NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS

(a) Significant accounting policies

Basis of preparation
The separate financial statements of the company are presented as required by the Companies Act 1985. They have been prepared under the historical cost convention except for the revaluation of certain financial instruments and in accordance with applicable United Kingdom Accounting Standards (UK GAAP).

Exemptions
As permitted by section 230(3) of the Companies Act 1985, the company has not presented its own profit and loss account.

The company has taken advantage of the exemption from preparing a cash flow statement under the terms of FRS 1 *Cash Flow Statements*. The cash flows of the company are included within its consolidated financial statements.

The company is also exempt under the terms of FRS 8 *Related Party Disclosures* from disclosing related party transactions with other members of the group.

The consolidated financial statements of the group contain financial instrument disclosures and comply with FRS 29 *Financial Instruments: Disclosures*. Consequently the company has taken advantage of certain exemptions in FRS 29 from the requirement to present separate financial instrument disclosures for the company.

Tangible fixed assets
Tangible fixed assets are stated at cost net of accumulated depreciation and any provision for impairment. Tangible fixed assets are depreciated on a straight-line basis over their expected economic life. Short leasehold property (under 50 years) is depreciated over the life of the lease. Equipment and vehicles are depreciated over periods up to a maximum of ten years.

Fixed asset investments
Fixed asset investments, which comprise investments in subsidiary undertakings, are stated at cost and reviewed for impairment if there are indicators that the carrying value may not be recoverable.

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

- **External debtors**
  Debtors do not carry interest and are stated initially at their fair value. The company provides for bad debts based upon an analysis of those that are past due in accordance with local conditions and past default experience.

- **Cash at bank and in hand and bank overdrafts**
  Cash at bank and in hand and bank overdrafts comprise cash balances and call deposits.

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

- **External creditors**
  Creditors are not interest-bearing and are stated initially at their fair value.

- **Amounts owed to/from subsidiary undertakings**
  Amounts owed to/from subsidiary undertakings bear interest at prevailing market rates.

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

Provisions
Provisions are recognised when the company has a present legal or constructive obligation as a result of past events and a reliable estimate of the amount can be made.

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS CONTINUED

(a) Significant accounting policies (continued)

Derivative financial instruments and hedge accounting

In accordance with its treasury policy, the company only holds or issues derivative financial instruments to manage the group's exposure to financial risk, not for trading purposes. Such financial risk includes the interest risk on the group's variable-rate borrowings, the fair value risk on the group's fixed-rate borrowings, 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 company 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 remeasurement to fair value is recognised immediately in the profit and loss account, unless they qualify for hedge accounting. Where derivatives do qualify for hedge accounting, the treatment of any resultant gain or loss depends on the nature of the item being hedged as described below:

- **Fair value hedge**
  The change in the fair value of both the hedging instrument and the related portion of the hedged item is recognised immediately in the profit and loss account.

- **Cash flow hedge**
  The change in the fair value of the portion of the hedging instrument that is determined to be an effective hedge is recognised in equity and subsequently recycled to the profit and loss account when the hedged cash flow impacts the profit and loss account. The ineffective portion of the fair value of the hedging instrument is recognised immediately in the profit and loss account.

Leases

Annual rentals payable or receivable under operating leases are charged or credited to the profit and loss account as incurred.

Foreign currencies

The financial statements of the company are presented in sterling, its functional currency. Transactions in currencies other than sterling are translated at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities which are denominated in other currencies are retranslated at the rates prevailing on that date. Non-monetary assets and liabilities carried at fair value which are denominated in other currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items measured at historical cost denominated in other currencies are not retranslated. Gains and losses arising on retranslation are included in the profit and loss account.

Taxation

Current tax is provided at amounts expected to be paid (or recovered) using tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised in respect of all material timing differences that have originated, but not reversed, by the balance sheet date. Deferred tax is measured on a non-discounted basis at tax rates that are expected to apply in the periods in which the timing differences reverse based on tax rates and laws enacted or substantively enacted at the balance sheet date. Deferred tax assets are recognised where their recovery is considered more likely than not in that there will be suitable taxable profits from which the future reversal of underlying timing differences can be deducted.

