

# FINAL TRANSCRIPT

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## **GFS.L - Interim 2008 G4S Plc Earnings Conference Call and Presentation**

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## PRESENTATION

**Nick Buckles** - *G4S plc - CEO*

Good morning, everybody. Welcome to the London Stock Exchange for G4S's half year results announcement. Before I start, I just need to ask everybody to make sure your phones are turned off, because we're doing a podcast today and it will mess it up, apparently, if we don't make sure they're all turned off, please.

As usual, I'm going to give you an overview of the results, just the one pager. Trevor will come on then to take you through the financials in more detail. And then I'll come back and talk about the trading performance, and also give you an update on strategy and acquisition integration. And then we'll finish with a Q&A with, first of all, questions from the floor, and then questions from the phone lines.

So, let's look at the highlights. You've all seen the announcement. We had very strong organic turnover growth of 10.5%. Group turnover when you adjust for exchange was actually up 19.3%. It's about 25% headline number. PBITA, again adjusted for exchange, up 19.4%. Again, unadjusted would be 25%-ish, to GBP2.677 billion to GBP2.7 billion. And margin was maintained at 6.5%. And we invested over GBP500 million on acquisitions in the first half.

And we also generated very strong cash flow; good performance for the first half, 77% of operating profits, and that was actually up 35% on the prior year. EPS, unadjusted for exchange, up 26.3%, a very, very strong performance there, to 7.2p. And due to this and our plan to reduce dividend cover over time, we're putting the dividend up 30%, also showing our confidence in the future.

Pretty much the same as last year, a strong performance against all regions and service lines, so a good all round performance; very good progress made on GLS and ArmorGroup. We completed both those deals on May 1, so very busy for the UK team, particularly to work on the communications and integration. But that's going very well, and I'll talk more about that. And we certainly expect this very strong performance to continue for the rest of the year.

So, now I'd like to pass you back to Trevor to talk through the financials in more detail.

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**Trevor Dighton** - G4S plc - CFO

Thanks, Nick, and good morning everybody.

Starting with turnover, and remember all these trading slides are at constant exchange rates. Total turnover was up 19.3%, Security Services rising by 20%, and Cash Services 15%. The larger acquisitions have been Security Services acquisitions, and we'll look at organic growth in a moment. The two largest acquisitions, GLS and ArmorGroup are included for two months, May and June.

Looking at geographic split, the new market success story continues with a massive 35% growth. Europe had 18% growth, helped by the acquisitions, and North America had 9.3%.

On a purely organic growth basis, we have a total organic growth figure of 10.5%, evenly generated by Security Services and Cash Services. Again, it's new markets that shows the largest organic growth at 17%. Europe also shows good growth of around 10%, and North America Security Services has 6.9%. Only the Canadian Cash Services growth blots this chart. It represents the impact of contracts lost last year, but is a very small figure. The reduction is only GBP1 million, and Nick will talk about this later.

Moving on to profit, again, on constant exchange rates, an increase of 19.4%; the increase including exchange benefit was actually 26%. Security Services was slightly higher than the average, and Cash Services slightly lower. Central costs increased by GBP2.6 million, including some centrally taken redundancy costs, and increased costs of long-term incentive plans.

The geographic split shows new markets going up 27.3%, and Europe, helped by acquisitions, up 18.9%.

Margins are similar to last year in both Security Services and Cash Services. The combined margin was 6.5%.

New markets margins went down slightly by 0.5%, due mainly to the impact of the ArmorGroup figures. All Armor central costs have been allocated to Iraq, and we expect these to be reduced over time through synergy benefits. Kabul US Embassy is also included at a breakeven level.

This is the profit and loss account. This is a statutory P&L, so it is at actual exchange rates. PBITA up 26% to GBP174.8 million; interest higher with the spend on acquisitions. Interest was GBP37.5 million for the half year. The amortization line has gone up substantially with the acquisitions, although this isn't a particularly meaningful figure. Tax was GBP29.3 million, and I'll come on to tax next.

The effective tax rate's come down slightly yet again, and is now 27%, which we are predicting is a sustainable level.

Earnings per share, this is where we see the exchange rate impact. Restating 2007, EPS increases it from 5.7p to 6.1p. Going down the elements of earnings, you've seen the profit, interest, and tax lines. Minority interest in our profits has reduced as we've been buying out some of our partners in some countries. The average number of shares has gone up with our share placement, but still the EPS has gone up by 26%, or 18% at constant exchange rates.

The balance sheet, this changed quite a bit with the acquisitions. A fair amount of new goodwill, GBP60 million more fixed assets, and slightly higher working capital than at the year end, although net working capital is still only GBP90 million, similar to June last year. Net debt is GBP1.13 billion, which is a gearing level of 80%. We spent GBP533 million on acquisitions in the first half of the year, and I'll show you the analysis of these later.

