

Notes to the consolidated financial statements

1 General information

Group 4 Securicor 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 10 to 27. 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 109.

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 (EU). 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 98 to 105.

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 policies 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 2005 has been re-presented for operations discontinued during the current year. Turnover from continuing operations has been reduced by £84.2m and profit from operations before taxation (PBT) has been increased by £5.9m in respect of these operations. Further details of discontinued operations are presented within note 7. In addition, the comparative balance sheet at 31 December 2005 has been restated to reflect the completion during 2006 of the initial accounting in respect of acquisitions made during 2005. Adjustments made to the provisional calculation of the fair values of assets and liabilities acquired amount to £3.6m, with an equivalent increase 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 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 except when classified as held for sale (see note 3(t)). 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 of the group, profits and losses are eliminated to the extent of the group's interest in the relevant joint venture.

(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. All such 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).

The financial statements of foreign subsidiaries, associates and jointly controlled entities which report in the currency of a hyperinflationary economy are restated in terms of the measuring unit (the hyperinflationary currency) current at the balance sheet date before they are translated into sterling.

(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 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. However, where derivatives qualify for hedge accounting, recognition 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.

Notes to the consolidated financial statements (continued)

3 Significant accounting policies (continued)

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

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.

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 is stated at cost, less any accumulated impairment losses, and is tested annually for impairment. 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 to 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 generated internally and purchased externally) 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 depreciation 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 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 at their fair value.

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.

Interest-bearing borrowings

Interest-bearing bank loans and overdrafts 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 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.

(i) 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.

Notes to the consolidated financial statements (continued)

3 Significant accounting policies (continued)

(j) 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 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 for 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.

(k) Repurchase of share capital

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

(l) 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.

Notes to the consolidated financial statements (continued)

3 Significant accounting policies (continued)

(l) Employee benefits (continued)

Share-based payments

The group has applied the optional transitional exemptions in IFRS 2 Share-based Payment and implemented its requirements for grants of equity instruments made after 7 November 2002 which had not vested by 1 January 2005.

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.

(m) 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 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.

(n) 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 services products and for recurring services in security systems products is recognised over 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 percentage of completion method in respect of construction contracts.

Construction contracts

Certain security system installations 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 likely 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.

Notes to the consolidated financial statements (continued)

3 Significant accounting policies (continued)

(o) Borrowing costs

All borrowing costs are recognised in the income statement.

(p) 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.

(q) 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 deferred tax assets 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. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity in which case the deferred tax is also dealt with in equity.

(r) 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.

(s) 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).

Notes to the consolidated financial statements (continued)

3 Significant accounting policies (continued)

(t) 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 that meets the criteria to be classified as held for sale.

(u) 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.

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

In the year ended 31 December 2006, the group has adopted all of the new and revised standards and interpretations issued by the International Accounting Standards Board (the IASB) and the International Financial Reporting Interpretations Committee (the IFRIC) of the IASB that are relevant to its operations and effective for annual reporting periods beginning on 1 January 2006. The adoption of these new and revised standards and interpretations has not resulted in changes to the group's accounting policies and has not had a material impact on amounts reported for the current or prior years.

At the year end, the following standard was in issue and endorsed but not yet effective:

- > IFRS 7 Financial Instruments: Disclosures was issued in August 2005 and will apply to the group from 1 January 2007. This standard supersedes IAS 32 Financial Instruments: Presentation and requires further quantitative and qualitative disclosures in respect of financial instruments.

Other recent developments in issue and endorsed but not yet effective include the following:

- > Amendment to IAS 1 Presentation of Financial Statements – Capital Disclosures effective from 1 January 2007;
- > IFRIC 7 Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies effective for annual periods beginning on or after 1 March 2006;
- > IFRIC 8 Scope of IFRS 2 effective for annual periods beginning on or after 1 May 2006; and
- > IFRIC 9 Reassessment of Embedded Derivatives effective for annual periods beginning on or after 1 June 2006.

The directors anticipate that the adoption of these standards and interpretations in future periods will have no material financial impact on the financial statements of the group.

Notes to the consolidated financial statements (continued)

4 Accounting estimates

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 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 estimates are based on management's best knowledge of current events and circumstances, the actual results may differ from the estimates.

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:

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 either 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. 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 principally based 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 32.

5 Revenue

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

| | Notes | 2006 £m | 2005 £m |
|--|-------|------------|------------|
| Continuing operations | | | |
| Sale of goods | | 100.8 | 143.8 |
| Rendering of services | | 4,184.1 | 3,861.7 |
| Revenue from construction contracts | | 68.7 | 40.2 |
| Revenue from continuing operations as presented in the consolidated income statement | 6 | 4,353.6 | 4,045.7 |
| Discontinued operations | | | |
| Rendering of services | | 76.4 | 124.0 |
| Revenue from discontinued operations | 6, 7 | 76.4 | 124.0 |
| Other operating income | | | |
| Interest receivable | | 14.0 | 11.8 |
| Expected return on defined retirement benefit scheme assets | | 67.2 | 60.8 |
| Total other operating income | | 81.2 | 72.6 |

Notes to the consolidated financial statements (continued)

6 Business and geographical segments

The group operates in two core product areas: security services (combining manned security, justice services and security systems) and cash services. The group operates on a worldwide basis and derives a substantial proportion of its revenue and profit from operations before interest and taxation (PBIT) from each of the following geographic 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. Commentary on the segments is provided within the Operating and Financial Review on pages 10 to 19.

In 2005, the group reported three product segments: manned security (including justice services), security systems and cash services. During 2006 the group integrated its manned security and security systems businesses within Europe into a security services country reporting-line structure, similar to the structure that was already in place within New Markets. Therefore, the group is managed by and thus reports two product segments: security services and cash services. For this year only, the security services segment is further analysed between manned security and security systems but this will not be the case going forward for the fully integrated security services product segment.

Segment information is presented below:

Segment revenue

| Revenue by business segment | Continuing operations 2006 £m | Discontinued operations 2006 £m | Total 2006 £m | Continuing operations 2005 £m | Discontinued operations 2005 £m | Total 2005 £m |
|---------------------------------|-------------------------------------|---------------------------------------|---------------------|-------------------------------------|---------------------------------------|---------------------|
| Security Services | | | | | | |
| UK and Ireland | 539.7 | – | 539.7 | 534.9 | – | 534.9 |
| Continental Europe | 1,252.4 | 3.5 | 1,255.9 | 1,168.0 | 7.5 | 1,175.5 |
| Europe | 1,792.1 | 3.5 | 1,795.6 | 1,702.9 | 7.5 | 1,710.4 |
| North America | 1,049.9 | 13.2 | 1,063.1 | 1,005.6 | 48.0 | 1,053.6 |
| Middle East and Gulf States | 125.5 | – | 125.5 | 89.8 | – | 89.8 |
| Latin America and the Caribbean | 124.5 | – | 124.5 | 100.9 | 0.4 | 101.3 |
| Africa | 152.6 | – | 152.6 | 142.1 | – | 142.1 |
| Asia Pacific | 236.0 | – | 236.0 | 206.5 | – | 206.5 |
| New Markets | 638.6 | – | 638.6 | 539.3 | 0.4 | 539.7 |
| Total Security Services | 3,480.6 | 16.7 | 3,497.3 | 3,247.8 | 55.9 | 3,303.7 |
| Manned Security | 3,064.5 | 16.7 | 3,081.2 | 2,858.2 | 55.9 | 2,914.1 |
| Security Systems | 416.1 | – | 416.1 | 389.6 | – | 389.6 |
| Total Security Services | 3,480.6 | 16.7 | 3,497.3 | 3,247.8 | 55.9 | 3,303.7 |
| Cash Services | | | | | | |
| Europe | 661.7 | 59.7 | 721.4 | 620.7 | 67.9 | 688.6 |
| North America | 85.3 | – | 85.3 | 76.9 | – | 76.9 |
| New Markets | 126.0 | – | 126.0 | 100.3 | 0.2 | 100.5 |
| Total Cash Services | 873.0 | 59.7 | 932.7 | 797.9 | 68.1 | 866.0 |
| Total revenue | 4,353.6 | 76.4 | 4,430.0 | 4,045.7 | 124.0 | 4,169.7 |

Revenue by geographic market

| | Total 2006 £m | Total 2005 £m |
|---------------------------------|---------------------|---------------------|
| UK and Ireland | 928.9 | 902.9 |
| Continental Europe | 1,588.1 | 1,496.1 |
| Europe | 2,517.0 | 2,399.0 |
| North America | 1,148.4 | 1,130.5 |
| Middle East and Gulf States | 147.1 | 97.4 |
| Latin America and the Caribbean | 162.9 | 137.0 |
| Africa | 168.1 | 154.5 |
| Asia Pacific | 286.5 | 251.3 |
| New Markets | 764.6 | 640.2 |
| Total revenue | 4,430.0 | 4,169.7 |

Notes to the consolidated financial statements (continued)

6 Business and geographical segments (continued)**Segment revenue (continued)**

| Revenue from internal and external customers by business segment | Total gross segment revenue 2006 £m | Inter-segment revenue 2006 £m | External revenue 2006 £m | Total gross segment revenue 2005 £m | Inter-segment revenue 2005 £m | External revenue 2005 £m |
|--|--|----------------------------------|-----------------------------|--|----------------------------------|-----------------------------|
| Security Services | 3,501.1 | (3.8) | 3,497.3 | 3,309.3 | (5.6) | 3,303.7 |
| Cash Services | 933.5 | (0.8) | 932.7 | 868.2 | (2.2) | 866.0 |
| Total revenue | 4,434.6 | (4.6) | 4,430.0 | 4,177.5 | (7.8) | 4,169.7 |

Inter-segment sales are charged at prevailing market prices.

Segment result

| PBITA by business segment | Continuing operations 2006 £m | Discontinued operations 2006 £m | Total 2006 £m | Continuing operations 2005 £m | Discontinued operations 2005 £m | Total 2005 £m |
|--------------------------------------|----------------------------------|------------------------------------|------------------|----------------------------------|------------------------------------|------------------|
| Security Services | | | | | | |
| UK and Ireland | 44.1 | – | 44.1 | 42.5 | – | 42.5 |
| Continental Europe | 60.4 | (2.3) | 58.1 | 58.3 | (0.7) | 57.6 |
| Europe | 104.5 | (2.3) | 102.2 | 100.8 | (0.7) | 100.1 |
| North America | 62.7 | 0.7 | 63.4 | 61.0 | (0.4) | 60.6 |
| Middle East and Gulf States | 10.9 | – | 10.9 | 7.8 | – | 7.8 |
| Latin America and the Caribbean | 6.5 | – | 6.5 | 3.3 | – | 3.3 |
| Africa | 12.5 | – | 12.5 | 13.3 | – | 13.3 |
| Asia Pacific | 18.5 | – | 18.5 | 15.2 | – | 15.2 |
| New Markets | 48.4 | – | 48.4 | 39.6 | – | 39.6 |
| Total Security Services | 215.6 | (1.6) | 214.0 | 201.4 | (1.1) | 200.3 |
| Manned Security | 180.9 | (1.6) | 179.3 | 169.3 | (1.1) | 168.2 |
| Security Systems | 34.7 | – | 34.7 | 32.1 | – | 32.1 |
| Total Security Services | 215.6 | (1.6) | 214.0 | 201.4 | (1.1) | 200.3 |
| Cash Services | | | | | | |
| Europe | 68.7 | (15.6) | 53.1 | 60.0 | (1.6) | 58.4 |
| North America | 1.8 | – | 1.8 | 2.8 | – | 2.8 |
| New Markets | 17.4 | – | 17.4 | 15.5 | – | 15.5 |
| Total Cash Services | 87.9 | (15.6) | 72.3 | 78.3 | (1.6) | 76.7 |
| Total PBITA before head office costs | 303.5 | (17.2) | 286.3 | 279.7 | (2.7) | 277.0 |
| Head office costs | (26.5) | – | (26.5) | (24.7) | – | (24.7) |
| Total PBITA | 277.0 | (17.2) | 259.8 | 255.0 | (2.7) | 252.3 |
| PBITA by geographic market | | | | | | |
| Europe | 173.2 | (17.9) | 155.3 | 160.8 | (2.3) | 158.5 |
| North America | 64.5 | 0.7 | 65.2 | 63.8 | (0.4) | 63.4 |
| New Markets | 65.8 | – | 65.8 | 55.1 | – | 55.1 |
| Total PBITA before head office costs | 303.5 | (17.2) | 286.3 | 279.7 | (2.7) | 277.0 |
| Head office costs | (26.5) | – | (26.5) | (24.7) | – | (24.7) |
| Total PBITA | 277.0 | (17.2) | 259.8 | 255.0 | (2.7) | 252.3 |

