the fact that a significant proportion of such losses remains unaudited by the relevant tax authorities. Included in unrecognised tax losses are gross losses of £1.6m, £3.2m, £3.2m, £2.0m, £2.0m and £2.7m which will expire in 2009, 2010, 2011, 2012, 2013 and 2014 respectively. Other losses may be carried forward indefinitely.

At the balance sheet date, the aggregate amount of temporary differences associated with undistributed earnings of non-UK subsidiaries for which deferred tax liabilities have not been recognised is £2,727m (2007: £2,504m). No liability has been recognised in respect of these gross differences on the basis that the group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

Temporary differences arising in connection with interests in associates and joint ventures are insignificant.

At the balance sheet date, the group has total unprovided contingent tax liabilities of approximately £4.0m (2007: £39.0m) relating to unresolved tax issues in various jurisdictions. No provision has been made for these amounts on the basis that the group considers that the likelihood of the liabilities crystallising is improbable. It is not possible to estimate the timing or outcome of these issues.

37 Share capital

G4S plc	At 31 December 2008 Authorised £	At 31 December 2008 Issued and fully paid £	At 31 December 2007 Authorised £	At 31 December 2007 Issued and fully paid £
Ordinary shares of 25p each (2007: 25p each)	**500,000,000**	**352,074,660**	500,000,000	320,177,685

	Number	Nominal value £m
Ordinary shares in issue		
At 1 January 2007	1,279,816,918	320.0
Shares issued on exercise of options:		
Executive Scheme	667,500	0.2
Sharesave Scheme	226,320	–
At 1 January 2008	1,280,710,738	320.2
New shares issued	127,000,000	31.8
Shares issued on exercise of options:		
Executive Scheme	587,901	0.1
At 31 December 2008	**1,408,298,639**	**352.1**

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the company.

Options over G4S plc shares outstanding at 31 December 2008, rolled over at 19 July 2004 from options previously held over Securicor plc shares, were as follows:

(a) Executive share option scheme

Number of options outstanding	Number of ordinary shares under option	Exercise price per share (pence)	Exercise date
8	400,000	164p	2009
8	270,000	133.75p	2009-2010
8	195,000	153p	2009-2010
4	1,345,000	108p	2009-2011
1	85,000	130p	2009-2012
1	25,000	85p	2009-2013
1	50,000	91p	2009-2013

The proceeds from shares allotted under this scheme during the year amounted to £693,631 (2007: £783,769).

(b) Sharesave scheme

All remaining shares under this scheme were exercised or have lapsed during 2007. As a result no proceeds from shares allotted under this scheme were received during the year (2007: proceeds received £144,485).

All of the above options are inclusive of those held by directors as set out in the Directors' Remuneration Report on page 41.

5,832,653 shares are held by an employee benefit trust as detailed in note 38.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

38 Share premium and reserves

	Share premium £m	Retained earnings £m	Hedging reserve £m	Translation reserve £m	Merger reserve £m	Reserve for own shares £m	Total reserves £m
At 1 January 2007	10.3	186.0	4.8	(2.8)	426.3	(9.4)	615.2
Net recognised income/(expense) attributable to equity shareholders of the parent	–	189.7	(19.2)	38.8	–	–	209.3
Shares issued	0.7	–	–	–	–	–	0.7
Dividends declared	–	(59.3)	–	–	–	–	(59.3)
Own shares purchased	–	–	–	–	–	(3.1)	(3.1)
Own shares awarded	–	(3.5)	–	–	–	3.5	–
Equity-settled transactions	–	4.1	–	–	–	–	4.1
At 31 December 2007	11.0	317.0	(14.4)	36.0	426.3	(9.0)	766.9
At 1 January 2008	11.0	317.0	(14.4)	36.0	426.3	(9.0)	766.9
Net recognised income/(expense) attributable to equity shareholders of the parent	–	11.0	(32.7)	163.6	–	–	141.9
Shares issued	244.9	–	–	–	–	–	244.9
Dividends declared	–	(75.0)	–	–	–	–	(75.0)
Own shares purchased	–	–	–	–	–	(8.8)	(8.8)
Own shares awarded	–	(6.0)	–	–	–	6.0	–
Equity-settled transactions	–	5.0	–	–	–	–	5.0
At 31 December 2008	**255.9**	**252.0**	**(47.1)**	**199.6**	**426.3**	**(11.8)**	**1,074.9**

Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow instruments related to the hedged transactions that have not yet occurred (net of tax).

Translation reserve

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations, as well as from the translation of liabilities that hedge the company's net investment in foreign operations (net of tax).

Merger reserve

The merger reserve comprises reserves arising upon the merger between the former Group 4 Falck A/S and the former Group 4 Securitas BV in 2000 and the acquisition of Securicor plc by the group in 2004.