These are our financing facilities. The main bank revolving credit facilities, with 16 banks, covers about GBP1.1 billion and matures in 2012. We also have two tranches of US private placements for \$1.2 billion, and the earliest maturing date for these is 2013. So we have no maturity or review dates of four years, and significant headroom, which is quite a good position to be in with the current banking environment.

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Cash flow was fine at 77%. We're still confident about an 85% target for the full year. It's usually slightly lower in the first half and higher in the second half. The balance between CapEx spend and depreciation was an outflow of GBP7.5 million, which is a little higher than normal. CapEx was very low last year at GBP44 million, but working capital was very tightly controlled. In view of the level of growth in the organization, an outflow of GBP33 million is very modest.

To get back to statutory cash flow starting position, we add back CapEx. There has been some cash outflow in trading in our discontinued businesses in France and Germany. We paid additional pension contributions of GBP25 million, and the cash paid for taxation was GBP38 million.

This is the statutory cash flow. Cash interest was GBP42.7 million, and dividends were GBP36.4 million. We spent GBP533 million on acquisitions, and the next slide breaks this down. We also raised GBP276.8 million from the share placement.

These are the main acquisitions that we made. GSL cost GBP174 million for the equity, and GBP180 million for the acquired debt that also relates to GSL, giving a total cost of GBP356 million. ArmorGroup was the next largest at GBP48.5 million, and RONCO, the mine clearing business, cost GBP31.7 million. MJM is the US insurance investigation business. And the other acquisition over GBP10 million was the UK events security business, Rock Steady. We spent GBP32 million on around a dozen smaller acquisitions, and spent GBP44 million on minority buy-outs.

Our pension position hasn't changed very much. The deficit has increased slightly from GBP136 million to GBP149 million, with an increase in the bond yield which we used to discount the liabilities being [contra'd] by a decrease in asset values. We make cash contributions of an additional GBP25 million, and continue to hold 70% of our investments in equities.

And finally dividends, we intend to reduce our cover to 2.5 times for this year. This means a 30% increase for the interim dividend up to 2.75p per share, and reflects the confidence and broad based growth we have in the businesses.

Okay. I'll hand you back to Nick now for a review of trading and strategy.

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**Nick Buckles** - G4S plc - CEO

Thanks very much, Trev.

Just looking at Security Services overall, you'll recall from Trev's slide, organic growth was about 10.4% for this product line, 8.5% in developed markets, and 17% plus in developing. Overall margins were steady. UK and Ireland slightly improved, and really the only slight negatives were some start-up costs, and also ArmorGroup coming in at lower margins, and I'll talk more about that.

Looking at specifics, moving on to the UK and Ireland, very good performance there; organic growth, best we've seen for a while actually, 8.2%. And that was pretty much across the board. Even our manned security business in the UK grew 7% in the first half, which was a great performance.

Adjusted services was up about 11, really pushed by increases in tagging, which were around 15%, and the immigration escorting contract, which was up about 10%. So, some really strong performances there, and the margins slightly up really due to the UK manned security, where we've seen a margin improvement down to some mix change and some better cost control.

And the final point there was they did work extremely hard on integrating both GSL and ArmorGroup, and actually Rock Steady; so, a number of acquisitions really into the UK and Ireland business.

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Moving on to Continental Europe, we saw some very strong organic growth, over 10%, which is a great performance. Baltics were up around 14% organically, Greece, 13%, Austria, 19%, helped a little bit by the football. But, actually, Romania was up 60% on both Security and Cash. It's had an outstanding first half performance.

Two large aviation contracts were started up. Norway, obviously, was a new contract we won, a couple of million pound start-up costs amongst these two businesses. Norway's running very well now.

Schiphol was a renegotiation, and we're very pleased to re-win that contract on slightly different structure. And there was some start-up costs again, because we had to move to different parts of the airport, etc.

Sweden grew 7%, which is a big change from last year, and is starting to show some good improvements.

Moving on to North America, United States overall was very good once more. We actually saw a good margin improvement in the commercial sector. Easier to get people now, particularly in Florida where we've got a very large business. And that's reduced the non-billed overtime that we pay throughout the commercial sector.

Slightly negative on the Government side; big start-up costs, particularly on the immigration and tagging contract in the Justice Services business, another million or two in the first half, but that's going to be running at 10% plus in the second half of that contract. And also some start-up costs on some of the WSI rebids and new business.

Moving on to the nuclear sector, Exelon started to come out of our numbers the back end of the first half. The nuclear, the growth was slightly negative, and we expect that to be completely out of our numbers. And if you remember, that's a GBP50 million a year contract. That'll be out by the end of this month. So, the organic growth was impacted by over 1% in the first half on the nuclear side, and will probably be 2% or 3% for the year, but not a big impact at all on profitability.

In Canada, we did actually price increase a couple of large contracts there which were unprofitable. So, the growth wasn't particularly strong. We lost those contracts. But the margin is improving and we're doing pretty well there to get to our 5% margin target.