Notes to the consolidated financial statements (continued)

6 Business and geographical segments (continued)**Segment result (continued)**

| Result by business segment | Continuing operations | Discontinued operations | Total 2006 | Continuing operations | Discontinued operations | Total 2005 |
|---|-----------------------|-------------------------|--------------|-----------------------|-------------------------|--------------|
| | 2006 £m | 2006 £m | | 2005 £m | 2005 £m | |
| Total PBITA | 277.0 | (17.2) | 259.8 | 255.0 | (2.7) | 252.3 |
| Amortisation of acquisition-related intangible assets | (36.0) | – | (36.0) | (33.8) | – | (33.8) |
| Exceptional items | – | – | – | (18.2) | (4.0) | (22.2) |
| Total PBIT | 241.0 | (17.2) | 223.8 | 203.0 | (6.7) | 196.3 |
| Security Services | 199.5 | (1.6) | 197.9 | 173.0 | (1.1) | 171.9 |
| Cash Services | 68.0 | (15.6) | 52.4 | 56.1 | (5.6) | 50.5 |
| Head office costs | (26.5) | – | (26.5) | (26.1) | – | (26.1) |
| Total PBIT | 241.0 | (17.2) | 223.8 | 203.0 | (6.7) | 196.3 |

The profit from continuing operations before interest and taxation stated above is equal to the profit from operations before interest and taxation disclosed in the income statement. The loss from discontinued operations before interest and taxation stated above is equal to the loss before interest and tax from discontinued operations as analysed in note 7 which provides a reconciliation to the net loss from discontinued operations.

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 | 2006 £m | 2005 £m |
|--|--------------------|--------------------|
| By business segment | | |
| Security Services | 1,802.1 | 1,804.6 |
| Cash Services | 843.0 | 863.1 |
| Head office | 81.4 | 54.8 |
| Inter-segment trading balances | (51.8) | (3.6) |
| Total segment operating assets | 2,674.7 | 2,718.9 |
| By geographical segment | | |
| UK and Ireland | 868.9 | 861.9 |
| Continental Europe | 773.6 | 793.1 |
| Europe | 1,642.5 | 1,655.0 |
| North America | 586.7 | 673.7 |
| Middle East and Gulf States | 62.5 | 29.9 |
| Latin America and the Caribbean | 81.2 | 62.4 |
| Africa | 75.1 | 65.9 |
| Asia Pacific | 178.0 | 177.2 |
| New Markets | 396.8 | 335.4 |
| Head office | 81.4 | 54.8 |
| Inter-segment trading balances | (32.7) | – |
| Total segment operating assets | 2,674.7 | 2,718.9 |
| Non-operating assets | 496.9 | 438.1 |
| Total assets | 3,171.6 | 3,157.0 |
| Total liabilities | 2006 £m | 2005 £m |
| By business segment | | |
| Security Services | (598.9) | (596.7) |
| Cash Services | (195.1) | (183.3) |
| Head office | (45.4) | (74.8) |
| Inter-segment trading balances | 51.8 | 3.6 |
| Total segment operating liabilities | (787.6) | (851.2) |
| Non-operating liabilities | (1,412.5) | (1,335.9) |
| Total liabilities | (2,200.1) | (2,187.1) |

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

Notes to the consolidated financial statements (continued)

6 Business and geographical segments (continued)**Other information by geographical location**

| By business segment | Impairment losses recognised in income 2006 £m | Depreciation and amortisation 2006 £m | Capital additions 2006 £m | Impairment losses recognised in income 2005 £m | Depreciation and amortisation 2005 £m | Capital additions 2005 £m |
|---------------------|---|--|------------------------------|---|--|------------------------------|
| Security Services | 2.5 | 58.2 | 135.1 | – | 51.2 | 94.7 |
| Cash Services | – | 67.7 | 73.9 | – | 62.4 | 85.4 |
| Head office | – | 0.3 | 0.6 | – | 2.4 | 5.0 |
| Total | 2.5 | 126.2 | 209.6 | – | 116.0 | 185.1 |

| By geographical segment | Capital additions 2006 £m | Capital additions 2005 £m |
|---------------------------------|------------------------------|------------------------------|
| UK and Ireland | 45.0 | 38.2 |
| Continental Europe | 64.5 | 58.6 |
| Europe | 109.5 | 96.8 |
| North America | 15.2 | 33.1 |
| Middle East and Gulf States | 31.0 | 12.9 |
| Latin America and the Caribbean | 19.1 | 10.2 |
| Africa | 15.1 | 6.3 |
| Asia Pacific | 19.1 | 20.8 |
| New Markets | 84.3 | 50.2 |
| Head office | 0.6 | 5.0 |
| Total | 209.6 | 185.1 |

7 Discontinued operations

Discontinued operations represent operations disposed of during 2005 and 2006.

On 22 December 2006 the group agreed terms for the divestment of G4S Geld-und Wertdienste GmbH, the German cash services business. The business and assets of Cognisa Transportation, Inc were disposed of on 28 December 2006.

In 2005, the group disposed of the security operations of Cognisa Security in the US, which were sold on 31 August 2005. Further disposals included Group 4 Falck Cash Services UK, sold on 7 March 2005, and the manned security business of Falck Security Nederland and its subsidiaries (with the exception of aviation security activities) sold on 2 November 2005. The disposal of these businesses was required by the European Commission as a condition for their approval of the combination between the security businesses of the former Group 4 Falck A/S and Securicor plc on 19 July 2004. During the disposal process the group did not have control over these operations and in consequence their results were not consolidated from 20 July 2004.

Notes to the consolidated financial statements (continued)

7 Discontinued operations (continued)

The results of the discontinued operations which have been included in the consolidated income statement are presented below. The trading results are defined as the results before the impairment of goodwill and other assets and other exceptional items.

| | 2006 £m | 2005 £m |
|---|------------|------------|
| Revenue | 76.4 | 124.0 |
| Expenses | (93.6) | (126.7) |
| Operating loss before interest and taxation | (17.2) | (2.7) |
| Net finance costs | (0.9) | (0.9) |
| Attributable tax (expense)/credit | (1.3) | 1.4 |
| Total operating loss for the year | (19.4) | (2.2) |
| Exceptional items | – | (4.0) |
| Total trading loss for the year | (19.4) | (6.2) |
| Loss on disposal of discontinued operations (note 18) | (19.2) | (5.3) |
| Attributable tax expense | – | (1.6) |
| Total loss on current year disposal | (19.2) | (6.9) |
| Adjustment in respect of disposals in the prior year | 5.2 | – |
| Net loss attributable to discontinued operations | (33.4) | (13.1) |

The adjustment in respect of disposals in the prior year comprises £3.2m relating to the finalisation of proceeds from the sale of Cognisa Security in 2005 and £2.0m relating to the finalisation of the disposal of Falck Security Nederland in 2005.

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

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

| | 2006 £m | 2005 £m |
|--|------------|------------|
| Net cash flows from operating activities | (19.5) | (8.9) |
| Net cash flows from investing activities | 7.6 | (5.9) |
| Net cash flows from financing activities | (0.2) | (0.5) |
| | (12.1) | (15.3) |

8 Profit from operations before interest and taxation

The income statement can be analysed as follows:

| | 2006 £m | 2005 £m |
|---|------------|------------|
| Continuing operations | | |
| Revenue | 4,353.6 | 4,045.7 |
| Cost of sales | (3,423.1) | (3,160.1) |
| Gross profit | 930.5 | 885.6 |
| Administration expenses | (692.3) | (687.9) |
| Share of profit from associates | 2.8 | 5.3 |
| Profit from operations before interest and taxation | 241.0 | 203.0 |

Included within administration expenses is £36.0m (2005: £33.8m) of amortisation of acquisition-related intangible assets and £nil (2005: £18.2m) of exceptional items.

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

Notes to the consolidated financial statements (continued)

9 Profit from operations

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

| | 2006 £m | 2005 £m |
|---|------------|------------|
| Cost of sales | | |
| Cost of inventories recognised as an expense | 68.0 | 69.6 |
| Write-down of inventories to net realisable value | 0.5 | 1.0 |
| Reversal of inventories previously written down to net realisable value because subsequently sold | (0.2) | (0.6) |
| Administration expenses | | |
| Amortisation of acquisition-related intangible assets | 36.0 | 33.8 |
| Amortisation of other intangible assets | 7.4 | 6.8 |
| Depreciation of property, plant and equipment | 82.8 | 75.4 |
| Impairment of property, plant and equipment and intangible assets other than acquisition-related | 2.5 | – |
| (Profit)/loss on disposal of property, plant and equipment and intangible assets other than acquisition-related | (1.6) | 2.8 |
| Impairment of trade receivables | 4.6 | 4.7 |
| Litigation settlements | 0.1 | 1.2 |
| Research and development expenditure | 1.4 | 1.4 |
| Operating lease rentals payable | 85.0 | 64.7 |
| Operating sub-lease rentals receivable | (1.9) | (1.9) |
| Cost of equity-settled transactions | 5.0 | 2.7 |
| Government grants received as a contribution towards wage costs | (2.3) | – |
| Net foreign translation adjustments | 1.0 | 0.2 |

10 Auditors' remuneration

| | 2006 £m | 2005 £m |
|--|------------|------------|
| Fees payable to the company's auditor for the audit of the company's annual report and accounts | 1.0 | 0.9 |
| Fees payable to the company's auditor and its associates for other services: | | |
| The audit of the company's subsidiaries pursuant to legislation | 2.2 | 1.8 |
| Other services pursuant to legislation | 0.1 | 0.1 |
| Taxation services | 0.3 | 0.2 |
| Corporate finance services | 0.2 | – |
| Fees payable to other auditors for the audit of the company's subsidiaries pursuant to legislation | 0.6 | 0.7 |

The Corporate Governance Statement on pages 36 to 38 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.

Notes to the consolidated financial statements (continued)

11 Staff costs and employees

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

| | 2006 Number | 2005 Number |
|--|----------------|----------------|
| By business segment | | |
| Security Services | 403,127 | 359,989 |
| Cash Services | 36,866 | 35,645 |
| Not allocated, including shared administration and head office | 135 | 137 |
| Total average number of employees | 440,128 | 395,771 |
| By geographical segment | | |
| Europe | 114,216 | 112,647 |
| North America | 51,919 | 53,045 |
| New Markets | 273,858 | 229,942 |
| Not allocated, including shared administration and head office | 135 | 137 |
| Total average number of employees | 440,128 | 395,771 |

Their aggregate remuneration, in continuing and discontinued operations comprised:

| | 2006 £m | 2005 £m |
|--------------------------|----------------|----------------|
| Wages and salaries | 2,654.3 | 2,493.0 |
| Social security costs | 387.8 | 365.5 |
| Employee benefits | 66.2 | 61.9 |
| Total staff costs | 3,108.3 | 2,920.4 |

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 39 to 47.

