A World of Security Solutions

Group 4 Securicor plc

ANNUAL REPORT AND ACCOUNTS 2006

Group 4 Securicor is the world's leading international security solutions group, operating in over 100 countries with around 470,000 employees.

The group operates in two key sectors:

Security Services
£3,480.6m
Turnover

Cash Services
£873.0m
Turnover

Group at a Glance

Group 4 Securicor is the world's leading provider of security solutions, with a presence in six regions.

North America

51,304

employees

Central / South America

40,439

employees

Countries of operation
Group 4 Securicor is a global company operating in over 100 countries across the world

Employee numbers as at 31 December 2006

Europe

115,488

employees

Middle East

22,230

employees

Asia

159,965

employees

Africa

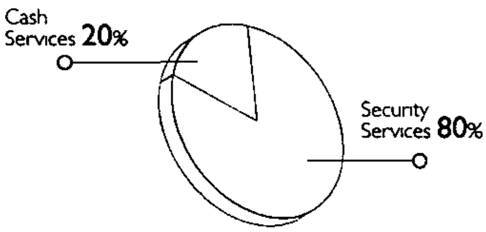
82,079

employees

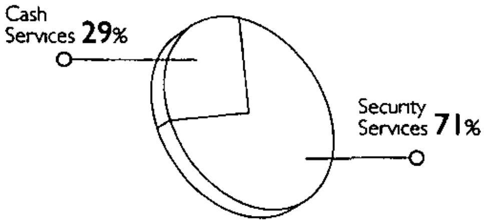
EUROPE / Austria / Belgium / Bulgaria / Cyprus / Czech Republic / Denmark / Estonia / Finland / France / Germany / Greece / Guernsey / Hungary / Ireland / Isle of Man / Jersey / Latvia / Lithuania / Luxembourg / Malta / Netherlands / Norway / Poland / Romania / Russia / Slovakia / Slovenia / Sweden / Turkey / Ukraine / United Kingdom / **NORTH AMERICA** / Canada / United States / **CENTRAL & SOUTH AMERICA** / Argentina / Barbados / Bolivia / Chile / Colombia / Costa Rica / Dominican Republic / Ecuador / El Salvador / Guatemala / Honduras / Jamaica / Mexico / Nicaragua / Panama / Paraguay / Peru / Puerto Rico / Trinidad & Tobago / Uruguay / Venezuela / **AFRICA** / Botswana / Cameroon / Democratic Republic of Congo / Gambia / Ghana / Ivory Coast / Kenya / Lesotho / Malawi / Morocco / Mozambique / Namibia / Nigeria / Sierra Leone / South Africa / Tanzania / Uganda / Zambia / **MIDDLE EAST** / Bahrain / Egypt / Iraq / Israel / Jordan / Kuwait / Lebanon / Oman / Qatar / Saudi Arabia / Syria / United Arab Emirates / Yemen / **ASIA** / Azerbaijan / Bangladesh / Brunei / China / Guam / Hong Kong / India / Indonesia / Kazakhstan / Korea / Macau / Malaysia / Nepal / North Marianas / Pakistan / Philippines / Singapore / Taiwan / Thailand / Turkmenistan / Uzbekistan

Financial Performance for 2006

Continuing turnover



Continuing PBITA*



We remain focused on driving growth and improving margins across all our businesses around the world, with a view to continuously creating and maintaining value for our shareholders

Group total

+7.1% Group organic growth

+8.4%** Group turnover of continuing businesses to £4 35 billion

Group total

£4,353.6m 2006 Turnover	**£277.0m** 2006 PBITA	**6.4%** 2006 Margin	**88%** 2006 Cash generation	**12.2p** 2006 Adjusted earnings per share
£4,045.7m 2005 Turnover	**£255.0m** 2005 PBITA	**6.3%** 2005 Margin	**79%** 2005 Cash generation	**11.2p** 2005 Adjusted earnings per share

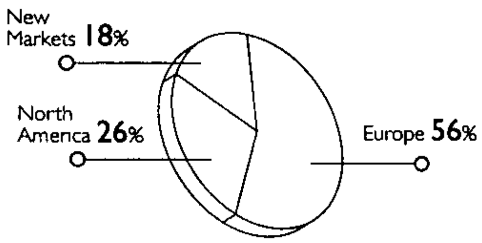
* PBITA = profit before interest, taxation amortisation of acquisition-related intangible assets and exceptional items

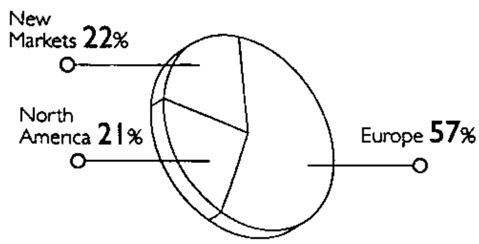
** at constant exchange rates

Continuing turnover by geography

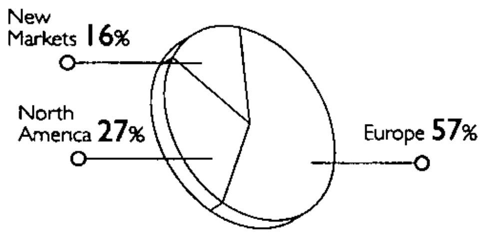
Continuing PBITA by geography

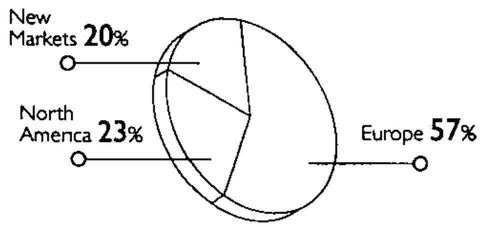
2006





2005





+10%** PBITA growth to £277 0m

+19% Increase in recommended total dividend per share

Security Services

£3,480.6m 2006 Turnover	**£215.6m** 2006 PBITA	**6.2%** 2006 Margin
£3,247.8m 2005 Turnover	**£201.4m** 2005 PBITA	**6.2%** 2005 Margin

Cash Services

£873.0m 2006 Turnover	**£87.9m** 2006 PBITA	**10.1%** 2006 Margin
£797.9m 2005 Turnover	**£78.3m** 2005 PBITA	**9.8%** 2005 Margin

Our vision

THE GROUP HAS A CLEAR CORPORATE VISION AND A STRONG SET OF VALUES WHICH ENSURE THAT EVERYONE UNDERSTANDS THE STRATEGY OF THE ORGANISATION AND THEIR ROLE IN ITS DELIVERY:

To be recognised as the *global leader* in providing security solutions

Recognised. our stakeholders know the organisation well and respect its position as the leader in its field

Global Leader the largest security company in the world, which delivers the highest quality services in the fields of security services and cash services, and achieves the best financial returns in the industry

Security Solutions we take time to get close to our customers to ensure that we understand their security needs – our skill is in providing solutions to their needs which deliver business benefits for them

Customer Focus

We have close, open relationships with our customers that generate trust and we work in partnership for the mutual benefit of our organisations.