Moving on to the new markets, great performance again; margin slightly down in Asia. Two reasons for that; a little bit of lag in terms of price increasing in a couple of markets where we had some wage increases, but that'll be certainly easily caught up in the second half. But there's also the Australian GSL business is only around 5% margins, and that's pulled down the margin a little bit as well.

Great growth in Macau and India, and also Kenya around 20% -- sorry, not Kenya, wrong continent; and India won about five new airports. The first privatized airports in India have all gone to us in terms of security outsourcing including Delhi, Bangalore, etc.

And on China, not a big part of our Group at the moment; we've been operating there for about seven years. But we do believe there are now rules in place, not quite legislation, similar to legislation, there's rules in place so that we'll be able to own, as a foreign company, security businesses in China by the year end. I'm not exactly sure how that's going to be enacted through the provinces, but that will give us an opportunity for much stronger organic growth in China in the future. And, potentially, acquisitions once we are comfortable that the legislation's properly enacted.

Moving on to the Middle East; 22% nearly organic growth, a similar performance as previously, very strong; the same businesses doing very well; Saudi Arabia, Kuwait, and Qatar. Margins slightly down there. And then Trevor mentioned, a big trunk of the ArmorGroup central costs have been charged to Iraq, and we will start to synergize those in the second half. So, I would expect the margins to pick up to a similar to prior year levels for the second half. And we've also got the Kabul US Embassy contract in there, which is currently at breakeven.

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Moving on to Africa, 15% organic growth in places like Kenya, Namibia, Tanzania, Uganda, very good performances; margins maintained overall at 8.6%. Morocco was in a loss-making position last year, but that's turned round and actually improved its margin by about 7% in the first half, so a great performance. And ArmorGroup, in a full year, will add about GBP30 million revenues to the Africa region. So, some good synergy benefits there that will start to come through in the second half, and a very, very strong market position.

And finally in new markets Security Services, Latin America. Despite the renegotiation of the tolls contract, which we flagged earlier this year, its impacted both businesses, both Security Services and Cash Services, by just under GBP1 million in the first half each.

Organic growth was still 17.8%, and, of course, the Columbia tolls contract would have come down significantly. So, a great performance, and with highlights particularly in Argentina, Peru, and Guatemala, where organic growth was very strong and, indeed, the acquisition we made in Chile early last year really has shown some tremendous progress in the first half of this year.

Moving on to Cash Services; overall, margins up once again, 10.1% to 10.3%, really boosted by a good performance in Europe and the margin up despite, you can see there, quite a poor performance from Canada; but a great all-round result with organic growth at 10.6%.

Looking at the individuals businesses, Europe, firstly, the UK continues to be very strong. Organic growth was around the 8% mark. Margins are still double-digit, very strong. We opened a very large, we call them super branches, in Bristol earlier this year. And we're due to open a very large super branch in Battersea in the fourth quarter of this year. That'll replace two or three London branches. And they really will give us a tremendous base for further outsourcing and growth.

ATM, going very well; in fact, ATM across the whole Cash Services piece is going very well, but particularly in the UK. We're now three times bigger than our nearest competitor; a very strong business and really extending the services into real end to end ATM management.

And our cash management business, very good productivity improvements year-on-year; we really are getting very good at this business. The service is good and the control environment is very good too.

Moving on to Continental Europe, I mentioned Romania in Security Services, but it's actually grown 80% in Cash Services year on year. It's now a GBP50 million business annualized in Romania, with more outsourcing business to win. Hungary, strong mid teens, double digit margins and good growth; and Sweden, significantly up in terms of profitability, and around 16% growth. Greece very strong and, indeed, Belgium improved its margins by about 4 percentage points year on year. That's a big benefit in the European numbers.

Moving on to the one blot, as Trevor described it; Canada is still a problem for us. The contracts we lost were the back end of last year, but still -- or, sorry, mid of last year, but still impacting on this year's organic growth. We've replaced the CEO, the CFO, sales and marketing and IT in the first six months, so we've got a whole new team there. There's still a lot of work to do.

We're rolling out the UK operational system called Viper. We've been operating that in the UK for about 12 years. We've now got a foreign deployment model, which is being rolled out in Canada. That will involve track and trace and resource management throughout the business, and that will start to improve our cost controls and service levels. But meanwhile, we've also undertaken a major branch and route re-plan to make sure we can improve margins in the second half and we certainly expect that to happen.

Moving on to Cash Services new markets overall, you can see they're very strong organic growth, 15.6%; margin still over 15%. South Africa, the business we acquired February last year, Fidelity, it's the market leader, 60% market share, tremendous first half, grew 20% organically and improved its margin slightly.

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Malaysia, big turnaround there, it was already a good business. It's now performing exceptionally well, and as is Thailand starting to improve too.

Saudi Arabia growth on Cash Services was over 50%, so a great performance there. But as I mentioned earlier, Columbia tolls has impacted the overall numbers by just under GBP1 million in the first half, but still an excellent performance overall.