12 Finance income

| | 2006 £m | 2005 £m |
|---|-------------|-------------|
| Interest receivable | 14.0 | 11.8 |
| Expected return on defined retirement benefit scheme assets | 67.2 | 60.8 |
| Total finance income | 81.2 | 72.6 |

13 Finance costs

| | 2006 £m | 2005 £m |
|---|--------------|--------------|
| Interest on bank overdrafts and loans | 53.4 | 43.7 |
| Interest on other loans | 0.2 | 0.5 |
| Interest on obligations under finance leases | 2.4 | 1.8 |
| Total group borrowing costs | 56.0 | 46.0 |
| Finance costs on defined retirement benefit obligations | 66.2 | 65.7 |
| Decrease in fair value of trading investments | — | 0.5 |
| Total finance costs | 122.2 | 112.2 |

Notes to the consolidated financial statements (continued)

14 Taxation

| | Continuing operations 2006 £m | Discontinued operations 2006 £m | Total 2006 £m | Continuing operations 2005 £m | Discontinued operations 2005 £m | Total 2005 £m |
|--|-------------------------------------|---------------------------------------|---------------------|-------------------------------------|---------------------------------------|---------------------|
| Current taxation expense | | | | | | |
| Current taxation: | | | | | | |
| UK corporation tax | 10.1 | – | 10.1 | 11.1 | – | 11.1 |
| Overseas tax | 49.8 | 1.3 | 51.1 | 53.4 | 0.2 | 53.6 |
| Adjustments in respect of prior years: | | | | | | |
| UK corporation tax | 0.7 | – | 0.7 | (3.6) | – | (3.6) |
| Overseas tax | (3.5) | – | (3.5) | (5.6) | – | (5.6) |
| Total current taxation expense | 57.1 | 1.3 | 58.4 | 55.3 | 0.2 | 55.5 |
| Deferred taxation expense (see note 34) | | | | | | |
| Deferred taxation: | | | | | | |
| Current year | – | – | – | (1.4) | – | (1.4) |
| Adjustments in respect of prior years | (0.4) | – | (0.4) | 5.7 | – | 5.7 |
| Total deferred taxation expense | (0.4) | – | (0.4) | 4.3 | – | 4.3 |
| Total income tax expense for the year | 56.7 | 1.3 | 58.0 | 59.6 | 0.2 | 59.8 |

UK corporation tax is calculated at 30.0% (2005: 30.0%) of the estimated assessable profits for the period. Taxation for other jurisdictions is calculated at the corporation tax rates prevailing in the relevant jurisdictions.

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

| | 2006 £m | 2005 £m |
|---|------------|------------|
| Profit/(loss) before taxation | | |
| Continuing operations | 200.0 | 163.4 |
| Discontinued operations | (32.1) | (12.9) |
| Total profit before taxation | 167.9 | 150.5 |
| Tax at UK corporation tax rate of 30% (2005: 30%) | 50.4 | 45.1 |
| Expenses that are not deductible in determining taxable profit | 5.1 | 13.0 |
| Tax losses not recognised in the current year | 13.7 | 3.1 |
| Different tax rates of subsidiaries operating in non-UK jurisdictions | (8.0) | 2.0 |
| Adjustments for previous years | (3.2) | (3.4) |
| Total income tax charge | 58.0 | 59.8 |
| Effective tax rate | 34.5% | 39.7% |

In addition to the income tax expense charged to the income statement, a current tax (charge)/credit of £(1.4)m (2005: £12.3m) has been recognised in equity.

15 Dividends

| | Pence per share | DKK per share | 2006 £m | 2005 £m |
|--|--------------------|------------------|------------|------------|
| Amounts recognised as distributions to equity holders of the parent in the year | | | | |
| Final dividend for the year ended 31 December 2004 | 1.85 | 0.1981 | – | 23.5 |
| Interim dividend for the six months ended 30 June 2005 | 1.30 | 0.1430 | – | 16.4 |
| Final dividend for the year ended 31 December 2005 | 2.24 | 0.2435 | 28.3 | – |
| Interim dividend for the six months ended 30 June 2006 | 1.69 | 0.1863 | 21.4 | – |
| | | | 49.7 | 39.9 |
| Proposed final dividend for the year ended 31 December 2006 | 2.52 | 0.2766 | 32.3 | |

The proposed final dividend is subject to approval by shareholders at the Annual General Meeting. If so approved, it will be paid on 8 June 2007 to shareholders who are on the register on 11 May 2007. The exchange rate used to translate it into Danish Kroner is that at 12 March 2007.

Notes to the consolidated financial statements (continued)

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

| | 2006 £m | 2005 £m |
|---|------------|------------|
| From continuing and discontinued operations | | |
| Earnings | | |
| Profit for the year attributable to equity holders of the parent | 96.5 | 80.8 |
| Effect of dilutive potential ordinary shares (net of tax) | 0.3 | – |
| Profit for the purposes of diluted earnings per share | 96.8 | 80.8 |
| Number of shares (m) | | |
| Weighted average number of ordinary shares | 1,268.3 | 1,265.0 |
| Effect of dilutive potential ordinary shares | 5.4 | 6.0 |
| Weighted average number of ordinary shares for the purposes of diluted earnings/(loss) per share | 1,273.7 | 1,271.0 |
| Earnings per share from continuing and discontinued operations (pence) | | |
| Basic | 7.6p | 6.4p |
| Diluted | 7.6p | 6.4p |
| From continuing operations | | |
| Earnings | | |
| Profit for the year attributable to equity holders of the parent | 96.5 | 80.8 |
| Adjustment to exclude loss for the year from discontinued operations (net of tax) | 33.4 | 13.1 |
| Profit from continuing operations | 129.9 | 93.9 |
| Effect of dilutive potential ordinary shares (net of tax) | 0.3 | – |
| Profit from continuing operations for the purpose of diluted earnings per share | 130.2 | 93.9 |
| Earnings per share from continuing operations (pence) | | |
| Basic | 10.2p | 7.4p |
| Diluted | 10.2p | 7.4p |
| From discontinued operations | | |
| Loss per share from discontinued operations (pence) | | |
| Basic | (2.6)p | (1.0)p |
| Diluted | (2.6)p | (1.0)p |
| From adjusted earnings | | |
| Earnings | | |
| Profit from continuing operations | 129.9 | 93.9 |
| Adjustment to exclude net retirement benefit finance costs and fair value adjustments to financial instruments (net of tax) | (0.7) | 3.8 |
| Adjustment to exclude amortisation of acquisition-related intangible assets (net of tax) | 25.2 | 23.8 |
| Adjustment to exclude exceptional items (net of tax) | – | 20.5 |
| Adjusted profit for the year attributable to equity holders of the parent | 154.4 | 142.0 |
| Adjusted earnings per share (pence) | 12.2p | 11.2p |

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 group undertook a number of acquisitions in the year; none of which were individually material. Principal acquisitions in subsidiary undertakings include the purchase of controlling interests in the Chilean company, Servicios Generales, Limitada, a manned security services provider, and in Al Majal Security Services a security services and cash services business in Saudi Arabia. In addition, the group increased its interests in United Arab Emirates. A summary of the provisional fair value of net assets acquired by geographic location is presented below:

| | Europe £m | North America £m | New Markets £m | Total Group £m |
|--|--------------|------------------------|----------------------|----------------------|
| Provisional fair value of net assets acquired of subsidiary undertakings | 2.0 | 2.0 | 15.4 | 19.4 |
| Acquisition of minority interests | 4.2 | – | 6.8 | 11.0 |
| Total provisional fair value of net assets acquired | 6.2 | 2.0 | 22.2 | 30.4 |
| Goodwill | 21.8 | 3.0 | 43.2 | 68.0 |
| Total purchase consideration | 28.0 | 5.0 | 65.4 | 98.4 |

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 |
|--|------------------|---------------------------------|------------------|
| Acquisition-related intangible assets | – | 17.6 | 17.6 |
| Other intangible assets | 0.3 | (0.2) | 0.1 |
| Property, plant and equipment | 6.7 | (0.2) | 6.5 |
| Inventories | 1.8 | (0.2) | 1.6 |
| Trade and other receivables | 16.7 | (0.9) | 15.8 |
| Deferred tax assets | 0.2 | – | 0.2 |
| Cash and cash equivalents | 3.5 | – | 3.5 |
| Trade and other payables | (10.6) | (2.1) | (12.7) |
| Provisions and retirement benefit obligations | (4.1) | (1.3) | (5.4) |
| Borrowings | (2.5) | – | (2.5) |
| Deferred tax liabilities | – | (4.1) | (4.1) |
| Minority interests | (1.8) | 0.6 | (1.2) |
| Net assets acquired of subsidiary undertakings | 10.2 | 9.2 | 19.4 |
| Acquisition of minority interests | 6.4 | 4.6 | 11.0 |
| Goodwill | | | 68.0 |
| Total purchase consideration | | | 98.4 |
| Satisfied by: | | | |
| Cash | | | 96.0 |
| Transaction costs | | | 0.7 |
| Contingent consideration | | | 1.7 |
| Total purchase consideration | | | 98.4 |

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 £17.6m attributable to the acquisition of subsidiary undertakings and £4.6m attributable to the acquisition of minority interests. 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. Final fair value adjustments will, if required, be reflected in the comparative to the 2007 consolidated financial statements.

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.

From the date of acquisition, in aggregate, the acquired businesses contributed £57.1m to revenues, £7.8m to profit before interest, taxation, amortisation of acquisition-related intangibles and exceptional items and £1.8m to net profit for the part year they were under the group's ownership. If all acquisitions had occurred on 1 January 2006, group revenue would have been £4,409.0m, profit before interest, taxation, amortisation of acquisition-related intangibles and exceptional items would have been £282.1m and profit for the year would have been £110.0m.

Notes to the consolidated financial statements (continued)

17 Acquisitions (continued)

Prior year acquisitions

The group undertook a number of acquisitions in 2005, none of which were individually material. Principal acquisitions in subsidiary undertakings included the purchase of 100% interests in OneService, a valuable transportation business in the US, and in Universal ATM Services, a cash-in-transit business in Canada. In addition, a further 21% of the shares of Hashmira, the Israeli security company were acquired.

At 31 December 2005, the fair value adjustments made against net assets acquired were provisional. The initial accounting in respect of acquisitions made during 2005 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 | – | 11.9 | 11.9 |
| Property, plant and equipment and other intangible assets | 5.5 | (2.3) | 3.2 |
| Current assets | 19.6 | (1.2) | 18.4 |
| Current liabilities | (16.4) | (2.4) | (18.8) |
| Non-current liabilities | (2.2) | (5.4) | (7.6) |
| Net assets acquired of subsidiary undertakings | 6.5 | 0.6 | 7.1 |
| Acquisition of minority interests | 7.1 | 1.5 | 8.6 |
| Goodwill | | | 36.2 |
| Total purchase consideration | | | 51.9 |
| Satisfied by: | | | |
| Cash | | | 49.1 |
| Transaction costs | | | 1.6 |
| Contingent liabilities | | | 1.2 |
| Total purchase consideration | | | 51.9 |

Included within current assets acquired is £3.0m of cash and cash equivalents.

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 £11.9m attributable to the acquisition of subsidiary undertakings and £2.1m attributable to the acquisition of minority interests net of the associated deferred tax liability of £0.6m. On completion of the fair value exercise during 2006, adjustments made to the provisional calculation amount to £3.6m, with an equivalent increase in the reported value of goodwill. The comparative balance sheet at 31 December 2005 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.