Expertise

We develop and demonstrate our expertise through our innovative and leading edge approach to creating and delivering the right solution.

Performance

We challenge ourselves to improve performance year-on-year and to create long term sustainability.

Best People

We always take care to employ the best people, develop their competence, provide opportunity and inspire them to live our values.

Integrity

We can always be trusted to do the right thing.

Collaboration & Teamwork

We collaborate for the benefit of G4S as a whole.

Our values

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Chairman's Statement

Alf Duch-Pederson
Chairman

I am proud that we have delivered on the promises we made to investors when we created Group 4 Securicor in 2004 We have had a number of challenges along the way, but our strong 2006 results demonstrate that we have the right strategy and the commitment of our management and staff across the organisation This gives me confidence for the future and I am excited about moving into our next phase of accelerated growth and development

WE BELIEVE WE ARE WELL POSITIONED TO DELIVER ON OUR STRATEGY

WE LOOK FORWARD TO THE REST OF 2007 WITH CONFIDENCE

Results

The strong performance of the company in 2006 continues to demonstrate the benefits of the merger in 2004 between Securicor and the security businesses of Group 4 Falck We intend to build on this strong foundation to exploit further the group's potential for development in the future

In 2006 profit before interest, taxation, amortisation and exceptional items increased by 10%* to £277 0m whilst turnover grew 8 4%* to £4,353 6m Of that total profit figure £215 6m was attributable to security services (which now incorporates our manned security, justice services and security systems businesses) and £87 9m to cash services, less head office costs of £26.5m Our margin has increased to 6 4%, organic growth was strong and improved at 7 1% and adjusted earnings per share increased by 9% to 12.2p

- *at constant exchange rates*

Dividend

The directors recommend a final dividend of 2.52p or DKK 0 277 per share payable on 8 June 2007 which with the interim dividend of 1 69p or DKK 0 186 per share paid on 15 December 2006 makes a total dividend of 4 21p or DKK 0 463 per share for the year ended 31 December 2006 This represents an increase of 19% over the total dividend for 2005 and reflects the board's aim as stated last year of reducing the company's target dividend cover to two and a half times over the medium term

"WE NOW HAVE SOME 470,000 EMPLOYEES IN THE GROUP WORKING TO PROVIDE EXCELLENT SERVICE TO OUR CUSTOMERS

It is the collective effort of those employees, who often work in very challenging circumstances, which enables us to maintain our position as a global industry leader"

January 2006
G4S brand identity launches in Hong Kong

March 2006
G4S Security Services (UK) completes licensing project and achieves Approved Contractor Status ahead of schedule

June 2006
NASA awards Wackenhut Services, Inc fire protection and emergency response contract at Ames Research Centre

July 2006
G4S wins Human Resources Excellence award for "Best Executive Development Programme"

August 2006
G4S India recruits its 100,000th employee

September 2006
Lord Condon appointed deputy chairman

November 2006
G4S acquires Servicios Generales in Chile and Defence Systems Africa in Democratic Republic of Congo

Our Board

I assumed the role of chairman on the retirement from the board of Jørgen Philip-Sørensen at the end of June 2006, as announced last year Mr Philip-Sørensen's contribution over 50 years to this company and before that to Group 4 and Group 4 Falck has been immense and it is a privilege to have the opportunity now to pay tribute to my predecessor for what he has done for our industry and particularly for his part in the merger process which resulted in the formation of Group 4 Securicor

Waldemar Schmidt also retired from the board at the end of June and I would like to express my gratitude for his contribution to our board.

During the year we have added to the breadth of experience on the board, with Mark Seligman joining at the beginning of the year and Mark Elliott being appointed in September Mark Seligman's capital markets knowledge is invaluable, whilst Mark Elliott brings with him experience of running a large, international services business and of the North American market.

I must also mention the retirement at the end of the year of our company secretary, Nigel Griffiths. His involvement with the group spanned four decades, including 13 years as an executive director of Securicor plc His support and counsel has been greatly valued by the board and we wish him well in his retirement.

Our Staff

We now have some 470,000 employees in the group working to provide excellent service to our customers. It is the collective effort of those employees, who often work in very challenging circumstances, which enables us to maintain our position as a global industry leader We place great value on the commitment these employees demonstrate every day Mobilising the talents of all these people across such a large, complex organisation is a challenge we relish and we are proud that the positive experience of our customers starts with the individual efforts of every single member of staff

Our Future

At a time when security is seen as ever more important, we continue to devote our efforts to providing security solutions to our customers. The G4S brand has now been rolled out across the world and we hope to obtain support from investors to complete the final part of the brand implementation this year by changing the company's name to G4S plc

We still have many challenges to face but we believe we are well positioned to deliver on our strategy and we look forward to the rest of 2007 with confidence

Operating and Financial Review

Nick Buckles
Chief Executive Officer

We achieved a strong set of results across the group in 2006, with excellent growth in New Markets and strong margin progression in Cash Services

ORGANIC GROWTH INCREASED TO

7.1%

MARGIN IMPROVED TO

6.4%

ADJUSTED EARNINGS PER SHARE INCREASED BY

9%

Chief Executive's Review

2006 Performance

2006 was the final year of merger consolidation It was a period during which we bedded down the integration of our various businesses and made the final strategic changes to the management structure and processes which will enable us to move into a new phase of enhanced growth and development in 2007

It was also a period during which we implemented the new corporate brand identity across the world – no mean feat across 100 countries and a workforce approaching half a million

At the same time the businesses continued to perform strongly and those parts of the group which had under-performed in the previous year began to show signs of positive development.