So, that's really talked about the trading, just going to move on now to strategy and acquisition integration update. You'll recall at our Capital Markets Day last year, we talked about implementing a new growth strategy throughout the Group. We've made a lot of progress on that, I'm going to talk about it.

We have appointed a Group Strategy and Development Director to help implement the plans. He's a guy that's worked for the Company about 16 years and he was formerly the Development Director for our Cash business, also worked in the security business over the years as well. So, that really will provide a tremendous focal point for us to drive the new growth strategy forward.

We've now got plans in place in 12 of the major businesses to implement the new strategy and I'll talk a bit more about it.

If you recall, this is how we see each and every business and our Group developing over the next couple of years from what is predominately an operational service relationship with customers through providing analysis and design and ultimate delivering a fully outsourced output based solutions to our customers.

And on the left hand side there, you can see it's about increasing customer partnership, increasing customer dependency. And it's very key for us to deliver on this analysis and design phase around understanding the right market segments to focus on, getting a risk assessment and consultancy capability and also a large bidding capability in each of these businesses.

So, that's the strategy. It applies to each of our service lines and the way we're going to do business and continue to do business in the future.

One of the things we've worked on in the last couple of months, and in order to communicate what we're really at both internally and externally, is to define what we mean by security solutions definition, and you can see there it's about outsourcing business processes in sectors where security and safety risks are considered as a strategy threat.

And that's key. That's driving the type of customers we want to do business with. And it'll involve the assessment and management of risk to ensure the safety and security of buildings infrastructure, materials, valuables, people and society.

And, of course, the people and society piece is very much around the critical national infrastructure protection work we do and will do, and also society around justice services, care, etc.

And how we look at it is we want to deliver long term contracts. Now, they could be contracts and they could be relationships. They don't have to be signed long term contracts. But certainly it's about that relationship; that long term relationship with the customer.

It should be an output based relationship and contract, and really deliver on one or two or three or four of these things for our customers, helping them grow their revenue, manage their costs, better manage their risk or assets, or improve their end customer service. And we want to be doing one, two, three or four of these things for each one of our major customers, and that's how we measure the success of the strategy.

In terms of implementation, again you've seen this slide before. We're working from the bottom up. Agree which target countries we think that we're going to do. And this is a question of prioritization. In the end, clearly we're going to do it throughout the

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110 odd businesses we have, but certainly we need to prioritize. In the -- so, in the first instance, we're looking at the right market metrics and particularly in terms of government and secure outsourcing.

We've got to make sure the business is solid in the first place. It seems pretty obvious, but a number of companies have tried to put in strategic change into businesses, which -- to solve operational issues. And clearly there are still some of our businesses we want to get to the minimum margin expectation first.

Our priorities anyway have got to be the UK, USA, Benelux and Scandinavia. They're developed markets businesses, which we need to move through this evolution, but ultimately, all our regions are doing at least one country in terms of implementation now.

Third point is to review the management and make sure they're capable of implementing the change. And, of course, now we have got this Group resource that's helping to introduce strategy into these businesses.

We do the market assessment and then we come up with the implementation plan, which is going to involve structural changes in those businesses and, certainly, acquisition of companies or indeed individuals or teams. And this is the process that we're going through in a number of businesses and have done in the last couple of months.

So to just give you a flavor, these are the priority sectors that have come through in terms of strategic review in the businesses that we have planned so far. UK is around police outsourcing. You can see that's not really come high amongst the other businesses yet, because it's not as developed as it is in the UK; defense certainly, event security, very large growth business in the UK. Borders, that seems to be a theme that's coming through in a number of countries. And, of course, helping the Foreign and Commonwealth Office establish operations and security of operations overseas is key.

On the US side, borders, a big opportunity for growth; we have a number of contracts with immigration and borders anyway, but we see that further developing. Lots of new legislation in the chemicals and petrochemicals sector in the US, that's going to be introduced soon. That's going to introduce a lot more regulation into the security market. Ports is certainly coming through as a key issue. Certainly by 2012, new security has to be in place throughout the cycle of container movement throughout the world. And again, for the US, working for the State Department overseas is key.

A little bit different in Benelux; health and local government have come through as key sectors, mainly due to the way health and safety legislation is enacted in those markets. So, they're going to be the focal point, and also ports again.

And really just summing up some of the other sectors, which have come through in other countries, oil and chemicals and mining are very key, the whole extraction industry, ports again, and central government per se. And we can start to see here that there's some trends developing across sectors that we probably will start to look at now at Group level. Certainly, we need a Group strategy around how we develop the ports and container movement service proposition, and certainly the risk management and risk consulting, we need some sort of global approach to too.

In terms of cash solutions, strategy now in place, the enhanced strategy in place in the five businesses you can see across the top; cash center outsourcing already working very strongly in the UK, large bids in play in Belgium and Netherlands, around GBP20 million to GBP30 million a year, and some opportunities being developed in Hungary and Sweden.