In the year of acquisition, in aggregate, the acquired businesses contributed £71.8m to revenues, £8.5m to profit before interest, taxation, amortisation of acquisition-related intangibles and exceptional items and £3.5m to net profit for the part year they were under the group's ownership. If all acquisitions had occurred on 1 January 2005, group revenue would have been £4,057.7m, profit before interest, taxation, amortisation of acquisition-related intangibles and exceptional items would have been £255.9m and profit for the year would have been £91.0m.

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, which were in several European and New Market countries, were satisfied by total cash consideration of £46.3m, of which £18.1m was attributable to the acquisition in March 2007 of Fidelity Cash Management Services (PTY) Ltd in South Africa.

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 a subsidiary

On 22 December 2006 the group agreed terms for the divestment of G4S Geld-und Wertdienste GmbH, the German cash services business. The business and assets of Cognisa Transportation, Inc were disposed of on 28 December 2006. In 2005, the group disposed of the security operations of Cognisa Security in the US, which were sold on 31 August 2005. Further disposals included Group 4 Falck Cash Services UK and Securicor Luxembourg, sold on 7 March 2005 and the manned security business of Falck Security Nederland and its subsidiaries (with the exception of aviation security activities) on 2 November 2005.

The net assets of operations disposed of were as follows:

| | 2006 £m | 2005 £m |
|---|------------|------------|
| Goodwill | 7.7 | – |
| Property, plant and equipment and other intangible assets | 6.9 | 0.3 |
| Investments | – | 32.3 |
| Current assets | 11.1 | 7.6 |
| Other liabilities | (14.5) | – |
| Net assets of operations disposed | 11.2 | 40.2 |
| Financial liabilities arising on disposal | 14.7 | 7.2 |
| Loss on disposal | (19.2) | (5.3) |
| Total consideration | 6.7 | 42.1 |
| Satisfied by: | | |
| Cash | 6.7 | 42.1 |

In addition to the consideration received on current year disposals, a further £3.2m was received in the year relating to the finalisation of proceeds from the sale of Cognisa Security in 2005.

The impact of the disposals on the group's results and cash flows in the current and prior year is disclosed in note 7.

19 Intangible assets

| 2006 | Goodwill £m | Acquisition-related intangible assets | | | Other intangible assets | | Total £m |
|---|----------------|---------------------------------------|---------------------------|------------------|----------------------------------|----------------|----------------|
| | | Trademarks £m | Customer related £m | Technology £m | Development expenditure £m | Software £m | |
| Cost | | | | | | | |
| At 1 January 2006 | 1,229.0 | 16.9 | 259.7 | 12.3 | 2.8 | 47.2 | 1,567.9 |
| Acquisition of businesses | 68.0 | – | 22.2 | – | – | 0.1 | 90.3 |
| Additions | – | – | – | – | 2.2 | 4.9 | 7.1 |
| Disposals | – | – | – | – | – | (0.7) | (0.7) |
| Disposal of businesses | (7.7) | – | – | – | – | (2.3) | (10.0) |
| Translation adjustments | (76.0) | (0.5) | (7.1) | (1.4) | (0.2) | (2.1) | (87.3) |
| At 31 December 2006 | 1,213.3 | 16.4 | 274.8 | 10.9 | 4.8 | 47.1 | 1,567.3 |
| Amortisation and accumulated impairment losses | | | | | | | |
| At 1 January 2006 | (52.7) | (4.7) | (39.3) | (3.5) | (0.1) | (22.6) | (122.9) |
| Amortisation charge | – | (3.3) | (30.5) | (2.2) | (0.3) | (7.1) | (43.4) |
| Impairment losses for the year | – | – | – | – | – | (2.5) | (2.5) |
| Disposals | – | – | – | – | – | 0.2 | 0.2 |
| Disposal of businesses | – | – | – | – | – | 1.8 | 1.8 |
| Translation adjustments | 10.3 | 0.1 | 1.4 | 0.5 | 0.1 | 0.8 | 13.2 |
| At 31 December 2006 | (42.4) | (7.9) | (68.4) | (5.2) | (0.3) | (29.4) | (153.6) |
| Carrying amount | | | | | | | |
| At 1 January 2006 | 1,176.3 | 12.2 | 220.4 | 8.8 | 2.7 | 24.6 | 1,445.0 |
| At 31 December 2006 | 1,170.9 | 8.5 | 206.4 | 5.7 | 4.5 | 17.7 | 1,413.7 |

Notes to the consolidated financial statements (continued)

19 Intangible assets (continued)

| 2005 | Goodwill £m | Acquisition-related intangible assets | | | Other intangible assets | | Total £m |
|---|----------------|---------------------------------------|---------------------------|------------------|----------------------------------|----------------|-------------|
| | | Trademarks £m | Customer related £m | Technology £m | Development expenditure £m | Software £m | |
| Cost | | | | | | | |
| At 1 January 2005 | 1,150.7 | 16.6 | 238.9 | 11.1 | – | 46.7 | 1,464.0 |
| Acquisition of businesses | 36.2 | – | 14.0 | – | – | 0.1 | 50.3 |
| Separately acquired assets | – | – | 3.0 | – | – | – | 3.0 |
| Additions | – | – | – | – | 2.8 | 9.6 | 12.4 |
| Disposals | – | – | – | – | – | (9.5) | (9.5) |
| Translation adjustments | 42.1 | 0.3 | 3.8 | 1.2 | – | 0.3 | 47.7 |
| At 31 December 2005 | 1,229.0 | 16.9 | 259.7 | 12.3 | 2.8 | 47.2 | 1,567.9 |
| Amortisation and accumulated impairment losses | | | | | | | |
| At 1 January 2005 | (54.4) | (1.4) | (11.0) | (0.9) | – | (21.4) | (89.1) |
| Amortisation charge | – | (3.3) | (28.0) | (2.5) | (0.1) | (6.7) | (40.6) |
| Disposals | – | – | – | – | – | 5.4 | 5.4 |
| Translation adjustments | 1.7 | – | (0.3) | (0.1) | – | 0.1 | 1.4 |
| At 31 December 2005 | (52.7) | (4.7) | (39.3) | (3.5) | (0.1) | (22.6) | (122.9) |
| Carrying amount | | | | | | | |
| At 1 January 2005 | 1,096.3 | 15.2 | 227.9 | 10.2 | – | 25.3 | 1,374.9 |
| At 31 December 2005 | 1,176.3 | 12.2 | 220.4 | 8.8 | 2.7 | 24.6 | 1,445.0 |

Included within software is internally generated software with a gross carrying value of £3.5m (2005: £1.1m), and accumulated amortisation of £1.4m (2005: £0.1m), giving a net book value of £2.1m (2005: £1.0m). During the year, additions amounted to £2.4m (2005: £0.6m) and the amortisation charge associated to these assets was £1.3m (2005: £0.1m).

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 2006 was £172.6m (2005: £200.0m), and the amortisation period remaining in respect of these assets is seven 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 following CGUs have significant carrying amounts of goodwill:

| | 2006 £m | 2005 £m |
|-----------------------------|------------|------------|
| US manned security | 250.4 | 285.5 |
| UK cash services | 226.1 | 226.1 |
| UK justice services | 94.0 | 92.6 |
| Netherlands manned security | 95.4 | 87.1 |
| UK manned security | 63.4 | 60.9 |
| Other (all allocated) | 441.6 | 424.1 |
| Total goodwill | 1,170.9 | 1,176.3 |

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 just prior to the year end when the budgeting process is finalised. The group's impairment test compares the carrying value of each CGU to its recoverable amount. 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.

Notes to the consolidated financial statements (continued)

19 Intangible assets (continued)

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 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. 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 progressively reduced in the projections for years four and five. Growth rates across the group's CGUs range from 0% to 17%. Future cash flows are discounted at a pre-tax, weighted average cost of capital which for the group is 10.8% (2005: 10.4%). This rate is adjusted where appropriate to reflect the different financial risks in each country in which the CGUs operate.

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 2006 or for the year ended 31 December 2005.

The key assumptions used in the discounted cash flow calculations relate to the discount rate and underlying economic growth rate. With all other variables being equal, an impairment of approximately £15m would arise if either the group discount rate were to be increased by 1.5% to 12.3%, with an equivalent increase in the discount rate for all countries, or the underlying growth rate in all countries were to be reduced by 2.0%. 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

| | Land and buildings £m | Equipment and vehicles £m | Total £m |
|---|-----------------------------|---------------------------------|--------------|
| 2006 | | | |
| Cost | | | |
| At 1 January 2006 | 142.4 | 489.9 | 632.3 |
| Additions | 12.3 | 93.4 | 105.7 |
| Acquisition of businesses | 0.7 | 5.8 | 6.5 |
| Disposal of businesses | (4.9) | (12.8) | (17.7) |
| Disposals | (8.2) | (12.4) | (20.6) |
| Translation adjustments | (4.5) | (23.4) | (27.9) |
| At 31 December 2006 | 137.8 | 540.5 | 678.3 |
| Depreciation and accumulated impairment losses | | | |
| At 1 January 2006 | (28.2) | (249.5) | (277.7) |
| Depreciation charge | (8.5) | (74.3) | (82.8) |
| Disposals | 3.6 | 8.4 | 12.0 |
| Disposal of businesses | 1.4 | 9.9 | 11.3 |
| Translation adjustments | 1.2 | 12.7 | 13.9 |
| At 31 December 2006 | (30.5) | (292.8) | (323.3) |
| Carrying amount | | | |
| At 1 January 2006 | 114.2 | 240.4 | 354.6 |
| At 31 December 2006 | 107.3 | 247.7 | 355.0 |

Notes to the consolidated financial statements (continued)

20 Property, plant and equipment (continued)

| 2005 | Land and buildings £m | Equipment and vehicles £m | Total £m |
|---|-----------------------------|---------------------------------|-------------|
| Cost | | | |
| At 1 January 2005 | 147.5 | 407.1 | 554.6 |
| Additions | 14.1 | 102.2 | 116.3 |
| Acquisition of businesses | 0.6 | 2.5 | 3.1 |
| Disposal of businesses | – | (0.3) | (0.3) |
| Disposals | (9.3) | (23.4) | (32.7) |
| Transferred to amounts receivable on PFI contracts | (9.7) | – | (9.7) |
| Translation adjustments | (0.8) | 1.8 | 1.0 |
| At 31 December 2005 | 142.4 | 489.9 | 632.3 |
| Depreciation and accumulated impairment losses | | | |
| At 1 January 2005 | (25.0) | (190.1) | (215.1) |
| Depreciation charge | (7.9) | (67.5) | (75.4) |
| Disposals | 4.4 | 11.4 | 15.8 |
| Translation adjustments | 0.3 | (3.3) | (3.0) |
| At 31 December 2005 | (28.2) | (249.5) | (277.7) |
| Carrying amount | | | |
| At 1 January 2005 | 122.5 | 217.0 | 339.5 |
| At 31 December 2005 | 114.2 | 240.4 | 354.6 |

In 2005 land and buildings included assets in the course of construction which on completion in that year were transferred to amounts receivable under PFI contracts. This relates to the group's proportion of assets held in respect of the Private Finance Initiative (PFI) projects undertaken by the group's joint ventures. Further details are provided in note 25.