When we presented our full year results we were pleased to report that

> We had strong organic turnover growth of 7 1%
> Group turnover was up 8 4%* to £4,353 6 million
> PBITA was up 10%* to £277 0 million
> The group margin had improved from 6 3% to 6 4%
> Cash flow generation increased to £241 1 million, 88% of PBITA from 79% in 2005
> Adjusted earnings per share increased 9% to 12.2p
> We were recommending a 13% increase in the final dividend to 2.52 pence (DKK 0 277) per share

* at constant exchange rates

I would like to pay a personal tribute to everyone across the organisation who contributed to the business performance Focusing on business performance during a time of incredible change can be extremely challenging and I am proud of the fact that we have the quality of people and a positive attitude which enables us to deliver on our promises.

"WE HAVE CREATED A MARKET FACING ORGANISATION WHICH IS FOCUSED ON KEY SECTORS AND ON FURTHER DEVELOPING A THOROUGH UNDERSTANDING OF OUR CUSTOMERS' NEEDS"

Historical Performance Analysis

As the group has now been established since 2004 and has a performance history we are able to analyse our performance in terms of historical trends.*

The rationale for creating Group 4 Securicor focused on five key areas:

1 Creating a global leader in security services
2 Strong foundation for developing security solutions model
3 Enhanced platform across developing markets
4 Leveraging expertise and operational flexibility in cash services
5 Cost synergies

We are proud of the fact that we have achieved the goals that we set out some three years ago

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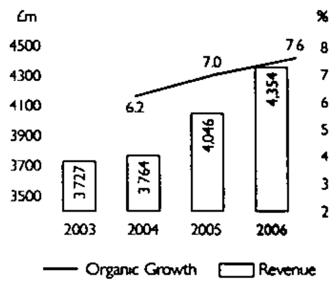
1 Creating the global leader in security solutions

By bringing together the various aspects of the two organisations we committed to becoming the global leader in providing security solutions.

Revenue & Organic Growth Development*

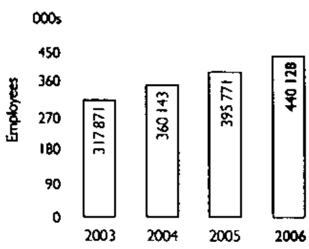


Revenues have increased from £3.7 billion in 2003 to over £4.3 billion in 2006 and organic growth has increased to 7.6% from 6.2% in just two years.**

We are now the largest employer listed on the London Stock Exchange

We are now the largest employer listed on the London Stock Exchange

Average employee numbers from 2003-2006*



* *For the purposes of comparison, we also show figures for 2003 and 2004 on a proforma basis, i.e. based on the combined figures for Securicor plc and the security businesses of the former Group 4 Falck A/S*

** *Growth rates have been adjusted to remove the effect of temporary hurricane-related revenues in 2004 and 2005*

Operating and Financial Review (continued)

Chief Executive's Review (continued)

2 Strong foundation for developing security solutions model

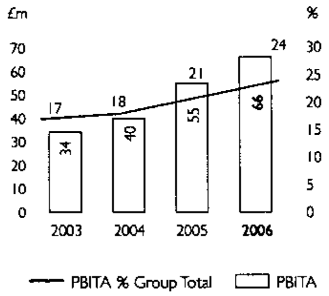
We also saw the merger as a strong foundation for developing a security solutions model where customer relationships were driven by risk management and the ability to pull together a range of specialist security services to manage risk, security and safety

In 2006 we combined our expertise in manned security and security systems under a single organisational structure providing one security solutions approach to the customer By combining this approach with our unique geographic reach we have achieved a distinct competitive advantage

3 Enhanced platform across developing markets

Developing markets, which we define as New Markets, are playing an increasingly significant part in the group's development They continue to grow strongly and make a substantial contribution to the group's performance

New Markets PBITA Development*



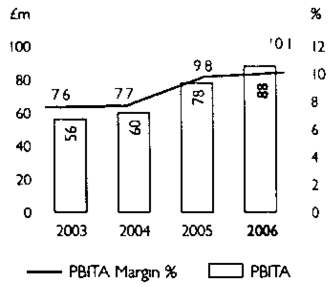
In 2003 our New Markets businesses generated £34 million in profits representing 17% of the group's total In 2006 this has increased to £66 million or 24% of the group's total PBITA

We expect the contribution from our New Markets businesses to accelerate in the coming years

4 Leveraging expertise and operational flexibility in cash services

2006 was a very strong year for the performance of the cash services division This has been achieved by spreading best practice and expertise across the group

Cash Services PBITA Development*



In 2003 the cash services business contributed £56 million to the group's PBITA representing a PBITA margin of 7 6% This year, these businesses have contributed almost £90 million and a PBITA margin of over 10%

5 Cost Synergies

The final area of focus was the delivery of the synergy targets that we promised at the time of the merger We are very pleased that the integration of the businesses was extremely successful and that we achieved our synergy targets ahead of the planned timetable

Alongside this and a strong business performance in 2006 we have focused on making sure the structures and strategies are in place for the next phase of the group's development

* *For the purposes of comparison, we also show figures for 2003 and 2004 on a proforma basis, i e based on the combined figures for Securicor plc and the security businesses of the former Group 4 Falck A/S*

Future Development

We knew that there would be additional strategic benefits to the creation of the group over and above the initial merger rationale

We have created a market facing organisation which is focused on key sectors and on further developing a thorough understanding of our customers needs. With a strong underlying performance unique market positions, excellent customer relationships and an international highly skilled senior management team we are confident that we can take advantage of these additional strategic benefits and are optimistic about the future of the group.

We have excellent relationships with governments in many of the countries in which we operate – the US and UK governments are particularly key to our future development. We expect governments around the world to become increasingly important to our organisation – both as a customer and regulator – and we will continue to build on our expertise in the sector

Another key element of our future strategy will be to evaluate new service opportunities which meet the growing needs of our customers. Security expertise is one of our core values and this will remain at the heart of our service offering, but we intend to broaden our horizons on service development in the coming months and years

Group Targets

In 2004 we set ourselves an overall organic growth target of 6% per year In 2006 we have exceeded that target and delivered organic growth of over 7%. We are confident that we can continue to grow at this level into the future and are increasing our minimum organic growth target to 7% for the group

We continue to target a PBITA margin of 7% which we believe is achievable within the next two to three years

We have had very strong cash generation in the year We are increasing our cash generation target to 85% from the current 80% target.