In terms of ATM management end to end, plans fully in place now throughout the businesses. And, indeed, we're operating certain aspects of ATM management in all of those businesses, but certainly the UK is the most developed in terms of end to end.

And then in terms of retail solutions, you'll be pleased to know we now have got a working structure in place involving both hardware, software and reporting. We've got two pilots underway at the moment. We'll have five pilots underway by the end of this month. And currently, we're bidding on opportunities, which could bring us about 50,000 retail sites across Europe. So,

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once it starts working, once people start to see it in action, we think that'll grow pretty quickly. There's a lot of keen interest amongst retailers out there.

Moving on to how the integration of the acquisitions is going. GSL, as Trevor mentioned, our GBP350 million odd acquisition, a fairly straightforward integration. The GSL corporate head office, which was down in Broadway, is being merged with our UK and Ireland head office in Sutton, and that's pretty much complete. The Care and Justice head office of GSL is now running the G4S Justice Services business in the UK. So, the Sutton end has been closed down and moved to Broadway, and that's pretty much happened.

And some good savings coming through on the operational side on both vehicles, we've just replaced 2,000 vehicles for the meter reading business using G4S's terms and conditions, which were significantly better. And we're now the largest user of mobile phone connections in the UK. We have 27,000 connections. So, we've managed to strike a very good deal on that too; so, well on track there.

ArmorGroup, slightly more complicated. The ArmorGroup corporate office has pretty much been merged into the G4S Group head office, some of which -- some of it has actually gone into the G4S UK and Ireland.

Iraq and Afghanistan as operations and some specialist services like de-mining and military training, report into our UK and Ireland management team. In the results you can see they're in the geographic analysis, but operationally they report into the UK and Ireland and will continue to do so.

And the 28 remaining countries have all transferred across to the G4S business managers in -- from July 1. So, the integration is now happening on the ground in those other 20 odd countries.

So just to give you a chart there of the progress, obviously we completed the deals. They completed on May 1 both of them. All competition approvals other than a small one in Columbia on the ArmorGroup side, but it's very small.

Customer and employee communications has gone very well, very well organized. All the management teams are now fully in place and that was a key timing issue for us. So, within two months of acquisition, all the management teams are agreed and in place. Care and Justice has been combined. Been quite a lot of work to do on strategy alignment, great businesses both of them, but certainly needed some work on their strategies and that's nearly finished.

Branding has started. The good news is both are trading ahead of the plan, particularly GSL is performing very well. The end states are now agreed for the structures and the corporate structures, and we have line by line fully detailed integration plans including synergies.

And before I get asked the question, I'll give you the answer, the synergy benefits in the full year are running between the businesses at around GBP13 million to GBP14 million. They'll be fully in for '09. We expect around GBP5 million or so, maybe GBP5 million to GBP6 million in this financial year.

The one-off costs are around GBP8 million to GBP9 million, and the majority of those will land in this financial year. So we'll see a pretty clean set of books from January 1 regarding these two acquisitions. It's gone extremely well so far.

In terms of the strategy, we have invested over GBP0.5 billion and you can see that the countries there. I won't read them through. Trevor's mentioned the acquisitions we've done.

The pipeline is still strong. I think when we raised the extra capital back in May we were talking of maybe spending GBP200 million a year. Some of those deals have moved out into '09. So, we're probably expecting, it's difficult to say, probably around GBP100 million in the second half. The deals haven't gone away, just a bit slower to complete. There's still a very good pipeline out there.

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Acquisition criteria is still key; 12% post tax return within three years, particularly on the smaller deals. And we are continuing to look at any transformational deals, we talk about those all the time obviously. But the key issue is do we get a decent return on investment. And that's the key driver of whether they work or not.

So in terms of summary, a great start to the year, all service lines, all regions; organic growth, over 10%, EPS up 26%. It really has been a very good progress made on the integration of the acquisitions and we really can see some real skills and expertise that we didn't have in the Group coming through that we can further use to grow the rest of our business organically.

The strategy's been driven through the Organization, so we've done about 12 countries with more to come, and we're very confident that the strong results from the first half will continue throughout the year.

And now it's time for you to ask some questions please.

## QUESTIONS AND ANSWERS

### Operator

Okay. At this stage, we will begin the question and answer portion of this call. (OPERATOR INSTRUCTIONS).

### Nick Buckles - G4S plc - CEO

Tom in the middle.

### Unidentified Audience Member

Good morning Nick and Trevor. Just on the ATM services you're providing, can you maybe just say what's the level of growth you're seeing there, the level of opportunity, because in some areas in the more developed markets it looked like maybe some of the outsourcing has obviously picked up, but that maybe the rollout of ATM networks may have slowed down after a big growth phase, but obviously you're getting quite strong growth there and in new markets. What's the outlook for the ATM market for you?