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

| | 2006 £m | 2005 £m |
|--------------------------|------------|------------|
| Net book value | 52.3 | 44.3 |
| Accumulated depreciation | 34.2 | 25.6 |
| Provision for the year | 11.2 | 10.5 |

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

The category of equipment and vehicles includes assets leased by the group to third parties under operating leases with the following carrying amounts:

| | 2006 £m | 2005 £m |
|--------------------------|------------|------------|
| Net book value | 29.3 | 23.9 |
| Accumulated depreciation | 40.2 | 35.2 |
| Provision for the year | 5.6 | 4.5 |

The net book value of land and buildings comprises:

| | 2006 £m | 2005 £m |
|--|------------|------------|
| Freeholds | 42.9 | 45.8 |
| Long leaseholds (50 years and over) | 14.1 | 14.6 |
| Short leasehold buildings (under 50 years) | 50.3 | 53.8 |

At 31 December 2006 the group had entered into contractual commitments for the acquisition of property, plant and equipment amounting to £4.3m (2005: £1.8m).

Notes to the consolidated financial statements (continued)

21 Investment in joint ventures

The group has the following significant interests in joint ventures:

- a) The group owns 100% of the equity of Wackenhut Services, Inc. ("WSI") under US Foreign Ownership Controlling Interest provisions, governed through a proxy agreement. WSI provides security services to US Government agencies including security services on sites deemed to be strategically sensitive. In accordance with the proxy agreement the group is excluded from access to operational information and is represented by directors on the WSI board who are independent of the group but under fiduciary and contractual obligation to act in the best interest of the shareholder. The group, through the proxy agreement, retains the power to veto certain material operational and strategic decisions. As day to day management of the business remains with an independent board, WSI is accounted for as a joint venture. This means that the group proportionately consolidates the results of WSI at 100%, giving rise to an accounting result identical to that which would be the case if WSI were accounted for as a subsidiary.
- b) At the year end the group owned 54% of the equity of Bridgend Custodial Services Limited, 50% of the equity in STC (Milton Keynes) Limited and a 49% equity shareholding in Safeguards Securicor Sdn Bhd, in Malaysia. In all 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 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 | 2006 £m | 2005 £m |
|-------------------------|--------------------|--------------------|
| Income | 344.4 | 328.7 |
| Expenses | (326.4) | (312.7) |
| Profit after tax | 18.0 | 16.0 |
| Balance sheet | 2006 £m | 2005 £m |
| Assets | | |
| Non-current assets | 49.7 | 49.6 |
| Current assets | 75.8 | 88.6 |
| | 125.5 | 138.2 |
| Liabilities | | |
| Current liabilities | (41.6) | (57.4) |
| Non-current liabilities | (43.2) | (44.9) |
| | (84.8) | (102.3) |
| Net assets | 40.7 | 35.9 |

22 Investment in associates

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

| | 2006 £m | 2005 £m |
|------------------------------|--------------------|--------------------|
| Total assets | 13.1 | 11.5 |
| Total liabilities | (5.8) | (7.6) |
| Net investment in associates | 7.3 | 3.9 |
| Revenue | 83.6 | 88.1 |
| Profit for the year | 2.8 | 5.3 |

The results presented above relate to Space Gateway Support LLC, in the USA, in which the group holds an investment of 46%.

Notes to the consolidated financial statements (continued)

23 Inventories

| | 2006 £m | 2005 £m |
|--------------------------------------|-------------|-------------|
| Raw materials | 9.0 | 7.0 |
| Work in progress | 9.5 | 1.8 |
| Finished goods including consumables | 31.4 | 26.5 |
| Total inventories | 49.9 | 35.3 |

24 Trading investments

Trading investments comprise primarily listed securities of £64.2m (2005: £58.3m) 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

| | 2006 £m | 2005 £m |
|---|--------------|--------------|
| Within current assets | | |
| Trade debtors | 684.6 | 702.5 |
| Amounts owed by associated undertakings | 1.2 | 1.9 |
| Other debtors | 58.2 | 54.5 |
| Prepayments and accrued income | 40.7 | 55.3 |
| Amounts due from construction contract customers (see note 26) | 7.0 | 13.9 |
| Derivative financial instruments at fair value (see note 31) | 7.2 | 1.7 |
| Total trade and other receivables included within current assets | 798.9 | 829.8 |
| Within non-current assets | | |
| Derivative financial instruments at fair value (see note 31) | 1.4 | – |
| Other debtors | 7.3 | 8.6 |
| Amounts receivable under PFI contracts | 41.2 | 41.7 |
| Total trade and other receivables included within non-current assets | 49.9 | 50.3 |

The directors believe the fair value of trade and other receivables, being the present value of future cash flows, approximates to their book value. There is no concentration risk with respect to trade receivables, as the group's customers are both large in number and dispersed geographically.

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 increased its ownership interest in Bridgend Custodial Services Limited to 54%. There were no further changes in these arrangements during the year. The projects are 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.

Notes to the consolidated financial statements (continued)

26 Construction contracts

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

| | 2006 £m | 2005 £m |
|--|------------|------------|
| Amounts due from contract customers included in trade and other receivables | 7.0 | 13.9 |
| Amounts due to contract customers included in trade and other payables | (1.5) | (1.9) |
| Net balances relating to construction contracts | 5.5 | 12.0 |
| Contract costs incurred plus recognised profits less recognised losses to date | 22.6 | 26.4 |
| Less: Progress billings | (17.1) | (14.4) |
| Net balances relating to construction contracts | 5.5 | 12.0 |

At 31 December 2006, advances received from customers for contract work amounted to £3.6m (2005: £4.0m). 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.

27 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:

| | 2006 £m | 2005 £m |
|--|------------|------------|
| Cash and cash equivalents | 307.5 | 263.8 |
| Bank overdrafts | (97.5) | (58.7) |
| Total cash, cash equivalents and bank overdrafts | 210.0 | 205.1 |

Cash and cash equivalents principally comprise short-term money market deposits, current account balances and cash held in ATM machines and in 2006 bore interest at a weighted average rate of 3.2% (2005: 2.2%). 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 65 group companies at 31 December 2006. It is anticipated that the number of participants in the group will continue to grow. At 31 December 2006 £75.2m 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 £17.7m (2005: £15.9m) 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.

28 Bank overdrafts and loans

| | 2006 £m | 2005 £m |
|---|------------|------------|
| Bank overdrafts | 97.5 | 58.7 |
| Bank loans | 900.4 | 877.8 |
| Total bank overdrafts and loans | 997.9 | 936.5 |
| The borrowings are repayable as follows: | | |
| On demand or within one year | 167.6 | 146.4 |
| In the second year | 6.5 | 17.5 |
| In the third to fifth years inclusive | 805.5 | 747.1 |
| After five years | 18.3 | 25.5 |
| Total bank overdrafts and loans | 997.9 | 936.5 |
| Less: Amount due for settlement within 12 months (shown under current liabilities): | | |
| – Bank overdrafts | (97.5) | (58.7) |
| – Bank loans | (70.1) | (87.7) |
| | (167.6) | (146.4) |
| Amount due for settlement after 12 months | 830.3 | 790.1 |

Notes to the consolidated financial statements (continued)

28 Bank overdrafts and loans (continued)

Analysis of bank overdrafts and loans by currency:

| | Sterling £m | Euros £m | US Dollars £m | Others £m | Total £m |
|----------------------------|----------------|--------------|------------------|--------------|--------------|
| Bank overdrafts | 61.4 | 12.1 | 1.1 | 22.9 | 97.5 |
| Bank loans | 126.1 | 293.6 | 447.8 | 32.9 | 900.4 |
| At 31 December 2006 | 187.5 | 305.7 | 448.9 | 55.8 | 997.9 |
| Bank overdrafts | 29.6 | 10.6 | 0.6 | 17.9 | 58.7 |
| Bank loans | 36.7 | 320.1 | 481.8 | 39.2 | 877.8 |
| At 31 December 2005 | 66.3 | 330.7 | 482.4 | 57.1 | 936.5 |

The weighted average interest rates on bank overdrafts and loans were as follows:

| | 2006 % | 2005 % |
|-----------------|-----------|-----------|
| Bank overdrafts | 4.3 | 4.8 |
| Bank loans | 5.1 | 3.9 |

The directors believe the fair value of the group's bank borrowings approximates to their book value.

The group's bank borrowings comprise a £1bn multicurrency revolving credit facility with a maturity date of June 2011, other committed facilities of £40.2m, comprising a £30m 364 day revolving credit facility maturing June 2007 with a one year term out option and a \$20m revolving credit facility maturing July 2007, and uncommitted facilities of £353.3m. At 31 December 2006, undrawn committed available facilities amounted to £227.7m (2005: £268.8m). Interest on all committed 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. The committed bank facilities are subject to one financial covenant and any non-compliance with the covenant may lead to an acceleration of maturity. The group was fully in compliance with the financial covenant throughout the year to 31 December 2006 and the year to 31 December 2005.

Borrowing at floating rates exposes the group to cash flow interest rate risk. The management of this risk is discussed in note 31.

29 Obligations under finance leases

| | Minimum lease payments 2006 £m | Minimum lease payments 2005 £m | Present value of minimum lease payments 2006 £m | Present value of minimum lease payments 2005 £m |
|--|--|--|---|---|
| Amounts payable under finance leases: | | | | |
| Within one year | 15.6 | 14.7 | 13.6 | 12.1 |
| In the second to fifth years inclusive | 40.8 | 32.1 | 35.0 | 27.8 |
| After five years | 8.4 | 6.8 | 7.5 | 6.1 |
| | 64.8 | 53.6 | 56.1 | 46.0 |
| Less: Future finance charges on finance leases | (8.7) | (7.6) | | |
| Present value of lease obligations | 56.1 | 46.0 | | |
| Less: Amount due for settlement within 12 months (shown under current liabilities) | | | (13.6) | (12.1) |
| Amount due for settlement after 12 months | | | 42.5 | 33.9 |

It is the group's policy to lease certain of its fixtures and equipment under finance leases. The weighted average lease term is seven years. For the year ended 31 December 2006, the weighted average effective borrowing rate was 5.5% (2005: 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.

Notes to the consolidated financial statements (continued)

30 Trade and other payables

| | 2006 £m | 2005 £m |
|---|--------------|--------------|
| Within current liabilities: | | |
| Trade creditors | 114.0 | 124.0 |
| Amounts due to construction contract customers (see note 26) | 1.5 | 1.9 |
| Amounts owed to associated undertakings | 0.7 | 1.4 |
| Other taxation and social security costs | 140.3 | 129.3 |
| Other creditors | 311.2 | 346.7 |
| Accruals and deferred income | 138.5 | 147.5 |
| Derivative financial instruments at fair value (see note 31) | 1.4 | 7.6 |
| Total trade and other payables included within current liabilities | 707.6 | 758.4 |
| Within non-current liabilities: | | |
| Derivative financial instruments at fair value (see note 31) | 0.3 | – |
| Other creditors | 0.7 | 1.0 |
| Total trade and other payables included within non-current liabilities | 1.0 | 1.0 |

Trade and other payables principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 42 days (2005: 43 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.

31 Derivative financial instruments

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

| | Assets 2006 £m | Assets 2005 £m | Liabilities 2006 £m | Liabilities 2005 £m |
|------------------------------------|----------------------|----------------------|---------------------------|---------------------------|
| Forward foreign exchange contracts | 6.3 | 1.0 | 0.9 | 7.2 |
| Interest rate swaps | 2.3 | 0.7 | 0.4 | 0.4 |
| Commodity swaps | – | – | 0.4 | – |
| | 8.6 | 1.7 | 1.7 | 7.6 |
| Less: Non-current portion | (1.4) | – | (0.3) | – |
| Current portion | 7.2 | 1.7 | 1.4 | 7.6 |

Derivative financial instruments are stated at fair value, based upon market prices where available or otherwise on discounted cash flow valuations.