Pensions

The company participates in multi-employer pension schemes in the UK, which provide benefits based on final pensionable pay. The company is unable to identify its share of the schemes' assets and liabilities on a consistent and reasonable basis. In accordance with FRS 17 *Retirement Benefits*, the company treats the schemes as if they were defined contribution schemes and recognises charges as and when contributions are due to the scheme. Details of the schemes are included in note 34 to the consolidated financial statements.

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS CONTINUED

(a) Significant accounting policies (continued)

Share-based payments

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

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. When share options are exercised the resulting entries are to increase share capital and share premium for the new shares issued.

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.

Financial guarantees

The company enters into financial guarantee contracts to guarantee the indebtedness of other companies within the group. The company treats such contracts as a contingent liability unless and until such time as it becomes probable that the company will be required to make a payment under the guarantee contracts.

Own shares held by employee benefit trust

Transactions of the company-sponsored employee benefit trust are included in the parent company financial statements. In particular, the trust's purchases of shares in the company are debited directly to equity.

(b) Tangible fixed assets

	Land and buildings £m	Equipment and vehicles £m	Total £m
Cost			
At 1 January 2008	3.0	3.3	6.3
Additions at cost	–	5.1	5.1
Disposals	(0.5)	(0.1)	(0.6)
At 31 December 2008	2.5	8.3	10.8
Depreciation			
At 1 January 2008	(1.0)	(1.0)	(2.0)
Charge for the year	(0.2)	(0.5)	(0.7)
Disposals	0.1	–	0.1
At 31 December 2008	(1.1)	(1.5)	(2.6)
Net book value			
At 31 December 2008	**1.4**	**6.8**	**8.2**
At 31 December 2007	2.0	2.3	4.3

The net book value of land and buildings comprises short leasehold buildings (under 50 years).

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS CONTINUED

(c) Fixed asset investments

The following are included in the net book value of fixed asset investments:

Subsidiary undertakings	Total £m
Shares at cost:	
At 1 January 2008	2,214.9
Additions	398.2
At 31 December 2008	**2,613.1**

(d) Debtors

	2008 £m	2007 £m
Amounts owed by group undertakings	**3,001.3**	1,369.2
Other debtors	**55.2**	29.0
Prepayments and accrued income	**1.4**	2.8
Derivative financial instruments at fair value	**182.9**	17.1
Total debtors	**3,240.8**	1,418.1

Included within derivative financial instruments at fair value is £143.6m due after more than one year (2007: £14.8m). See note (g) for further details.

Included in other debtors is £nil (2007: £8.3m) with regard to deferred tax comprised as follows:

	2008 £m	2007 £m
Accelerated capital allowances	–	(0.4)
Employee benefits, including equity-settled transactions and special pension contributions	–	4.0
Changes in fair value of hedging derivatives	–	4.7
Total deferred tax	–	8.3

See note (f) for the reconciliation of deferred tax balances.

At the balance sheet date, the company has unutilised tax losses of £339m, potentially available against future profits. No deferred tax asset has been recognised as past performance indicates that suitable taxable profits may not arise in the forseeable future.

(e) Borrowings (unsecured)

The unsecured borrowings are in the following currencies:

	2008 £m	2007 £m
Sterling	**94.0**	150.0
Euro	**349.0**	325.4
US dollar	**1,104.9**	502.0
Total unsecured borrowings	**1,547.9**	977.4

The payment profile of the unsecured borrowings is as follows:

	2008 £m	2007 £m
Repayable within one year	–	15.0
Repayable within two to five years	**696.4**	672.0
Repayable after five years	**851.5**	290.4
Total unsecured borrowings	**1,547.9**	977.4

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS CONTINUED

(e) Borrowings (unsecured) (continued)

Undrawn committed facilities mature as follows:

	2008 £m	2007 £m
Within one year	–	15.0
Within two to five years	350.4	412.9
Total undrawn committed facilities	350.4	427.9

Borrowings consist of £646.0m of floating rate bank loans (2007: £687.0m) and £901.9m of fixed rate loan notes (2007: £290.4). Bank overdrafts, bank loans and 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 company's bank overdrafts, bank loans and the loan notes issued in March 2007, calculated from market prices, approximates to their book value. US$265m (£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.