### Nick Buckles - G4S plc - CEO

Well clearly a clear driver of our ATM Business in all markets is the rollout of ATMs but that is only one of the drivers. Sorry, can everyone hear me alright, it doesn't sound like it's -- yes, okay.

And depending on the markets, some are growing quicker than others and we can look at ATMs per population of headcount to see where we think the ATM numbers are going to go in any given market. And so, that's fairly easy to predict and the UK has slowed a little bit in the last couple of years from where we've seen before and certainly the US has, although we don't operate there.

But the bigger driver of the growth is, first of all, does the customer want to outsource the cash replenishment? So, there's still a number of customers in every market that self replenish cash on ATMs. So, all the major banks in the UK, the big four or what was the big four, they still self replenish on branch ATMs. So, that's a huge opportunity.

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And that's the same in developing markets as well. In every country, there are still -- the retail bank branches tend to self replenish. We do HBOS, Abbey and Nationwide in the UK, but there's still a big opportunity just on cash replenishment. And that's true everywhere.

Then the next big opportunity is developing into the full servicing concept where we do first and second line or single line maintenance as well and that's been the key growth driver in the UK business in the last couple of years, actually winning that servicing business from people like NCR, Diebold, etc.

And we're now the largest ATM soft service provider in the UK. We've got about 350 engineers working on servicing ATMs as well as cash replenishment, and that will be a trend which will develop into other markets.

And then the third driver really is then the whole -- taking on the whole of ATM networks and managing them, including cash replenishment, cash forecasting and network management, installations. We do that in the UK. And indeed, we've won contracts now to do that in Hong Kong and Malaysia.

So, that's a real end to end output based contract where the customer pays us for the amount of up-time, and also the level of cash we have in the ATMs. That's another key driver of their cost benefit. If we can keep the element of cash to a minimal level without them running out, clearly then that saves them a huge amount in interest savings. So, it really is a very interesting growth area and one which we have very particular expertise in across the whole Group now.

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**Unidentified Audience Member**

In terms of the secondary and tertiary outsourcing services, is there anything that's particularly holding corporates back from outsourcing more? Or are corporates increasingly coming more and more to the table to you? What's the level of development of the secondary tertiary services?

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**Nick Buckles - G4S plc - CEO**

You see that's the key driver of growth in the UK at the moment, is winning servicing from non cash businesses basically, and that will definitely continue. We're far, far more efficient and we do 24 hour servicing, which a lot of these companies can't do.

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**Unidentified Audience Member**

Okay, and maybe just in terms of the more public sector businesses that you have, obviously perhaps as some of the corporate sector comes under a bit of pressure over the next couple of years, can you maybe just give a bit more detail in terms of maybe some of the budgetary increases that maybe coming through and some of the areas you're focused on in the public sector, some of the infrastructure protection programs and what affect that might have on some of your key businesses?

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**Nick Buckles - G4S plc - CEO**

We don't actually have a number in mind or -- of how much spends have going to increase in the US and the UK. Our whole strategy is about broadening the service offering to government per se.

In the UK prior to the acquisition of GSL and ArmorGroup, our whole relationship really with the government was in the justice sector. And with ArmorGroup and GSL coming on board, there's a broader relationship with defense, the Foreign and Commonwealth Office. And so, we can start to get into areas of government that we haven't addressed before and it really is a very large opportunity just to win market share in existing businesses.

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And pretty much the same in the US; in the US we've been very good at winning business in the energy sector. The WSI business has about 70% or 80% of the outsourced business in the nuclear energy sector -- sorry, the nuclear weapons sector. But we haven't really addressed other areas of government in the US and the new strategy -- and we've done a lot of work on the sectors we can now address in the US will mean borders, a huge opportunity; homeland security, we don't do a huge amount of in the US.

So, it's much more broadening the number of departments with governments that we can deal with through building relationships and building capability. And that's what's happened in the last six months basically and we'll continue to do so.

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**Unidentified Audience Member**

In terms of the stages of procurement that you're at, or maybe the mindset that the client is at, at the moment, are those potential contracts or longer term relationships that the clients already mentally made the mindset that that's something that they want to do? Or are you having -- is it quite early middle stages that you're helping them form the possibility of what they might want to do?

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**Nick Buckles - G4S plc - CEO**

Yes, certainly on cash solutions, we've convinced a number of corporates that a long term relationship with output based contracts is the way to go. And in a lot of cases, we're the only cash solutions business offering that type of relationship. And that's working very well across certainly the businesses that we've put the new strategy in place.

On the government side, they tend to come out on that basis anyway. So, we're not actually having to convince government to do things any differently. For the commercial sector really -- it's only really the UK that we've started to look at some longer term contracting with the commercial sector. There's no real evidence of the mindset changing there yet. But we hope to see some in the near future.

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**Unidentified Audience Member**

Okay, thanks.

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**Nick Buckles - G4S plc - CEO**

Okay. Next question please. Back where you were, please. Thank you.