The interest rate and commodity swaps qualify as cash flow hedges and have the following maturities:

| | Assets 2006 £m | Assets 2005 £m | Liabilities 2006 £m | Liabilities 2005 £m |
|---|----------------------|----------------------|---------------------------|---------------------------|
| Within one year | 0.5 | – | 0.4 | – |
| In the second year | 0.3 | – | – | 0.1 |
| In the third year | 1.1 | 0.2 | – | 0.1 |
| In the fourth year | 0.2 | 0.1 | – | 0.2 |
| In the fifth year | 0.2 | 0.4 | 0.4 | – |
| Total carrying value of cash flow hedges | 2.3 | 0.7 | 0.8 | 0.4 |

Notes to the consolidated financial statements (continued)

31 Derivative financial instruments (continued)

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 translation risk not hedged by way of loans. 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 2006 was £342.4m. All these contracts had matured by 28 February 2007, at which point they were replaced with new forward foreign exchange contracts. 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 2006, the group's US dollar (including dollar-related) and euro (including euro-related) net assets before net borrowings were approximately 90.6% and 94.7% respectively hedged by foreign currency loans and forward foreign exchange contracts.

Interest rate risk and interest rate swaps

Borrowing at floating rates as described in note 28 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 period of five years. At 31 December 2006 the nominal value of such contracts was £196.7m (in respect of US dollar) and £141.5m (in respect of euro), their weighted average interest rate was 4.9% (US dollar) and 3.4% (euro), and their weighted average period to maturity was three 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.

Commodity risk and commodity swaps

The group's principal commodity risk relates to the fluctuating level of diesel prices, particularly affecting its cash services businesses. Commodity swaps are used to synthetically fix part of the exposure and reduce the associated cost volatility. The commodity swaps in place at 31 December 2006 have a weighted average period to maturity of one year. All the commodity hedging instruments are designated and fully effective as cash flow hedges and movements in their fair value have been deferred in equity.

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. For short-term transactions (under one year), the financial counterparty must be investment grade rated by either the Standard & Pooors or Moodys rating agency. For long-term transactions, the financial counterparty must have a minimum rating of A+/A1 from Standard & Pooors or Moodys.

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 twelve months. Due to the group's global geographical footprint and exposure to multiple industries, there is minimal concentration risk.

Notes to the consolidated financial statements (continued)

32 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 £49.8m (2005: £46.3m).

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 an industry-wide defined benefit scheme which is not valued on an IAS 19 basis as it is not possible to identify separately the group's share of the scheme assets and liabilities. As a result the scheme is accounted for as a defined contribution scheme. Contributions made to this scheme and charged to the income statement in 2006 totalled £4.2m (2005: £1.5m).

The estimated amounts of contributions expected to be paid to the scheme during the financial year commencing 1 January 2007 in respect of the ongoing accrual of benefits is approximately £4.4m.

Defined benefit arrangements

The group operates a number of defined benefit retirement arrangements where the benefits are based on employees' length of service and final pensionable 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 2006 totalled £1.6m (2005: £1.5m). 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 and Canada. The carrying values of retirement benefit obligations at the balance sheet date are presented below:

| | 2006 £m | 2005 £m |
|---|------------|------------|
| UK | 210.7 | 194.8 |
| Netherlands, Ireland and Canada | 15.7 | 21.8 |
| Net liability on material funded defined retirement benefit schemes | 226.4 | 216.6 |
| Unfunded and other funded defined retirement benefit obligations | 24.1 | 24.4 |
| | 250.5 | 241.0 |
| Less: Amounts included within current liabilities | (42.2) | (30.0) |
| Included within non-current liabilities | 208.3 | 211.0 |

The defined benefit schemes in the UK account for 93% of the net balance sheet liability on funded defined retirement benefit schemes. They comprise two arrangements: the pension scheme demerged from the former Group 4 Falck A/S with membership of approximately 8,000 and the Securicor scheme, responsibility for which the group assumed on 20 July 2004 with the acquisition of Securicor plc, with membership of approximately 20,000. Regular actuarial assessments of the schemes are carried out, the latest being at 31 March 2004 in respect of the Group 4 scheme and at 5 April 2006 in respect of the Securicor scheme, which is currently being finalised. Pension obligations stated in the balance sheet take account of future earnings increases, have been updated to 31 December 2006 and use the valuation methodologies specified in IAS 19 Employee Benefits.

Notes to the consolidated financial statements (continued)

32 Retirement benefit obligations (continued)**Defined benefit arrangements (continued)**

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

| | UK | Netherlands | Ireland | Canada |
|-----------------------------------|-----------|-------------|-----------|--------|
| Key assumptions used 2006 | | | | |
| Discount rate | 5.2% | 4.7% | 4.7% | 5.0% |
| Expected return on scheme assets | 6.5% | 5.0% | 5.9% | 6.2% |
| Expected rate of salary increases | 4.9% | 3.0% | 4.0% | 3.8% |
| Future pension increases | 3.1% | 2.0% | 3.0% | 1.5% |
| Inflation | 3.1% | 2.0% | 2.3% | 2.5% |
| Key assumptions used 2005 | | | | |
| Discount rate | 5.3% | 4.0% | 4.3% | 5.0% |
| Expected return on scheme assets | 7.0% | 4.8% | 6.4% | 6.0% |
| Expected rate of salary increases | 3.8%–4.8% | 3.0% | 4.0%–4.3% | 3.5% |
| Future pension increases | 2.8% | 2.0% | 2.3% | 2.3% |
| Inflation | 2.8% | 2.0% | 2.3% | 2.3% |

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 pensioners | 125% | PFA92C2016SC | Male and Female |
| > Future pensioners | 125% | PFA92C2026SC | Male and Female |

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

| | UK £m | Netherlands £m | Ireland £m | Canada £m | Total £m |
|---|----------|-------------------|---------------|--------------|-------------|
| Amounts recognised in income 2006 | | | | | |
| Current service cost | (10.2) | (1.3) | (1.4) | (0.8) | (13.7) |
| Past service cost | (0.4) | (0.7) | – | – | (1.1) |
| Finance cost on defined retirement benefit obligations | (63.3) | (0.8) | (1.2) | (0.9) | (66.2) |
| Expected return on defined retirement benefit scheme assets | 64.8 | 0.5 | 1.1 | 0.8 | 67.2 |
| Total amounts recognised in income | (9.1) | (2.3) | (1.5) | (0.9) | (13.8) |
| Amounts recognised in income 2005 | | | | | |
| Current service cost | (11.9) | (2.1) | (1.0) | (0.8) | (15.8) |
| Finance cost on defined retirement benefit obligations | (61.3) | (2.4) | (1.1) | (0.9) | (65.7) |
| Expected return on defined retirement benefit scheme assets | 57.2 | 1.8 | 1.0 | 0.8 | 60.8 |
| Changes arising on curtailments/settlement | – | 17.0 | – | 0.7 | 17.7 |
| Total amounts recognised in income | (16.0) | 14.3 | (1.1) | (0.2) | (3.0) |

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

| | 2006 £m | 2005 £m |
|---|------------|------------|
| Cost of sales | (11.1) | (11.4) |
| Administration expenses | (3.7) | (3.7) |
| Restructuring costs consequential upon acquisitions | – | 17.0 |
| Finance income | 67.2 | 60.8 |
| Finance costs | (66.2) | (65.7) |
| Total | (13.8) | (3.0) |

The curtailment gains arising in 2005 are in respect of the transfer of members out of group defined benefit pension schemes into schemes which are accounted for as defined contribution. In 2005, a charge from the receiving contribution schemes of £11.0m in respect of these transfers was also recognised in income within restructuring costs consequential upon acquisitions.

Notes to the consolidated financial statements (continued)

32 Retirement benefit obligations (continued)**Defined benefit arrangements (continued)**

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

| | 2006 £m | 2005 £m |
|------------------------|------------|------------|
| At 1 January | (39.1) | (16.5) |
| Recognised in the year | (33.4) | (22.6) |
| At 31 December | (72.5) | (39.1) |

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 | Netherlands £m | Ireland £m | Canada £m | Total £m |
|---|-----------|-------------------|---------------|--------------|-------------|
| 2006 | | | | | |
| Present value of defined benefit obligations | 1,328.8 | 17.4 | 25.9 | 17.8 | 1,389.9 |
| Fair value of scheme assets | (1,118.1) | (10.8) | (20.8) | (13.8) | (1,163.5) |
| Deficit in scheme recognised in the balance sheet | 210.7 | 6.6 | 5.1 | 4.0 | 226.4 |
| 2005 | | | | | |
| Present value of defined benefit obligations | 1,199.3 | 17.2 | 26.4 | 17.5 | 1,260.4 |
| Fair value of scheme assets | (1,004.5) | (8.0) | (18.0) | (13.3) | (1,043.8) |
| Deficit in scheme recognised in the balance sheet | 194.8 | 9.2 | 8.4 | 4.2 | 216.6 |
| 2004 | | | | | |
| Present value of defined benefit obligations | 1,038.6 | 50.6 | 22.7 | 13.7 | 1,125.6 |
| Fair value of scheme assets | (845.8) | (34.3) | (15.2) | (10.1) | (905.4) |
| Deficit in scheme recognised in the balance sheet | 192.8 | 16.3 | 7.5 | 3.6 | 220.2 |

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

| 2006 | UK £m | Netherlands £m | Ireland £m | Canada £m | Total £m |
|---|----------------|-------------------|---------------|--------------|----------------|
| Obligations | | | | | |
| At 1 January 2006 | 1,199.3 | 17.2 | 26.4 | 17.5 | 1,260.4 |
| Service cost | 10.2 | 1.3 | 1.4 | 0.8 | 13.7 |
| Past service cost | 0.4 | 0.7 | – | – | 1.1 |
| Interest cost | 63.3 | 0.8 | 1.2 | 0.9 | 66.2 |
| Contributions from scheme members | 3.5 | 0.7 | 0.3 | – | 4.5 |
| Actuarial gains and losses | 85.4 | (3.5) | (2.2) | 1.7 | 81.4 |
| Benefits paid | (36.7) | – | (0.6) | (0.6) | (37.9) |
| Acquisitions/divestments | 0.4 | 0.5 | – | – | 0.9 |
| Other | 3.0 | – | – | – | 3.0 |
| Exchange rate adjustments | – | (0.3) | (0.6) | (2.5) | (3.4) |
| At 31 December 2006 | 1,328.8 | 17.4 | 25.9 | 17.8 | 1,389.9 |
| Assets | | | | | |
| At 1 January 2006 | 1,004.5 | 8.0 | 18.0 | 13.3 | 1,043.8 |
| Expected return on scheme assets | 64.8 | 0.5 | 1.1 | 0.8 | 67.2 |
| Actuarial gains and losses | 45.4 | 0.6 | 1.4 | 0.6 | 48.0 |
| Actual return on scheme assets | 110.2 | 1.1 | 2.5 | 1.4 | 115.2 |
| Contributions from the sponsoring companies | 33.2 | 0.7 | 1.0 | 1.5 | 36.4 |
| Contributions from scheme members | 3.5 | 0.7 | 0.3 | – | 4.5 |
| Benefits paid | (36.7) | – | (0.6) | (0.6) | (37.9) |
| Acquisitions/divestments | 0.4 | 0.5 | – | – | 0.9 |
| Other | 3.0 | – | – | – | 3.0 |
| Exchange rate adjustments | – | (0.2) | (0.4) | (1.8) | (2.4) |
| At 31 December 2006 | 1,118.1 | 10.8 | 20.8 | 13.8 | 1,163.5 |

Notes to the consolidated financial statements (continued)