Borrowing at floating rates exposes the company to cash flow interest rate risk. The management of this risk is detailed in note (h).

There were no financial liabilities upon which no interest is paid.

(f) Creditors

	2008 £m	2007 £m
Amounts falling due within one year:		
Trade creditors	1.1	1.8
Amounts owed to group undertakings	3,383.8	2,101.8
Other taxation and social security costs	1.8	1.1
Other creditors	12.7	9.6
Accruals and deferred income	25.6	12.1
Derivative financial instruments at fair value	38.6	14.8
Total creditors – amounts falling due within one year	3,463.6	2,141.2
Amounts falling due after more than one year:		
Derivative financial instruments at fair value	15.9	4.8

Included in other creditors is £7.8m (2007: £nil) with regard to deferred tax comprised as follows:

	2008 £m	2007 £m
Accelerated capital allowances	0.9	–
Employee benefits	(2.9)	–
Changes in fair value of hedging derivatives	9.8	–
Total deferred tax	7.8	–

The reconciliation of deferred tax balances is as follows:

	Total £m
At 1 January 2008	(8.3)
Charged to profit and loss	1.3
Charged to equity in relation to changes in fair value of hedging derivatives	14.8
At 31 December 2008	7.8

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS CONTINUED

(g) 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	–	28.6	13.6
Cross currency swaps designated as cash flow hedges	60.9	–	–	–
Interest rate swaps designated as cash flow hedges	–	2.8	24.8	6.0
Interest rate swaps designated as fair value hedges	92.3	14.3	–	–
Commodity swaps	1.1	–	1.1	–
	182.9	17.1	54.5	19.6
Amounts falling due after more than one year	(143.6)	(14.8)	(15.9)	(4.8)
Amounts falling due within one year	39.3	2.3	38.6	14.8

Derivative financial instruments are stated at fair value, based upon market prices where available or otherwise on discounted cash flow valuations. The mark to market valuation of the derivatives has increased by £130.9m during the year.

The interest rate, cross currency swaps 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	1.1	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	60.9	0.4	0.9	1.7
Total carrying value of cash flow hedges	62.0	2.8	25.9	6.0

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	3.4	1.7	10.6	1.3
In the second year	1.6	0.6	10.1	2.8
In the third year	1.6	0.3	4.3	1.4
In the fourth year	1.6	0.2	1.4	0.5
In the fifth year	54.6	–	–	–
Total cash flows	62.8	2.8	26.4	6.0

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS CONTINUED

(h) Financial risk

Currency risk and forward foreign exchange contracts

The group conducts business in many currencies. The group presents its consolidated financial statements in sterling and it is in consequence subject to foreign exchange risk due to the translation of the results and net assets of its foreign subsidiaries. The company therefore hedges a substantial portion of the group's exposure to fluctuations in the translation into sterling of its overseas net assets by holding loans in foreign currencies. Translation adjustments arising on the translation of foreign currency loans are recognised in the profit and loss account.

The company enters into forward foreign exchange contracts so as to hedge group translation risk not hedged by way of loans. Gains and losses on such forward foreign exchange contracts are recognised in the profit and loss account. 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.

Following maturity of the forward foreign exchange contracts in February, the contracts were not renewed. The company 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 US Private Placement notes issued in July 2008, effectively fixing the sterling value on this portion of debt at an exchange rate of 1.9750.