Reserve for own shares

An employee benefit trust established by the group held 5,832,653 shares at 31 December 2008 (2007: 5,209,320 shares), to satisfy the vesting of awards under the performance share plan and performance-related and synergy bonus schemes. During the year 4,012,050 shares were purchased by the trust, whilst 3,388,717 shares were used to satisfy the vesting of awards under the schemes. At 31 December 2008, the cost of shares held by the trust was £11,715,675 (2007: £8,953,071), whilst the market value of these shares was £11,956,939 (2007: £12,749,808). Shares held by the trust are treated as treasury shares, are deducted from equity, do not receive dividends and are excluded from the calculations of earnings per share.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

39 Analysis of net debt

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

	2008 £m	2007 £m
Cash and cash equivalents	**562.1**	382.1
Investments	**92.7**	73.2
Net cash and overdrafts included within disposal groups classified as held for sale	**(6.3)**	(0.7)
Net debt (excluding cash and overdrafts) included within disposal groups classified as held for sale	**(1.0)**	(0.8)
Bank overdrafts	**(195.1)**	(110.7)
Bank loans	**(965.7)**	(809.7)
Loan notes	**(901.9)**	(290.4)
Fair value of loan note derivative financial instruments	**153.2**	14.3
Obligations under finance leases	**(85.7)**	(62.2)
Total net debt	**(1,347.7)**	(804.9)

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

	2008 £m	2007 £m
Increase in cash, cash equivalents and bank overdrafts per consolidated cash flow statement	**56.3**	48.8
(Sale)/purchase of investments	**(5.6)**	0.3
Increase in debt and lease financing	**(160.2)**	(135.8)
Change in net debt resulting from cash flows	**(109.5)**	(86.7)
Borrowings acquired with subsidiaries	**(230.0)**	(22.9)
Net additions to finance leases	**(17.1)**	(10.3)
Movement in net debt in the year	**(356.6)**	(119.9)
Translation adjustments	**(186.2)**	(12.2)
Net debt at the beginning of the year	**(804.9)**	(672.8)
Net debt at the end of the year	**(1,347.7)**	(804.9)

40 Contingent liabilities

Contingent liabilities exist in respect of agreements entered into in the normal course of business, none of which are individually or collectively significant.

Details of unprovided contingent tax liabilities are presented in note 36.

41 Operating lease arrangements

The group as lessee

At the balance sheet date, the group had outstanding commitments under non-cancellable operating leases, which fall due as follows:

	2008 £m	2007 £m
Within one year	**141.8**	95.6
In the second to fifth years inclusive	**306.7**	185.8
After five years	**200.6**	148.2
Total operating lease commitments	**649.1**	429.6

The group leases a number of its office properties, vehicles and other operating equipment under operating leases. Property leases are negotiated over an average term of eight and a half years, at rates reflective of market rentals. Periodic rent reviews take place to bring lease rentals in line with prevailing market conditions. Some but not all lease agreements have an option to renew the lease at the end of the lease term. Leased vehicles and other operating equipment are negotiated over an average lease term of three and a half years.

Certain leased properties have been sub-let by the group. Sub-leases are negotiated on terms consistent with those of the associated property. The total future minimum sub-lease payments expected to be received by the group from sub-let properties amount to £37.2m (2007: £16.4m).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

42 Share-based payments

The group has two types of equity-settled, share-based payment scheme in place: (1) share options previously held by employees over Securicor plc shares and rolled over to G4S plc shares with the acquisition of that business on 19 July 2004, and (2) conditional allocations of G4S plc shares.

Share options

Share options rolled over from Securicor plc fall under either the Executive Share Option Scheme (ESOS) or the Sharesave Scheme. Options under the ESOS were granted at market value, vest three or four years following the date of grant (provided that certain non-market performance conditions are met and that the recipients continue to be employed by the group during the vesting period) and are exercisable up to ten years following the date of grant. Options under the Inland Revenue-approved Sharesave scheme were granted at a discount of 20% to market value, vest after three years following the date of grant and remain exercisable for a period of six months following vesting.

Details of the share options outstanding during the year are as follows:

	Number of shares under option 2008	Weighted average exercise price (pence) 2008	Number of shares under option 2007	Weighted average exercise price (pence) 2007
Outstanding at 1 January	**2,957,901**	**123.02**	3,912,990	117.73
Forfeited during the year	–	–	–	–
Exercised during the year	**(587,901)**	**117.98**	(893,820)	103.89
Expired during the year	–	–	(61,269)	64.00
Outstanding at 31 December	**2,370,000**	**124.28**	2,957,901	123.02
Exercisable at 31 December	**2,370,000**	**124.28**	2,957,901	123.02

The weighted average share price at the date of exercise for share options exercised during the year was 232.94p (2007: 197.85p). All options outstanding at 31 December 2008 were vested.