We announced last year our intention to increase dividends over time and will aim to reduce our dividend cover to around 2.5 times – our target is to achieve this level of cover within the next two years.

Security expertise is one of our core values and this will remain at the heart of our service offering

Acquisitions

In 2006 we made a number of acquisitions in many different countries, with a particular focus on New Markets including Chile, Hong Kong, Guatemala, Mozambique Democratic Republic of Congo, Indonesia, Saudi Arabia and United Arab Emirates

We have already made several acquisitions in 2007 in a variety of countries including the UK, Saudi Arabia, the Netherlands, South Africa and the Czech Republic

Alongside our strategies for organic growth development, we will continue to invest in relevant acquisitions

We expect to invest over £100 million per year in acquisitions across all service areas which provide additional scale or expertise to our businesses or assist in consolidating fragmented markets We will also

> fill appropriate geographic gaps in the security services businesses
> increase our presence in new markets
> make targeted acquisitions in cash services

We are confident about the future and are therefore targeting accelerated growth and higher cash generation

Summary & Outlook

We have achieved a strong set of results across the group in 2006, with excellent growth continuing in New Markets and strong margin progression in cash services.

We have delivered on the synergies and strategic objectives outlined at the time of the merger and are now moving into a phase of enhanced growth and development.

We are confident about the future and are therefore targeting accelerated growth and higher cash generation We are expecting to make good progress towards these targets in 2007 and we are excited about the future development of the group

Operating and Financial Review (continued)

Security Services

The security services business now comprises manned security, security systems and justice services

In Europe, we produced organic growth of 5 0%, with margins of 5 8%

In the UK & Ireland, margins improved to 8 2%, mainly as a result of good cost control

The Netherlands had another exceptional year, supported by a recovering economic environment.

WE PROVIDE SECURITY SOLUTIONS TO A WIDE RANGE OF MARKETS, SECTORS AND CUSTOMERS THE SERVICES WE PROVIDE INCLUDE MANNED SECURITY, ELECTRONIC SECURITY, SECURITY CONSULTANCY, ELECTRONIC MONITORING AND SURVEILLANCE, EVENT SECURITY AND TRANSIT SECURITY

Our security services model is built on our broad range of specialist services, which enables us to manage risk, security and safety for our customers This combined security solutions offering, under one organisational structure and in tandem with our diverse geographic reach allows us to provide customers with a unique approach

In 2006 security services achieved organic growth of 6 9% and margins were maintained at 6 2%, despite tough comparatives in 2005 and some pressure in Europe in the first half of the year

In **Europe,** we produced organic growth of 5 0%, with margins of 5 8%, compared to 5 9% in 2005

There was modest organic growth in the **UK & Ireland** during the year with negative growth at the half year but growth in the last quarter of 2006 at over 6%. Margins improved to 8 2% mainly as a result of good cost control We saw strong demand in justice services relating to increased volumes in our electronic monitoring contract and at HMP Parc. In addition we won several contracts for higher margin project work during the fourth quarter which is evidence of our high levels of customer service

The management structures of UK security services and justice services were merged at the end of the year to create a market facing, customer focused business. Growth in the UK will be achieved by targeting specific market segments and customers. These target segments include retail, facilities management, events, aviation and rail & maritime We will also use the public sector expertise of the justice services business as a platform for moving into the provision of services to new areas of government, for example defence nuclear the Foreign Office the courts the Department for International Development and UK embassies around the world

The **Netherlands** had another exceptional year, supported by a recovering economic environment, despite the renegotiation of our justice services contract in the prior year The business achieved double-digit organic growth and improved margins and won several important contracts with multi-national organisations including a major international oil & gas company The business was also successful in winning significant project work, including some training activity for the prison system and the transportation network.

* At constant exchange rates	Turnover £m 2006	2005	PBITA £m 2006	2005	Margins 2006	2005	Organic Growth 2006
Europe *	**1,792 1**	1,699 7	**104 5**	100 5	**5 8%**	5 9%	**5 0%**
North America *	**1,049 9**	993 2	**62 7**	59 2	**6 0%**	6 0%	**5 4%**
New Markets *	**638 6**	525 1	**48 4**	38 4	**7 6%**	7 3%	**16 1%**
Total Security Services *	**3,480 6**	3,218 0	**215 6**	198 1	**6 2%**	6 2%	**6 9%**
Exchange differences	–	29 8	–	3 3			
At actual exchange rates	**3,480 6**	3,247 8	**215 6**	201 4			

Belgium continued to perform well and the business was successful in increasing the scope and activities of several existing contracts

The Baltics had another strong year with double-digit organic growth and high margins

Belgium continued to perform well and the business was successful in increasing the scope and activities of several important existing contracts, in particular for some high profile political organisations **Denmark** achieved good organic growth and margins, supported by another strong performance from its market-leading systems business which implemented the country's largest ever systems project during the year **Sweden** was impacted by some contract losses, but these were partially offset by several good contract wins during the year A new management team is in place and we are well positioned to take advantage of our unique capability of offering customers combined security solutions The **Baltics** had another strong year with double-digit organic growth and high margins, driven by some large contract wins with Finnish retailers and our wide range of services in the region

France delivered good organic growth, but a restructuring programme and on-going wage pressures had some impact on margins Nevertheless, with a new management team in place a high quality customer base and a strong product offering there is much potential for margin progression in the future We are currently preparing for a national licensing programme, which we expect to be implemented at the end of 2007

Greece won several important contracts during the second half partially offsetting some material contract reductions earlier in the year one of which had a sizeable associated termination cost We saw an increase in labour costs during the year as a result of new social security laws but a new collective bargaining agreement has been signed and is expected to benefit the industry going forward

Security Services

(continued)

In the United States we won some large contracts in the commercial sector together with additional business from existing customers

Canada had a good year, supported by project work and some large national contract wins

In New Markets, organic growth continued to be strong at 16 1%, with margins increasing to 7 6%

Despite a challenging socio-political environment in **Israel** last year, good progress is being made in finalising a new collective bargaining agreement. In addition our electronic monitoring contract continued to grow Our systems business had an excellent year as we maintained our position as the sole supplier of integrated security solutions. In 2007, significant combined security services and cash services contracts have been won in **Turkey** and **Romania**, the latter for a key public sector institution

North America delivered another year of good organic growth and margins in 2006 Excluding turnover related to high levels of short term response work after Hurricane Katrina during 2005 and early 2006 underlying organic growth was around 8% for the year as a whole, and particularly strong in the fourth quarter of 2006 at 10%, measured on the same basis. Margins were maintained at 6.0%, despite the tough comparable numbers in 2005

In the **United States** whilst the market continued to be very competitive we won some large contracts during the second half in the commercial sector together with additional business from existing customers. We also achieved increased manning levels at a number of nuclear power plants. In the government sector, we won a contract to provide security and transit services at the Mexican border Margins were maintained compared to the previous year despite stronger pressure on labour resources resulting in higher levels of un-billed overtime for much of 2006 Good management of risk, claims, incident losses and healthcare programmes mitigated these overtime cost increases.