32 Retirement benefit obligations (continued)

| 2005 | UK £m | Netherlands £m | Ireland £m | Canada £m | Total £m |
|---|----------|-------------------|---------------|--------------|-------------|
| Obligations | | | | | |
| At 1 January 2005 | 1,038.6 | 50.6 | 22.7 | 13.7 | 1,125.6 |
| Service cost | 11.9 | 2.1 | 1.0 | 0.8 | 15.8 |
| Interest cost | 61.3 | 2.4 | 1.1 | 0.9 | 65.7 |
| Contributions from scheme members | 4.1 | 1.1 | 0.3 | – | 5.5 |
| Actuarial gains and losses | 111.3 | 8.9 | 2.6 | 1.2 | 124.0 |
| Benefits paid | (27.9) | (0.4) | (0.5) | (0.5) | (29.3) |
| Curtailments | – | (46.0) | – | (0.7) | (46.7) |
| Exchange rate adjustments | – | (1.5) | (0.8) | 2.1 | (0.2) |
| At 31 December 2005 | 1,199.3 | 17.2 | 26.4 | 17.5 | 1,260.4 |
| Assets | | | | | |
| At 1 January 2005 | 845.8 | 34.3 | 15.2 | 10.1 | 905.4 |
| Expected return on scheme assets | 57.2 | 1.8 | 1.0 | 0.8 | 60.8 |
| Actuarial gains and losses | 99.0 | 0.2 | 2.0 | 0.2 | 101.4 |
| Actual return on scheme assets | 156.2 | 2.0 | 3.0 | 1.0 | 162.2 |
| Contributions from the sponsoring companies | 26.3 | 1.3 | 0.6 | 1.0 | 29.2 |
| Contributions from scheme members | 4.1 | 1.1 | 0.3 | – | 5.5 |
| Benefits paid | (27.9) | (0.4) | (0.5) | (0.5) | (29.3) |
| Curtailments | – | (29.0) | – | – | (29.0) |
| Exchange rate adjustments | – | (1.3) | (0.6) | 1.7 | (0.2) |
| At 31 December 2005 | 1,004.5 | 8.0 | 18.0 | 13.3 | 1,043.8 |

The contribution from sponsoring companies in 2006 included £24.2m (2005: £15.0m) of additional contributions in respect of the deficit in the schemes.

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

| Analysis of scheme assets | UK | Netherlands | Ireland | Canada | Total |
|---------------------------|------|-------------|---------|--------|-------|
| 2006 | | | | | |
| Equity instruments | 70% | 41% | 79% | 61% | 70% |
| Debt instruments | 27% | 47% | 11% | 34% | 27% |
| Property | – | 12% | 6% | – | – |
| Other assets | 3% | – | 4% | 5% | 3% |
| | 100% | 100% | 100% | 100% | 100% |
| 2005 | | | | | |
| Equity instruments | 70% | 40% | 78% | 57% | 70% |
| Debt instruments | 28% | 50% | 12% | 35% | 28% |
| Property | – | 10% | 6% | – | – |
| Other assets | 2% | – | 4% | 8% | 2% |
| | 100% | 100% | 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 | Netherlands | Ireland | Canada | Total |
|--------------------------------|------|-------------|---------|--------|-------|
| 2006 (return expected in 2007) | 6.7% | 5.4% | 6.4% | 6.4% | 6.7% |
| 2005 (return expected in 2006) | 6.5% | 5.0% | 5.9% | 6.2% | 6.4% |
| 2004 (return expected in 2005) | 7.0% | 4.8% | 6.4% | 6.0% | 6.9% |

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)

32 Retirement benefit obligations (continued)

The history of experience adjustments is as follows:

| 2006 | UK | Netherlands | Ireland | Canada | Total |
|---|--------|-------------|---------|--------|--------|
| Experience adjustments on scheme liabilities | | | | | |
| Amount (£m) | 29.0 | (1.2) | (0.4) | 1.7 | 29.1 |
| Percentage of scheme liabilities (%) | 2 | (7) | (2) | 10 | 2 |
| Experience adjustments on scheme assets | | | | | |
| Amount (£m) | 45.4 | 0.6 | 1.4 | 0.6 | 48.0 |
| Percentage of scheme assets (%) | 4 | 5 | 7 | 5 | 4 |
| 2005 | | | | | |
| Experience adjustments on scheme liabilities | | | | | |
| Amount (£m) | (17.5) | 2.0 | (2.1) | 1.2 | (16.4) |
| Percentage of scheme liabilities (%) | (1) | 12 | (8) | 7 | (1) |
| Experience adjustments on scheme assets | | | | | |
| Amount (£m) | 99.0 | 0.2 | 2.0 | 0.2 | 101.4 |
| Percentage of scheme assets (%) | 10 | 3 | 11 | 2 | 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 | 2.9 | 0.6 | 0.2 | 33.9 |
| Percentage of scheme assets (%) | 4 | 8 | 4 | 2 | 4 |

The estimated amounts of contributions expected to be paid to the schemes during the financial year commencing 1 January 2007 in respect of the ongoing accrual of benefits is approximately £15m 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 around £24m will also be made in 2007 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 AA corporate bond rate which most closely approximates to the timescale of the liability profile of the schemes and have therefore used such a rate, being 5.2%, in respect of the UK schemes at 31 December 2006 (5.3% at 31 December 2005). 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.

Liability calculations are also heavily impacted by the mortality projections included in the actuarial assumptions. The weighted average life expectancy of a 65 year old retired male member of the UK schemes has been assumed as 19.4 years. The weighted average life expectancy at 65 of future male retirees has been assumed as 20.1 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 £51m.

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 £16m.

Notes to the consolidated financial statements (continued)

33 Provisions

| | Employee benefits £m | Restructuring £m | Claims reserves £m | Onerous contracts £m | Other £m | Total £m |
|---------------------------------------|-------------------------|---------------------|-----------------------|-------------------------|-------------|-------------|
| At 1 January 2006 | 9.9 | 7.8 | 48.7 | 9.4 | 16.0 | 91.8 |
| Additional provision in the year | 6.1 | 0.2 | 10.6 | 2.3 | 14.6 | 33.8 |
| On acquisition of subsidiary | 2.1 | 1.0 | - | 0.1 | 1.9 | 5.1 |
| Utilisation of provision | (6.1) | (6.3) | (10.0) | (2.2) | (2.0) | (26.6) |
| Unused amounts reversed | (0.6) | (0.7) | (5.9) | (0.3) | (3.6) | (11.1) |
| Reversals on disposal of a subsidiary | - | - | - | - | (7.9) | (7.9) |
| Translation adjustments | 0.1 | (0.1) | (5.5) | (0.2) | (0.4) | (6.1) |
| At 31 December 2006 | 11.5 | 1.9 | 37.9 | 9.1 | 18.6 | 79.0 |

Included in current liabilities

40.3

Included in non-current liabilities

38.7

79.0

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 services, 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 mainly comprises the provision against future liabilities for 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 relating to rent, rates, service charges and costs of marketing the properties. Whilst the likelihood of settlement of these obligations is considered probable, there is uncertainty over their value and duration.

Other provisions

Other provisions include amounts arising in respect of disposals where their final calculation is dependent on future events. The company and various of its subsidiaries are, from time to time, parties to legal proceedings and claims which arise in the ordinary course of business. Provision is made for the estimated value of settlements likely to be made, but both this value and the timing of any payments are uncertain. The directors do not anticipate, taking account of legal and other professional advice as appropriate, that the outcome of these proceedings and claims will have a material adverse effect on the group's financial position or on the results of its operations.

Notes to the consolidated financial statements (continued)

34 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 2005 | 66.1 | (76.0) | 15.0 | 16.7 | 21.8 |
| Credit/(charge) to the income statement | 1.2 | 10.0 | (6.8) | (8.7) | (4.3) |
| Acquisition of subsidiaries | – | (4.6) | – | – | (4.6) |
| Credit to equity | 6.8 | – | – | – | 6.8 |
| Reallocation of current tax | – | – | – | 7.6 | 7.6 |
| Translation adjustments | – | (0.3) | – | 1.1 | 0.8 |
| At 31 December 2005 | 74.1 | (70.9) | 8.2 | 16.7 | 28.1 |
| At 1 January 2006 | 74.1 | (70.9) | 8.2 | 16.7 | 28.1 |
| Credit/(charge) to the income statement | (10.6) | 10.8 | (1.4) | 1.6 | 0.4 |
| Acquisition of subsidiaries | – | (3.9) | – | – | (3.9) |
| Credit/(charge) to equity | 9.7 | – | – | (2.1) | 7.6 |
| Reallocation of current tax | – | – | – | – | – |
| Translation adjustments | – | 2.8 | – | (1.0) | 1.8 |
| At 31 December 2006 | 73.2 | (61.2) | 6.8 | 15.2 | 34.0 |

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:

| | 2006 £m | 2005 £m |
|------------------------------------|-------------|-------------|
| Deferred tax liabilities | (81.7) | (84.8) |
| Deferred tax assets | 115.7 | 112.9 |
| Total deferred tax position | 34.0 | 28.1 |

At the balance sheet date, the group has unutilised tax losses of approximately £118.4m (2005: £145.0m) potentially available for offset against future profits. A deferred tax asset of £6.8m (2005: £8.2m) has been recognised in respect of approximately £32.1m (2005: £22.0m) of gross losses. No deferred tax asset has been recognised in respect of the remaining £86.3m (2005: £123.0m) 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 £0.4m, £0.2m, £0.7m, £1.3m and £0.6m which will expire in 2007, 2008, 2009, 2010 and 2011 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 £1,056.2m (2005: £1,043.0m). 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 £31.8m (2005: £57.0m) 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.

Notes to the consolidated financial statements (continued)

35 Share capital

| Group 4 Securicor plc | At 31 December 2006 | | At 31 December 2005 | |
|--|---------------------|-------------------------|---------------------|-------------------------|
| | Authorised | Issued and fully paid £ | Authorised | Issued and fully paid £ |
| Ordinary shares of 25p each (2005: 25p each) | 500,000,000 | 319,954,230 | 500,000,000 | 317,178,870 |

| | Number | Nominal value £m |
|---------------------------------------|----------------------|------------------|
| Ordinary shares in issue | | |
| At 1 January 2005 | 1,264,328,241 | 316.1 |
| Shares issued on exercise of options: | | |
| Executive Scheme | 3,182,470 | 0.8 |
| Sharesave Scheme | 1,204,769 | 0.3 |
| At 1 January 2006 | 1,268,715,480 | 317.2 |
| Shares issued on exercise of options: | | |
| Executive Scheme | 3,556,271 | 0.9 |
| Sharesave Scheme | 7,545,167 | 1.9 |
| At 31 December 2006 | 1,279,816,918 | 320.0 |

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 Group 4 Securicor plc shares outstanding at 31 December 2006, 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 |
|-------------------------------|--|----------------------------------|---------------|
| 1 | 72,901 | 107.98p | 2007-2008 |
| 13 | 565,000 | 164p | 2007-2009 |
| 10 | 312,500 | 133.75p | 2007-2010 |
| 13 | 270,000 | 153p | 2007-2010 |
| 7 | 2,030,000 | 108p | 2007-2011 |
| 2 | 150,000 | 130p | 2007-2012 |
| 2 | 50,000 | 85p | 2007-2013 |
| 1 | 25,000 | 79.75p | 2007-2013 |
| 4 | 150,000 | 91p | 2007-2013 |

The proceeds from shares allotted under this scheme during the year amounted to £4,266,774 (2005: £3,711,505).

b) Sharesave scheme

| Number of options outstanding | Number of ordinary shares under option | Exercise price per share (pence) | Exercise date |
|-------------------------------|--|----------------------------------|---------------|
| 69 | 287,589 | 64p | 2007 |

The proceeds from shares allotted under this scheme during the year amounted to £4,860,469 (2005: £1,121,509).

All of the above options are inclusive of those held by directors as set out in the Directors' Remuneration Report on page 45.

6,022,967 shares are held by an employee benefit trust as detailed in note 36.