No share option expense has been recognised in the income statement during the year as all share options had previously vested (2007: all vested).

Shares allocated conditionally

Shares allocated conditionally fall under either the group's performance-related bonus scheme or the group's Performance Share Plan (PSP). Shares allocated conditionally under the performance-related bonus scheme vest three years following the date of grant provided certain non-market performance conditions are met. Those allocated under the PSP vest after three years, to the extent that (a) certain non-market performance conditions are met as to two thirds of the allocation (one half for awards made prior to 2007) and (b) certain market performance conditions are met as to the remaining third of the allocation (half for awards made prior to 2007).

The number of shares allocated conditionally is as follows:

	Performance-related bonus scheme 2008 Number	PSP 2008 Number	Total 2008 Number	Performance-related bonus scheme 2007 Number	PSP 2007 Number	Total 2007 Number
Outstanding at 1 January	**1,981,777**	**11,460,069**	**13,441,846**	1,915,270	11,154,403	13,069,673
Allocated during the year	**554,229**	**4,757,230**	**5,311,459**	377,725	4,359,350	4,737,075
Transferred during the year	**(278,241)**	**(3,091,962)**	**(3,370,203)**	(311,218)	(1,953,755)	(2,264,973)
Forfeited during the year	–	**(228,180)**	**(228,180)**	–	(952,469)	(952,469)
Expired during the year	–	**(1,035,343)**	**(1,035,343)**	–	(1,147,460)	(1,147,460)
Outstanding at 31 December	**2,257,765**	**11,861,814**	**14,119,579**	1,981,777	11,460,069	13,441,846

The weighted average remaining contractual life of conditional share allocations outstanding at 31 December 2008 was 17 months (2007: 16 months). The weighted average share price at the date of allocation of shares allocated conditionally during the year was 216.50p (2007: 216.83p) and the contractual life of all conditional allocations was three years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

42 Share-based payments (continued)

Shares allocated conditionally (continued)

Under the PSP, the vesting of two thirds of the shares allocated conditionally (one half for awards made prior to 2007) depends upon Total Shareholder Return (a market performance condition) over the vesting year measured against a comparator group. 25% of the allocation vests upon the group's Total Shareholder Return equalling median performance amongst the comparator group. The fair value of the shares allocated subject to this market performance condition has therefore been reduced by 75%.

Total expenses of £5.0m were recognised in the income statement in the year (2007: £4.1m) in respect of conditional share allocations, the calculation of which included an estimate of the number of those shares allocated subject to non-market performance conditions that would vest based upon the probable achievement against the performance conditions.

43 Related party transactions

Transactions and balances with joint ventures and associated undertakings

Transactions between the company and its subsidiaries have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the group and other related parties are disclosed below. All transactions with related parties are entered into in the normal course of business.

	Joint ventures 2008 £m	Joint ventures 2007 £m	Associates 2008 £m	Associates 2007 £m
Transactions				
Revenue	29.7	13.8	–	–
Balances				
Amounts due to related parties				
Creditors	0.4	–	–	1.5
Amounts due from related parties				
Debtors	–	0.7	–	–
Loans	3.9	2.3	–	–

Revenue includes fees of £15.3m (2007: £10.4m) charged to Bridgend Custodial Services Ltd and fees of £5.7m (2007: £3.4m) charged to STC (Milton Keynes) Ltd. Amounts owed by the group are to its associated undertaking Space Gateway Support LLC. The amounts outstanding are unsecured and will be settled in cash. No expense has been recognised in the year for bad and doubtful debts in respect of amounts owed by related parties. Details of principal joint ventures and associated undertakings are shown in notes 21 and 22 respectively.

The group has a legal interest in a number of joint ventures and joint arrangements, where the economic interest was divested by the Global Solutions group prior to its acquisition in 2008 by the group. The significant transactions with these entities are:

	2008 Fees £m
White Horse Education Partnership Limited	1.1
Integrated Accommodation Services plc	40.2
Fazakerley Prison Services Limited	19.2
Onley Prison Services Limited	7.8
ECD Cookham Wood Limited	7.3
ECD Onley Limited	7.2
Stratus Integrated Services Limited	4.8
UK Court Services (Manchester) Limited	1.2
East London Lift Company Limited	0.6
Health Improvement Partnership (Wolverhampton City & Walsall) Ltd	0.4
Brent, Harrow & Hillingdon LIFT Company Ltd	0.3
Bexley, Bromley & Greenwich LIFT Company Ltd	0.4
	90.5

Transactions with post-employment benefit schemes

Details of transactions with the group's post-employment benefit schemes are provided in note 34. Unpaid contributions owed to schemes amounted to £1.2m at 31 December 2008 (2007: £1.4m).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

Remuneration of key management personnel

The group's key management personnel are deemed to be the non-executive directors and those individuals, including the executive directors, whose remuneration is determined by the Remuneration Committee. Their remuneration is set out below. Further information about the remuneration of individual directors included within key management personnel is provided in the audited part of the Directors' Remuneration Report on pages 40 to 43.