Canada had a good year supported by project work won during the year and some large national contract wins in the fourth quarter including with a major car manufacturer and a multi-national IT services organisation

We have had a presence in many developing markets for nearly 50 years ensuring that, as well as being a global organisation we have an expertise suited to local markets and an understanding of local cultural and social issues. In these countries, where customers generally tend to buy an array of products and services, we are well placed to offer them a full range of security solutions to meet their requirements.

In **New Markets**, organic growth continued to be strong at 16.1%, with margins increasing to 7 6%.

The **Middle East** achieved 21% organic growth with margins of nearly 9%, as our market-leading position in the region continued to have a positive impact. On-going investment in countries like the **UAE** and **Saudi Arabia** continues to benefit the group, as a growing number of companies rely on us as a key supplier of a range of security and cash services. Our contract in **Iraq** continued to perform in line with our expectations.

Latin America saw 20% organic growth with margins improving to 5%. There was excellent organic growth in **Argentina** driven by several important contract wins, including a large systems installation and solid margin progression supported by an on-going focus on contract efficiency **Guatemala** generated double-digit organic growth and margins, partly as a result of an acquisition which was completed and integrated during the year **Colombia** had a good year due to a strong performance from its toll service business and as a result of increased corporate investment in the local economy by both domestic and international companies **The Caribbean** region performed strongly as it continued to offer its services across an expanding geographic base

Africa produced good organic growth of 9%, with margins of 8% **South Africa**, our largest business in the region had a challenging year due to a restructuring of the business, completed at the start of the year, and the indirect impact of industry-wide strike action, which was settled during the first half A long term union agreement is now in place and the business is extremely well placed going forward **Kenya, Botswana** and **Namibia** produced excellent organic growth with solid margin improvements due to the businesses unique offering of combined security solutions. **Nigeria** also had a strong year driven by our activities in the thriving local energy sector

Asia achieved exceptional organic growth of 17% and good margin progression to 8% Our market-leading position and prominent reputation, as well as our wide range of service offerings continued to have a beneficial impact in **India**, where strong, double-digit growth and good margin improvements were achieved In **Hong Kong** we continued to win a number of small to medium-sized contracts, ensuring the business is on a firm platform going forward **Macau** performed extremely well as we continued to see the benefits of the country's burgeoning tourist industry

Latin America saw 20% organic growth with margins improving to 5%

Asia achieved exceptional organic growth of 17% and good margin progression to 8%

Cash Services

The UK & Ireland saw continued good growth and further margin development, supported by several significant contract wins

Good margins were maintained in the Netherlands and the business achieved some important contract renewals

There were strong performances in Sweden, Belgium, the Baltics and Hungary

WE ARE ONE OF THE LEADING GLOBAL PROVIDERS OF A RANGE OF CASH SERVICES SOLUTIONS, INCLUDING THE TRANSPORTATION AND MANAGEMENT OF CASH, ATM MANAGEMENT, ENGINEERING AND REPLENISHMENT AND FULLY OUTSOURCED CASH CENTRE MANAGEMENT

Investment in technology is a key priority for us, as it enables us to enhance our security procedures, improve our efficiency and drive product development, all of which benefit our customers. We can utilise our leading-edge technology our wealth of experience and our industry knowledge to support our customers around the world, as different markets progress through the various phases of development in cash services. This enables us to provide customers with innovative cash solutions including the management of ATM networks, ATM engineering services and fully outsourced cash processing.

In 2006, cash services produced strong organic growth of 7 6%, compared to 6.2% in the prior year whilst margins increased to 10 1% from 9 8%.

Overall organic growth in **Europe** increased to 6 7%, from 5 8% in the prior year, with margins increasing to 10 4%, from 9 7% in 2005 **The UK & Ireland** saw continued good growth and further margin development, supported by several significant contract wins with major retailers and banks.

ATM and cash processing performed particularly well, and we continued to offer new services such as helpdesk monitoring and cash forecasting to existing customers. Whilst attack levels increased on the prior year, good progress is being made in reducing attacks in certain regions and we continue to develop new technologies to reduce attack losses We have commenced the pilot of our retail cash management solution one of several significant growth opportunities going forward

Good margins were maintained in the **Netherlands** and the business achieved some important contract renewals, winning 100% of all tendered existing contracts. During the year we also supported two major existing customers with end-to-end ATM solutions, during an intensive roll-out of their ATM networks In **Sweden** we saw a decline in attacks, due to an increased investment in security with all vehicles now using intelligent systems. Our business delivered further margin progression and we won a number of contracts during the year the most significant being a major Swedish financial institution which commenced in 2007 There were strong performances elsewhere in Europe during the year – in particular **Belgium**, the **Baltics** and **Hungary** saw robust organic growth with good margin improvements

During December 2006, we reached agreement to divest our cash services business in **Germany** The market had become increasingly challenging and the situation had developed into a distraction for divisional management. Given the disadvantageous impact the business was having on our divisional results, we believe disposal was the most appropriate option

* At constant exchange rates	Turnover £m 2006	2005	PBITA £m 2006	2005	Margins 2006	2005	Organic Growth 2006
Europe *	**661 7**	619 4	**68 7**	59 9	**10 4%**	9 7%	**6 7%**
North America *	**85 3**	80.5	**1 8**	3 0	**2 1%**	3 7%	**1 7%**
New Markets *	**126 0**	99 1	**17 4**	15 4	**13 8%**	15 5%	**18 5%**
Total Cash Services *	**873 0**	799 0	**87 9**	78 3	**10 1%**	9 8%	**7 6%**
Exchange differences	**-**	(1 1)	**-**	0 0			
At actual exchange rates	**873 0**	797 9	**87 9**	78 3			

In **North America**, there was organic growth of 2% in **Canada**, compared to negative growth of 5% in the prior year, with margins decreasing to 2% from 3 7% in 2005 The market continued to be challenging due to aggressive pricing from some of our competitors and profitability was impacted by increased operating costs following a major robbery in 2005 Nevertheless we were awarded some important contract renewals from major Canadian banks and we are optimistic about the medium term outlook.