Interest rate risk and interest rate swaps

Borrowing at floating rates as described in note (e) exposes the company to cash flow interest rate risk, which the company manages within policy limits approved by the directors. Interest rate swaps and, to a limited extent, forward rate agreements are utilised to fix the interest rate on a proportion of borrowings on a reducing scale over forward periods up to a maximum period 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 of notes in March 2007, the company was comfortable with the proportion of floating rate exposure not hedged by interest rate swaps and therefore rather than take on a higher proportion of fixed rate debt arranged fixed to floating swaps effectively converting the fixed coupon on the Private Placement to a floating rate. Following the swaps the resulting average coupon on the US Private Placement is Libor + 60bps. These swaps have been documented as fair value hedges of the US Private Placement fixed interest loan notes, with the movements in their fair value posted to profit and loss at the same time as the movement in the fair value of the hedged item. The interest on the US Private Placement notes issued in July 2008 was kept at fixed rate.

Counterparty credit risk

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

For treasury-related transactions, the policy limits the aggregate credit risk assigned to a counterparty. The utilisation of a credit limit is calculated by applying a weighting to the notional value of each transaction outstanding with each counterparty based on the type and duration of the transaction. The total mark to market 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 company'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 at the balance sheet date. Both of these banks had significant loans outstanding to the company at 31 December 2008.

The company participates in the group's multi-currency notional pooling cash management system with a wholly owned subsidiary of an AA rated bank. There is legal right of set off under the pooling agreement.

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS CONTINUED

(i) Provisions for liabilities and charges

	Onerous contracts £m
At 1 January 2008	2.7
Utilisation of provisions	(0.7)
At 31 December 2008	**2.0**

The onerous contracts provision comprises a provision against future liabilities for all properties sub-let at a shortfall and for long-term idle properties. The provision is based on the value of future net cash outflows relating to rent, rates, service charges and costs of marketing the properties.

(j) Share premium and reserves

	Share premium £m	Profit and loss account £m	Own shares £m	Total £m
At 1 January 2008	11.0	135.1	(9.0)	137.1
Retained profit	–	26.4	–	26.4
Changes in fair value of hedging derivatives	–	52.9	–	52.9
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
Tax on equity movements	–	(14.8)	–	(14.8)
At 31 December 2008	**255.9**	**123.6**	**(11.8)**	**367.7**

(k) Reconciliation of movements in equity shareholders' funds for the year ended 31 December 2008

	2008 £m	2007 £m
Retained profit for the year	**26.4**	137.4
Changes in fair value of hedging derivatives	**52.9**	(24.1)
Shares issued	**276.8**	0.9
Dividends declared	**(75.0)**	(59.3)
Own shares purchased	**(8.8)**	(3.1)
Equity-settled transactions	**5.0**	4.1
Tax on equity movements	**(14.8)**	6.9
Net increase in shareholders' funds	**262.5**	62.8
Opening equity shareholders' funds	**457.3**	394.5
Closing equity shareholders' funds	**719.8**	457.3

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS CONTINUED

(l) Operating lease commitments

At the balance sheet date, the company had annual commitments under non-cancellable operating leases, which expire as follows:

	2008 £m	2007 £m
Within one year	**0.1**	0.2
In the second to fifth years inclusive	**0.4**	0.5
After more than five years	**0.8**	0.8
Total operating lease commitments	**1.3**	1.5

(m) Auditor's remuneration

Fees paid to KPMG Audit Plc and its associates for non-audit services to the company itself are not disclosed in its individual accounts because the company's consolidated financial statements are required to disclose such fees on a consolidated basis.

(n) Staff costs and employees

	2008 Number	2007 Number
The average monthly number of employees of the company during the year was:	**190**	178

Total staff costs, including directors' emoluments, were as follows:

	2008 £m	2007 £m
Wages and salaries	**25.6**	23.1
Social security costs	**2.4**	2.0
Pension costs	**1.7**	1.1
Total staff costs	**29.7**	26.2

(o) 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. Disclosures relevant to the company are presented within note 42 to the consolidated financial statements.

(p) Contingent liabilities

To help secure cost effective finance facilities for its subsidiaries, the company issues guarantees to some of its finance providers. At 31 December 2008 guarantees totalling £649.5m (2007: £377.4m) were in place in support of such facilities.

The company is included in a group registration for UK VAT purposes and is therefore jointly and severally liable for all other UK group companies' unpaid debts in this connection. The liability of the UK group registration at 31 December 2008 totalled £25.8m (2007: £18.2m).