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**Jaime Brandwood - UBS - Analyst**

Morning, it's Jaime Brandwood from UBS. I just -- can I start by asking a little bit -- a bit more detail on the pension situation in terms of if you were to mark to market right now where you think you would be? And in terms of any future cash contributions, whether they're going to continue to run at roughly at GBP25 million per annum for the foreseeable future?

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**Nick Buckles - G4S plc - CEO**

Yes, I'd better hand that one over, so don't look at me.

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**Trevor Dighton** - G4S plc - CFO

We don't imagine that additional contributions over and above that GBP25 million will be necessary. There's lots of different speculation about different accounting standards coming in. And, of course, if we did do the full mark to market, the deficit would be high, of course, but we haven't anticipated having to do that. And certainly, that contribution level is what we imagine to be there for a couple more years.

**Jaime Brandwood** - UBS - Analyst

Okay. And then just in terms of CapEx for the full year, what's your level of guidance at the moment?

**Trevor Dighton** - G4S plc - CFO

Approximately twice the half year; probably a little bit less than twice the half year. The half year -- the first half year was quite high in spend, but we now do have GSL, which is a little bit more capital intensive.

**Jaime Brandwood** - UBS - Analyst

Okay, and just turning a little bit to the cash handling operations, firstly, can I ask, the slowdown in emerging markets from over 20% organic growth in Q1 to implied about 10% organic growth in Q2, is that purely down to Colombia? Or is there anything else in terms of -- I think you talked about Q1 being over 20% for emerging market cash handling. I think it's come out at 15% or 16% for the whole of the first half; whether that's just Colombia or something else.

**Nick Buckles** - G4S plc - CEO

Just carry on. I'll have a look and let you know in a second.

**Jaime Brandwood** - UBS - Analyst

Okay. And then you didn't talk too much about another reasonably sizeable Continental European cash handling business being the Dutch one. Just wondering what's -- how trends are in the Dutch cash handling market for you.

**Nick Buckles** - G4S plc - CEO

Still very strong in terms of margin, so still strongly double digit. Organic growth has been fairly flat for the last 18 months. There hasn't been a big outsourcing win. But as I mentioned, we're bidding for some cash center outsourcing and some end to end ATMs there. So, hopefully, if we win one of those contracts, we'll see a big chunk of organic growth come through. But it's a very stable environment at the moment.

**Jaime Brandwood** - UBS - Analyst

Organic growth running at about zero at the moment?

**Nick Buckles** - G4S plc - CEO

About 2% or 3% I think. Next question?

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**Jaime Brandwood** - UBS - Analyst

That's it, actually. Just on that emerging market --.

**Nick Buckles** - G4S plc - CEO

I'll come back to that, yes.

**Francesca Raleigh** - Numis Securities - Analyst

Thanks. Francesca Raleigh at Numis. I was just wondering, the Security Services business in the UK, would you anticipate in '09 any pressure on organic sales growth and margins?

**Nick Buckles** - G4S plc - CEO

Well, it's actually been our best organic growth performance really for the last three years in Security Services in the UK. It's just a question of getting some focus on some sectors like events; bringing together some solutions-based approach, which is starting to come through in other -- some systems capability in the UK we didn't have before.

And in terms of our perspective, the market is tough. It always has been. But we're growing quite well at the moment, and we don't see any reason why that won't continue. We've won a couple of decent sized contracts the back end of the first half, and we're actually performing pretty well. The service levels are good. We keep very close monitoring of KPIs, and our KPI index is about the highest it's been in terms of all round service delivery. And the retention rate is still resting at 95% in the Security Services business in the UK. So, that's pretty good.

The justice side, as I mentioned, had strong growth as well in the first half. That's been a trend we've seen for the last couple of years. So, there's no reason we can't maintain this level of growth. So, in the UK and Ireland, we've got a Security Services business that is growing over 8% with 8% margins in a full year, so a pretty strong business.

Next question please.

**Stuart Russell** - Abbey Santander - Analyst

Good morning. [Stuart Russell], Abbey Santander. What differences, or what changes have you made to get the improvements in Sweden and Morocco and other such countries?

**Nick Buckles** - G4S plc - CEO

Sweden, basically we won a very large new contract in Sweden from the competition; an end to end ATM contract for Swedbank. And that put a significant amount of new business into the organization. And with that, we expect that the business would climb to a double digit margin. So, that was the key driver for the profit improvement there.

Unfortunately, alongside that, new legislation and regulation was introduced around security, which was a little bit ill thought through. And that's meant that we've got a lot of additional running costs at the moment to -- because we can't actually do a lot of the changes that were required by the legislation. So, we've got double running vehicles, etc. and that will be solved in the next couple of months. And that's actually impacted the improvement that we would have hoped to have seen.

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So overall, we're still seeing a good improvement, but not to the level that we were going to. But that will certainly become, in our view, a 10% margin business ultimately.