Notes to the consolidated financial statements (continued)

36 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 2005 | 0.2 | 129.3 | – | 7.7 | 426.3 | (0.2) | 563.3 |
| Total recognised income/(expense) attributable to equity shareholders of the parent | – | 64.9 | (5.8) | 42.1 | – | – | 101.2 |
| Shares issued | 3.8 | – | – | – | – | – | 3.8 |
| Dividends declared | – | (39.9) | – | – | – | – | (39.9) |
| Own shares purchased | – | – | – | – | – | (6.1) | (6.1) |
| Equity-settled transactions: | | | | | | | |
| – Performance share plan | – | 1.2 | – | – | – | – | 1.2 |
| – Share options | – | 1.5 | – | – | – | – | 1.5 |
| At 31 December 2005 | 4.0 | 157.0 | (5.8) | 49.8 | 426.3 | (6.3) | 625.0 |
| At 1 January 2006 | 4.0 | 157.0 | (5.8) | 49.8 | 426.3 | (6.3) | 625.0 |
| Total recognised income/(expense) attributable to equity shareholders of the parent | – | 73.8 | 10.6 | (52.6) | – | – | 31.8 |
| Shares issued | 6.3 | – | – | – | – | – | 6.3 |
| Dividends declared | – | (49.8) | – | – | – | – | (49.8) |
| Own shares purchased | – | – | – | – | – | (3.1) | (3.1) |
| Equity-settled transactions: | | | | | | | |
| – Performance share plan | – | 2.3 | – | – | – | – | 2.3 |
| – Deferred shares | – | 1.3 | – | – | – | – | 1.3 |
| – Share options | – | 1.4 | – | – | – | – | 1.4 |
| At 31 December 2006 | 10.3 | 186.0 | 4.8 | (2.8) | 426.3 | (9.4) | 615.2 |

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.

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.

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 holds 6,022,967 shares, to satisfy the vesting of awards under the performance share plan and performance-related and synergy bonus schemes, which cost £9,435,828. At 31 December 2006, the market value of these shares was £11,323,178. Shares held by the trust are treated as treasury shares, are deducted from equity, do not bear dividends and are excluded from the calculations of earnings per share.

Notes to the consolidated financial statements (continued)

37 Analysis of net debt

A reconciliation of net debt at 31 December 2006 to amounts in the balance sheet is presented below:

| | 2006 £m | 2005 £m |
|----------------------------------|----------------|----------------|
| Cash and cash equivalents | 307.5 | 263.8 |
| Trading investments | 73.7 | 61.4 |
| Current liabilities | | |
| Bank overdrafts | (97.5) | (58.7) |
| Bank loans | (70.1) | (87.7) |
| Obligations under finance leases | (13.6) | (12.1) |
| Non-current liabilities | | |
| Bank loans | (830.3) | (790.1) |
| Obligations under finance leases | (42.5) | (33.9) |
| Total net debt | (672.8) | (657.3) |

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

| | 2006 £m | 2005 £m |
|---|------------|------------|
| Increase in cash, cash equivalents and bank overdrafts per consolidated cash flow statement | 16.1 | 23.1 |
| Purchase/(disposal) of trading investments | 21.8 | (4.8) |
| Increase in debt and lease financing | (86.7) | (39.7) |
| Change in net debt resulting from cash flows | (48.8) | (21.4) |
| Borrowings acquired with subsidiaries | (2.5) | (1.3) |
| Net additions to finance leases | (19.6) | (20.7) |
| Movement in net debt in the year | (70.9) | (43.4) |
| Translation adjustments | 55.4 | (27.5) |
| Net debt at the beginning of the year | (657.3) | (586.4) |
| Net debt at the end of the year | (672.8) | (657.3) |

38 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 34.

Notes to the consolidated financial statements (continued)

39 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:

| | 2006 £m | 2005 £m |
|--|--------------|--------------|
| Within one year | 72.4 | 60.6 |
| In the second to fifth years inclusive | 140.2 | 97.5 |
| After five years | 130.4 | 126.5 |
| Total operating lease commitments | 343.0 | 284.6 |

The group leases a number of its office properties, vehicles and other operating equipment under operating leases. Leased properties 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 £18.3m (2005: £15.2m).

40 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 Group 4 Securicor plc shares with the acquisition of that business on 19 July 2004, and (2) conditional allocations of Group 4 Securicor 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 2006 | Weighted average exercise price (pence) 2006 | Number of shares under option 2005 | Weighted average exercise price (pence) 2005 |
|----------------------------|---|--|---|--|
| Outstanding at 1 January | 15,377,443 | 91.23 | 23,700,596 | 101.33 |
| Forfeited during year | (249,061) | 70.50 | (1,054,873) | 69.78 |
| Exercised during year | (11,101,438) | 82.22 | (4,387,239) | 110.16 |
| Expired during year | (113,954) | 104.00 | (2,881,041) | 153.36 |
| Outstanding at 31 December | 3,912,990 | 117.73 | 15,377,443 | 91.23 |
| Exercisable at 31 December | 3,912,990 | 117.73 | 6,474,532 | 125.30 |

The weighted average share price at the date of exercise for share options exercised during the year was 174.56p (2005: 148.19p). All options outstanding at 31 December 2006 were vested.

Total expenses of £1.4m were recognised in the income statement in the year (2005: £1.5m) in respect of share options, the calculation of which included an estimate of the number which would vest based upon the probable achievement against the performance conditions and the historic experience of forfeitures within Securicor.

Notes to the consolidated financial statements (continued)

40 Share-based payments (continued)

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 50% of the allocation and (b) certain market performance conditions are met as to the remaining 50% of the allocation.

The number of shares allocated conditionally is as follows:

| | Performance-related bonus scheme 2006 Number | PSP 2006 Number | Total 2006 Number | Performance-related bonus scheme 2005 Number | PSP 2005 Number | Total 2005 Number |
|----------------------------|--|-----------------|-------------------|--|-----------------|-------------------|
| Outstanding at 1 January | – | 7,763,419 | 7,763,419 | – | 3,521,866 | 3,521,866 |
| Allocated during the year | 1,915,270 | 3,716,815 | 5,632,085 | – | 4,686,950 | 4,686,950 |
| Forfeited during the year | – | (325,831) | (325,831) | – | (445,397) | (445,397) |
| Outstanding at 31 December | 1,915,270 | 11,154,403 | 13,069,673 | – | 7,763,419 | 7,763,419 |

The weighted average remaining contractual life of conditional share allocations outstanding at 31 December 2006 was 17 months (2005: 23 months). The weighted average share price at the date of allocation of shares conditionally allocated during the year was 185.14p (2005: 132.75p) and the contractual life of all conditional allocations was three years.

Under the PSP, the vesting of 50% of the shares allocated conditionally 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 £3.6m were recognised in the income statement in the year (2005: £1.2m) 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.

41 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 2006 £m | Joint ventures 2005 £m | Associates 2006 £m | Associates 2005 £m |
|----------------------------------|------------------------|------------------------|--------------------|--------------------|
| Transactions | | | | |
| Revenue | 14.5 | 13.6 | – | – |
| Balances | | | | |
| Amounts due to related parties | | | | |
| Creditors | – | – | 5.4 | 5.5 |
| Amounts due from related parties | | | | |
| Debtors | 1.4 | 1.5 | – | – |
| Loans | 3.5 | 3.6 | – | – |

Revenue relates to fees of £9.6m (2005: £9.3m) charged to Bridgend Custodial Services Limited and fees of £4.9m (2005: £4.3m) charged to STC (Milton Keynes) Limited. 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.

Transactions with Mr Jørgen Philip-Sørensen whilst a director (retired 30 June 2006)

The group purchased air transport services of £19,300 (2005: £44,600) and leased office facilities for £34,707 (2005: £91,997) from Mr Jørgen Philip-Sørensen at cost price.

Notes to the consolidated financial statements (continued)

41 Related party transactions (continued)

Transactions with post-employment benefit schemes

Details of transactions with the group's post-employment benefit schemes are provided in note 32. Unpaid contributions owed to schemes amounted to £1.5m at 31 December 2006 (2005: £1.5m).

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 44 to 47.

| | 2006 £ | 2005 £ |
|------------------------------|------------------|-------------------|
| Short-term employee benefits | 4,337,944 | 6,946,490 |
| Post-employment benefits | 826,777 | 500,902 |
| Other long-term benefits | 22,138 | 22,162 |
| Termination benefits | — | 2,451,470 |
| Share-based payment | 2,022,518 | 1,697,589 |
| Total | 7,209,377 | 11,618,613 |

42 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.

On 1 March 2007, to further diversify its sources of funding and to lengthen the maturity of its debt, the group completed a \$550m private placement of unsecured senior loan notes. The proceeds of the issue were used to reduce drawings against the revolving credit bank facility.

Notes to the consolidated financial statements (continued)

43 Significant investments

The companies listed below are those which were part of the group at 31 December 2006 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:

| | |
|-------------------|---|
| Security services | S |
| Cash services | C |

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

| | Product segment | Country of incorporation | Ultimate ownership |
|---|-----------------|--------------------------|--------------------|
| Subsidiary undertakings | | | |
| Group 4 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 Vagt A/S | S | Denmark | 100% |
| G4S Aviation Security (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 Justice Services Limited | S | England | 100% |
| G4S Security Services (UK) Limited | S | England | 100% |
| Group 4 Technology Limited | S | England | 100% |
| Group 4 Total Security Limited | S | England | 100% |
| Falck Eesti AS | S | Estonia | 65% |
| G4S Cash Services (Finland) Oy | C | Finland | 100% |
| G4S Security Services Oy | S | Finland | 100% |
| G4S Cash Services (France) s.a.r.l. | C | France | 100% |
| Group 4 Securicor SAS | S | France | 100% |
| G4S Geld-und Wertdienste GmbH | C | Germany | 100% |
| G4S Sicherheitsdienste GmbH | S | Germany | 100% |
| G4S Sicherheitssysteme GmbH | S | Germany | 100% |
| G4S Keszpenzlogisztikai Kft | S+C | Hungary | 100% |
| G4S Security Services (India) Pvt. Limited ¹ | S | India | 40% |
| G4S Cash Services (Ireland) Limited | C | Ireland | 100% |
| G4S Security Services (Ireland) Limited | S | Ireland | 100% |
| Hashmira Company Limited | S | Israel | 71% |
| G4S Security Services (Kenya) Limited | S+C | Kenya | 100% |
| G4S Security Services S.A. | S+C | Luxembourg | 100% |
| Group 4 Securicor Cash Services BV | C | Netherlands | 100% |
| Group 4 Securicor Beheer BV | S | Netherlands | 100% |
| G4S Security Systems AS | S | Norway | 100% |
| G4S Security Services (SA) (Pty) Limited | S | South Africa | 74% |
| G4S Security Services (Sverige) AB | S | Sweden | 100% |
| G4S Security Systems (Sverige) AB | S | Sweden | 100% |
| G4S Youth Services LLC | S | USA | 100% |
| The Wackenhut Corporation | S | USA | 100% |
| Joint ventures (see note 21) | | | |
| Bridgend Custodial Services Limited ² | S | England | 54% |
| STC (Milton Keynes) Limited | S | England | 50% |
| Safeguards Securicor Sdn Bhd ³ | S+C | Malaysia | 49% |
| Wackenhut Services, Inc. | S | USA | 100% |
| 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. By virtue of a shareholder agreement, the group has the power to govern the financial and operating policies of G4 Security Services (India) Pvt. Limited so as to obtain the benefits from its activities. It is therefore consolidated as a full subsidiary.

² Bridgend Custodial Services Limited has a year end of 30 September.

³ Safeguards Securicor Sdn Bhd has a year end of 30 June.