New Markets delivered strong organic growth of 18 5%, compared to 19 8% in the prior year, with margins of 14%, compared to 15% in 2005 **Asia** saw good organic growth and margin progression Our businesses continued to be successful in providing customers with enhanced product offerings as the market dynamics in various countries, including **Malaysia** and **Indonesia**, become further advanced In **Hong Kong**, whilst the market is less developed we continue to benefit from being the only major provider of a full range of cash services.

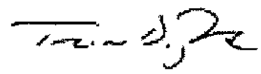
The **Middle East** delivered another outstanding performance The region experienced double-digit organic growth and margins as a result of our market-leading position and the on-going favourable economic conditions in the region. In particular **UAE**, **Saudi Arabia** and **Qatar** delivered exceptional results.

Africa achieved another excellent year of organic growth, buoyed by a particularly strong performance in **Kenya**. **Morocco** had a challenging year, partly as a result of new legislation surrounding the cash management market resulting in an asset write-down In February 2007, we announced the acquisition of a majority stake in Fidelity Cash Management Services (PTY) Ltd This acquisition provides the group with a cash services presence in **South Africa** for the first time, as well as growing our exposure to other markets, including **Botswana**, **Namibia** and **Lesotho** thereby increasing the potential for cross-selling opportunities in these markets

Asia saw good organic growth and margin progression

The Middle East delivered an outstanding performance, while Africa achieved another excellent year of organic growth

Operating and Financial Review (continued)



Trevor Dighton
Chief Financial Officer

Financial Review

Basis of accounting

The financial statements are presented in accordance with applicable law and International Financial Reporting Standards, as adopted by the EU (IFRS ') The group's significant accounting policies are detailed in note 3 on pages 54 to 61 and those that are most critical and/or require the greatest level of judgement are discussed in note 4 on page 62

Operating results

The overall results are commented upon by the chairman in his statement and operational trading is discussed in the operating review on pages 10 to 19 Profit from operations before amortisation of acquisition-related intangible assets and exceptional items (PBITA) amounted to £277 0m, an increase of 8 6% on the £255 0m in 2005 and an increase of 10 0% at constant exchange rates

Associates

Included within PBITA is £2.8m (2005 £5 3m) in respect of the groups share of profit from associates, principally from the business of Space Gateway in the US which provides safety services to NASA Cash flow from associates was £2.7m in 2006, compared to £12 3m in 2005

Acquisitions and acquisition-related intangible assets

Investment in acquisitions in the year amounted to £98 4m, of which £95 7m was a cash outflow and £2.7m is deferred consideration This investment generated goodwill of £68 0m and other acquisition-related intangible assets (customer-related) of £22.2m Larger acquisitions included the purchase of controlling interests in the manned security services provider Servicios Generales in Chile and the security services and cash services business of Al Majal Security Services in Saudi Arabia, and an increase in the groups interest in United Arab Emirates £21 0m of the acquisition spend was on the reduction of minority interest shares in businesses that were already fully-consolidated The contribution made by acquisitions to the results of the group during the year is shown in note 17 on page 72 The charge for the year for the amortisation of acquisition-related intangible assets other than goodwill amounted to £36 0m Goodwill is not amortised Acquisition-related intangible assets included in the balance sheet at 31 December 2006 amounted to £1,170 9m goodwill and £220 6m other

Exceptional items

There were no exceptional items in the year An expense of £18 2m was incurred in 2005 in respect of restructuring costs consequential upon acquisitions

Financing items

Finance income was £81 2m and finance costs £122.2m giving a net finance cost of £41 0m Net interest payable on net debt was £42 0m This is an increase of 23% over the 2005 cost of £34 2m due principally to the rising costs of borrowing and the increase in the group's average gross debt The group s average cost of gross borrowings in 2006 was 4 6% compared to 4 2% in 2005 The cost based on prevailing interest rates at 31 December 2006 was 5 2% Also included within financing is a net income of £1 0m (2005 cost of £4 9m) in respect of movements in the group s net pension obligations

Taxation

The taxation charge of £67 5m provided on profit from operations before exceptional items and amortisation of acquisition-related intangible assets represents a tax rate of 28 6%, compared to 31 2% in 2005 We believe that an effective tax rate of 28-29% is sustainable going forward The amortisation of acquisition-related intangible assets gives rise to the release of an equivalent proportion of the deferred tax liability established when the assets are acquired, amounting to £10 8m

In addition a tax charge of £1 3m has been included within the results from discontinued operations. Potential tax assets in respect of losses amounting to £86 3m have not been recognised as their utilisation is uncertain.

Disposals and discontinued operations
On 22 December 2006 the group agreed the terms for the divestment of G4S Geld-und Wertdienste GmbH its cash services business in Germany On 28 December 2006 the group disposed of its US transportation business, being the remaining business of Cognisa. The loss from discontinued operations of £33 4m comprises £19 4m in respect of post-tax trading losses of discontinued businesses and £19 2m in respect of disposal losses offset by a £5 2m adjustment in respect of prior year disposals.