In Morocco, a couple of things really. We had a major rationalization in the cash in transit business, and got rid of a large chunk of unproductive cost. But at the same time, we made an acquisition with a very strong management team together with our own management team, and the business is significantly improved. And I think it's gone from something like a 2% loss to a 5% profit in the last year on year basically.

So, they were the main two businesses that you mentioned.

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**David Hancock** - Morgan Stanley - Analyst

Thanks; morning. It's David Hancock from Morgan Stanley; first question on the cash flow. You mentioned the working capital performance you were pleased with in the first half. Can you just talk about the outlook there and whether GSL and ArmorGroup affect the working capital characteristics going forward, please?

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**Trevor Dighton** - G4S plc - CFO

Yes. No, they follow a pretty similar profile to the rest of our businesses. So, they shouldn't impact the total trends on working capital generation.

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**David Hancock** - Morgan Stanley - Analyst

Okay, great. Thank you. And secondly, on wage inflation, can you -- you mentioned it in Asia, I think. Can you talk a bit about wage inflation across the business elsewhere, and your success in passing that on to customers?

And then finally, on the US business, can you just talk a bit about where you are in terms of border patrol, or border work and ports work at the moment, and what the potential might be there?

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**Nick Buckles** - G4S plc - CEO

Sorry, I missed the first one. I was just -- can I just come back to your answer, Jaime, on the -- it is entirely down to Colombia. It's minus 24% organic growth in Colombia on Cash Services. And it's the LatAm sector that's down 20% overall, so that is the reason first half [versus] second.

So, sorry, can you -- I'm sorry, I was just checking -- can you ask that one again, sorry.

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**David Hancock** - Morgan Stanley - Analyst

The first one was on wage inflation across the business. You touched on Asia, but can you talk about elsewhere as well please?

And secondly, on the US border business and ports.

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**Nick Buckles** - G4S plc - CEO

Yes. One of the analyses we did, just to give you an idea of inflation in our business, last year, inflation across the whole Group based on a weighted average was running at about 3.5%; quite low. And actually relatively -- and that's including all developing markets, etc.

First of this year, there's not so much published data which is bang up to date, but we think that's nearer 5%. So, we have seen an underlying increase in inflation across the whole Group. That's not going to be spot on. But that's a trend that will be roughly right based on the published information. So, clearly, there's been some inflationary pressure throughout the Group, but that hasn't materialized in any margin issues per se.

Looking at specifics, the UK and the US, I've said before, wages are based on contract renewals and renegotiations on the commercial side. And on the government side they're indexed to the contract. So, we don't have any issues in those markets.

Scandinavia and Benelux, yes, there's been some above inflationary wage awards, but they tend to be collectively agreed across the whole businesses and our competitors, and tend to be passed on, and there hasn't been any major issues there. France and Germany were always problematic for us, but clearly, we don't have those issues now.

Moving on to new markets, yes, there have been some significant wage awards and fuel increases in a number of countries. Sometimes, there's a lag in being able to pass them on but, typically, we do them straightaway. Certainly, in terms of fuel increases, we have. On the wage side, sometimes there's a bit of catch-up. And clearly, the level of inflation has increased in a number of developing markets, but we will be able to pass it on because of our market position.

Second point on the borders contract, big contract that we started about 18 months ago, we expect that contract to grow about 20% this year. We signed an extension and some additional business. That's one of the key growth drivers of the UK -- sorry, US commercial business.

And, as I mentioned, it's not actually borders, but the immigration tagging contract, which we started in the US, is about \$25 million to \$30 million a year, didn't make any money. In fact, loss-making in the first half and that will be a strong double digit business in the second half. That's very much linked to volumes, and the volumes have picked up to the levels we're expecting. They just took a little bit longer to get there.

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**David Hancock** - Morgan Stanley - Analyst

Perfect. Thank you.

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**Nick Buckles** - G4S plc - CEO

Any more questions? Jaime?

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**Jaime Brandwood** - UBS - Analyst

Sorry, just a really quick follow-up. Where are you on the French guarding disposal?

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**Nick Buckles** - G4S plc - CEO

Yes, we've done three of the four businesses and collected about GBP37 million, GBP38 million in proceeds. We've still got the French manned security business to sell. That's the largest of the four. We're still in process. And we can't really say any more

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than that, clearly, because we're still waiting to get the deal complete. But as we said in the announcement, we expect that to be done by the end of the year.

**Jaime Brandwood** - UBS - Analyst

Thanks.

**Nick Buckles** - G4S plc - CEO

Any more? Any more --? Any questions on the phone lines? Okay, can we have the questions from the phone line, please?

**Operator**

Yes, of course. (OPERATOR INSTRUCTIONS). Okay, there are currently no questions. (OPERATOR INSTRUCTIONS).

**Nick Buckles** - G4S plc - CEO

Okay, any final questions from the floor before we wrap up? Okay, well, thanks very much for coming along. Good to see you all. We'll see you again soon. Thank you.

**Operator**

This now concludes our call. Thank you all very much for attending.

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