	2008 £	2007 £
Short-term employee benefits	**5,236,982**	4,869,365
Post-employment benefits	**490,996**	343,443
Other long-term benefits	**31,055**	28,896
Share-based payment	**2,735,153**	2,344,412
Total	**8,494,186**	7,586,116

44 Events after the balance sheet date

A number of acquisitions were effected after the balance sheet date, but before the financial statements were authorised for issue, details of which are provided within note 17.

45 Significant investments

The companies listed below are those which were part of the group at 31 December 2008 and which, in the opinion of the directors, significantly affected the group's results and net assets during the year. The directors consider that those companies not listed are not significant in relation to the group as a whole.

The principal activities of the companies listed below are indicated according to the following key:

Secure solutions	S
Cash solutions	C

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

	Product segment	Country of incorporation	Ultimate ownership
Subsidiary undertakings			
GSL Australia (Pty) Limited	S	Australia	100%
GSL Custodial Services (Pty) Limited	S	Australia	100%
G4S Security Services AG	S	Austria	100%
G4S Security Services SA/NV	S	Belgium	100%
G4S Cash Services (Belgium) SA/NV	C	Belgium	100%
G4S Cash Services (Canada) Limited	C	Canada	100%
G4S Security Services (Canada) Limited	S	Canada	100%
Wackenhut de Colombia SA	S+C	Colombia	100%
G4S Security Services A/S	S	Denmark	100%
G4S Utility Services (UK) Limited (formerly AccuRead Limited)	S	England	100%
G4S Aviation Services (UK) Limited	S	England	100%
G4S Cash Centres (UK) Limited	C	England	100%
G4S Cash Services (UK) Limited	C	England	100%
G4S International UK Limited	C	England	100%
G4S Care and Justice Services (UK) Limited	S	England	100%
G4S Secure Solutions (UK) Limited	S	England	100%
Group 4 Technology Limited	S	England	100%
Group 4 Total Security Limited	S	England	100%
G4S Integrated Services (UK) Limited (formerly GSL UK Limited)	S	England	100%
G4S Eesti AS	S+C	Estonia	100%
G4S Security Services Oy	S	Finland	100%
Group 4 Securicor SAS	S	France	100%
G4S Keszpenzlogisztikai Kft	S+C	Hungary	100%
G4S Security Services (India) Pvt. Limited 1, 4	S	India	40%
G4S Cash Services (Ireland) Limited	C	Ireland	100%
G4S Security Services (Ireland) Limited	S	Ireland	100%
Hashmira Company Limited	S	Israel	91%
G4S Security Services (Kenya) Limited	S+C	Kenya	100%
G4S Security Services SA	S+C	Luxembourg	100%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

45 Significant investments (continued)

	Product segment	Country of incorporation	Ultimate ownership
Subsidiary undertakings (continued)			
Safeguards Securicor Sdn Bhd 2,4	S+C	Malaysia	49%
Group 4 Securicor Cash Services BV	C	Netherlands	100%
Group 4 Securicor Beheer BV	S	Netherlands	100%
G4S Security Services AS	S+C	Norway	100%
G4S Security Systems AS	S	Norway	100%
al Majal Service Master Co. Limited 4	S	Saudi Arabia	49%
G4S Cash Services (SA) (Pty) Limited	C	South Africa	50%
G4S Security Services (SA) (Pty) Limited	S	South Africa	74%
G4S Cash Services (Sverige) AB	C	Sweden	100%
G4S Security Services (Sverige) AB	S	Sweden	100%
ArmorGroup North America, Inc.	S	USA	100%
G4S Youth Services LLC	S	USA	100%
RONCO Consulting Corporation	S	USA	100%
The Wackenhut Corporation	S	USA	100%
Wackenhut Services, Inc.	S	USA	100%
Joint ventures (see note 21)			
Bridgend Custodial Services Limited 3	S	England	59%
STC (Milton Keynes) Limited	S	England	50%
GSL Correctional Services (Bloemfontein) (Pty) Limited	S	South Africa	20%
Associated undertakings (see note 22)			
Space Gateway Support LLC	S	USA	46%

1 G4S Security Services (India) Pvt. Limited has a year end of 31 March.

2 Safeguards Securicor Sdn Bhd has a year end of 30 June.

3 Bridgend Custodial Services Limited has a year end of 30 September.

4 By virtue of shareholder agreements, the group has the power to govern the financial and operating policies of G4S Security Services (India) Pvt. Limited, Safeguards Securicor Sdn Bhd and al Majal Service Master Co. Limited, so as to obtain the benefits from their activities. These are therefore consolidated as full subsidiaries.