Businesses disposed of in 2005 included the manned security business of Falck Nederland, the Securicor operations in Luxembourg, a cash services business in Scotland and the security services operations of Cognisa. The disposal of all but the last named of these businesses was required by the European Commission as a condition for their approval of the combination in 2004 between Group 4 Falck and Securicor During the disposal process the group had only restricted control over these operations and their results were therefore not consolidated The loss from discontinued operations in 2005 of £13 1m comprises £6.2m in respect of trading losses of both the 2005 and the 2006 disposals and £6 9m in respect of disposal losses

The cash proceeds from business disposals in 2006 were £9 9m, comprising £6 7m in respect of the Cognisa transportation business and £3 2m in respect of prior year disposals. The contribution to the turnover and operating profit of the group from discontinued operations is shown in note 6 on pages 63 to 66 and their contribution to net profit and cash flows is detailed in note 7 on page 67

Profit for the period
Profit for the year was £109 9m, compared to £90 7m in 2005 The principal reasons for the increase in profit were the £22.0m increase in operating profit in 2006 and the exceptional costs of £18.2m incurred in 2005, offset by the £20 3m higher loss from discontinued operations in 2006

Minority interests
Profit attributable to minority interests was £13 4m in 2006 compared to £9 9m in 2005, the increase reflecting minority partner shares in the groups organic and acquisitive growth

Earnings per share
Basic earnings per share from continuing and discontinued operations was 7 6p for 2006 compared to 6 4p for 2005 These earnings are unchanged when calculated on a fully diluted basis, which allows for the potential impact of outstanding share options

Adjusted earnings, as analysed in note 16 on page 71, excludes amortisation of acquisition-related intangible assets, exceptional items, pension financing items and fair value adjustments to financial instruments, all net of tax, and better allows the assessment of operational performance the analysis of trends over time the comparison of different businesses and the projection of future performance Adjusted earnings per share was 12.2p for 2006, an increase of 8 9% over 11 2p for 2005

Dividends
The directors recommend a final dividend of 2.52p (DKK 0 2766) per share This represents an increase of 12.5% on the final dividend for the year to 31 December 2005 of 2 24p (DKK 0 2435) per share The interim dividend was 1 69p (DKK 0 1863) per share and the total dividend if approved, will be 4 21p (DKK 0 4629) per share, representing an increase of 18 9% over the 3 54p (DKK 0 3865) per share total dividend for 2005

In proposing this final dividend the board considered both the appropriate level of dividend cover and the future strategy and prospective earnings of the group Dividend cover in the current year is 2.9 times, based on adjusted profit. We reaffirm our intention to increase dividends so as to reduce dividend cover to around 2.5 times with a target of attaining this level within two years.

Basic earnings per share from continuing and discontinued operations was 7 6p for 2006 compared to 6 4p for 2005

We reaffirm our intention to increase dividends so as to reduce dividend cover to around 2 5 times, with a target of attaining this level within two years

Operating and Financial Review (continued)

Financial Review (continued)

Cash flow

The primary cash generation focus of group management is on the percentage of operating profit converted into cash. The group target over the last 3 years has been an 80% conversion rate. Operating cash flow for 2006 as defined for management purposes, was as follows.

	2006 £m	2005 £m
PBITA	**277 0**	255 0
Less share of profit from associates	**(2 8)**	(5 3)
PBITA before share of profit from associates (group PBITA)	**274 2**	249 7
Depreciation and amortisation of intangible assets other than acquisition-related intangible assets	**91 1**	81 4
Increase in working capital and provisions before exceptional items	**(41 7)**	(43 3)
Net cash flow from capital expenditure	**(82 5)**	(89 8)
Operating cash flow	**241 1**	198 0
Operating cash flow as a percentage of group PBITA	**88%**	79%

Working capital increased in both 2006 and 2005 due principally to the growth in turnover. Capital expenditure was tightly controlled at 91% of depreciation (2005 109%). Overall operating cash generation for the year was good as a result of improving financial discipline across the organisation.

The group has increased its ongoing target for operating cash generation from 80% to 85% and believes that this allows for the investment necessary to support the group's growth targets.

The management operating cash flow calculation is reconciled to the net cash from operating activities as disclosed in accordance with IAS7 Cash Flow Statements as follows.

	2006 £m	2005 £m
Cash flow from operating activities (IAS7 definition)	**197 1**	174 5
Net cash flow from capital expenditure	**(82 5)**	(89 8)
Add-back cash flow from exceptional items and discontinued operations	**32 0**	39 7
Add-back additional pension contributions	**24 2**	15 0
Other items	**-**	5 6
Add-back tax paid	**70 3**	53 0
Operating cash flow (G4S definition)	**241 1**	198 0

The group's free cash flow, as defined by management is analysed as follows.

	2006 £m	2005 £m
Operating cash flow	**241 1**	198 0
Net interest paid	**(47 8)**	(38 1)
Tax paid	**(70 3)**	(53 0)
New finance leases	**(19 6)**	(20 7)
Other items	**-**	(5 6)
Free cash flow	**103 4**	80 6

Free cash flow is reconciled to the total movement in net debt as follows.

	2006 £m	2005 £m
Free cash flow	**103 4**	80 6
Cash flow from exceptional items and discontinued operations	**(32 0)**	(39 7)
Additional pension contributions	**(24 2)**	(15 0)
Net cash outflow on acquisitions	**(95 7)**	(68 0)
Net cash inflow from disposals	**9 9**	42 1
Net cash flow from associates	**2 7**	12 3
Dividends paid to minority interests	**(3 0)**	(5 1)
Share issues less share purchases	**6 0**	(10 7)
Dividends paid to equity holders of the parent	**(49 8)**	(39 9)
Net cash flow from hedging financial instruments	**11 8**	-
Movement in net debt in the year	**(70 9)**	(43 4)
Foreign exchange translation adjustments to net debt	**55 4**	(27 5)
Net debt at 1 January	**(657 3)**	(586 4)
Net debt at 31 December	**(672 8)**	(657 3)

Net debt represents the group's total borrowings less cash, cash equivalents and liquid investments. The components of net debt are detailed in note 37 on page 93.

Financing and treasury activities

The group's treasury function is responsible for ensuring the availability of cost-effective finance and for managing the group's financial risk arising from currency and interest rate volatility and counterparty credit. Treasury is not a profit centre and is not permitted to speculate in financial instruments. The treasury department's policies are set by the board. Treasury is subject to the controls appropriate to the risks it manages. These risks are discussed in note 31 on pages 82 to 83.

Financing

The group's primary source of finance is a £1bn multicurrency revolving credit facility provided by a consortium of lending banks at a margin of 0.225% over Libor. During 2006, the lending banks exercised their options to extend the term of this facility to 28 June 2011. A further option process is exercisable in the period 90 days prior to 28 June 2007 and if the options are exercised the facility will mature on 28 June 2012. On 1 February 2007 an additional bank added a further £87m to the revolving credit facility on the same terms.

The group has other available facilities of £393.5m.

On 1 March 2007 to further diversify its sources of funding and lengthen the maturity of its debt, the group completed a $550m private placement of unsecured senior loan notes, with maturity and interest as follows:

	Value $m	Interest rate %	Maturity date
Series 'A'	100	5.77	March 2014
Series 'B'	200	5.86	March 2017
Series 'C'	145	5.96	March 2019
Series 'D'	105	6.06	March 2022

The proceeds of the issue were used to reduce drawings against the revolving credit bank facility. At the time of receipt the group had, in accordance with treasury policy, converted 55% of its US Dollar interest exposure from floating rates into fixed rates through interest rate swaps. Therefore, the fixed interest rates payable on the notes were swapped into floating rates, at an average margin of 0.60% over Libor, so that the proportion of group debt held under fixed interest rates remained at 55%. The group's net debt at 31 December 2006 of £672.8m represented a gearing of 69%. The group has sufficient borrowing capacity to finance growth.

Interest rates

The group's investments and borrowings at 31 December 2006 were at variable rates of interest linked to Libor and Euribor, with the group's exposure being predominantly to interest rate risk in US Dollar and Euro. The loan notes issued in March 2007 bear interest at fixed rate. The group's interest risk policy requires treasury to fix a proportion of net debt on a sliding scale with a maximum of 80% short term debt held at fixed rates, reducing to a maximum of 20% of medium term debt held at fixed rates, utilising interest rate swaps. The maturity of interest rate swaps at 31 December 2006 was limited to five years. The market value of swaps outstanding at 31 December 2006 was £1.9m.

Foreign currency

The group has many overseas subsidiaries and associates denominated in various different currencies. Treasury policy is to manage significant translation risks in respect of net operating assets and income denominated in foreign currencies. The methods adopted are to use borrowings denominated in foreign currency supplemented by forward foreign exchange contracts.

The main currency movement during 2006 was the decline in the US Dollar from $1.72 = £1 at 31 December 2005 to $1.96=£1 at 31 December 2006, impacting not only the group's dollar-denominated assets but also assets denominated in New Market currencies which follow the dollar. Exchange differences on the translation of foreign operations included in the statement of recognised income and expense amount to a loss of £31.0m (2005 gain of £30.3m). These differences include a £55.4m gain (2005 £27.5 loss) on the retranslation of net debt, an £11.8m cash inflow (2005 nil) from forward exchange contracts and an £11.6m gain (2005 £6.2m loss) on the market valuation of outstanding forward contracts. The market value of forward contracts outstanding at 31 December 2006 was £5.4m.

Cash management

To increase the efficient management of the group's interest costs and its short term deposits, overdrafts and revolving credit facility drawings, the group completed implementation of a global cash management system during 2006. At 31 December 2006, 65 group companies participated in the pool with the number continuing to grow. Credit balances of £78.3m and debit balances of £75.2m were held within the cash pool. IFRS does not permit the netting off of these balances, which are therefore disclosed gross within current assets and liabilities. To obtain additional cash management benefits, particularly within New Markets, further cash pools will be established during 2007.

Pensions

The group's primary funded defined benefit pension schemes are those operated in the UK, but it also operates such schemes in the Netherlands, Ireland and Canada. The latest full actuarial assessments of the UK schemes were carried out at 31 March 2004 in respect of the Group 4 scheme (approximately 8,000 members) and at 5 April 2006 in respect of the Securicor scheme (approximately 20,000 members). These assessments and those of the group's other schemes have been updated to 31 December 2006 including the review of longevity assumptions.

On 1 March 2007, to further diversify its sources of funding, the group completed a $550m private placement of unsecured senior loan notes

To increase the efficient management of the group's interest costs and its short term deposits, overdrafts and revolving credit facility drawings, the group completed implementation of a global cash management system

Operating and Financial Review (continued)

Financial Review (continued)

The group's funding shortfall on the valuation basis specified in IAS19 Employee Benefits was £226m before tax or £158m after tax (2005 £217m and £152m respectively)

The value of the assets in the funds increased by £120m during 2006, continuing the trend of 2005 However this was counteracted by a reduction in the bond rates used to discount liabilities for IAS19 purposes, and by an increase in inflation assumptions. We believe that, over the very long term in which pension liabilities become payable investment returns should eliminate the deficit in the schemes in respect of past service liabilities. However in recognition of the regulatory obligation upon pension fund trustees to address currently reported deficits, additional cash contributions into the two main UK schemes of around £24m are being made in 2007 Such additional contributions will be reviewed annually and reassessed formally at the next actuarial valuation dates, which are 5 April 2009 in respect of the Securicor scheme and 31 March 2007 in respect of the Group 4 scheme.

Corporate governance
The group's policies regarding risk management and corporate governance are set out in the Corporate Governance Statement on pages 36 to 38

Going concern
The directors are confident that, after making enquiries and on the basis of current financial projections and available facilities, they have a reasonable expectation that the group has adequate resources to continue in operational existence for the foreseeable future For this reason they continue to adopt the going concern basis in preparing the financial statements.

Risks
All businesses are subject to risk and many individual risks are macro-economic or social and common across many businesses. Many risks are to a greater or lesser degree controllable, but some are not controllable. Through its internal risk management process, the group identifies business-specific risks It classifies the key risks as those which could materially damage the group's strategy reputation business, profitability or assets and these risks are listed below This list is in no particular order and is not an exhaustive list of all potential risks. Some risks may be unknown and it may transpire that others, currently considered immaterial, become material

1 Price competition
The security industry comprises a number of very competitive markets. In particular, manned security markets can be fragmented with relatively low economic barriers to entry and the group competes with a wide variety of operators of varying sizes. Actions taken by the group's competitors may place pressure upon its pricing, margins and profitability

2 Major changes in market dynamics
Such changes in dynamics could include new technologies, government legislation or customer consolidation and could particularly if rapid or unpredictable impact the group's revenues and profitability

3 In-sourcing by customers
Outsourcing activities carried out by the group include cash processing and cash management functions on behalf of financial institutions, manned security on behalf of a range of different customers and justice services on behalf of government institutions If the trend towards such outsourcing were for any reason to be reversed, the group's revenue and profitability may be adversely affected

4 Inappropriate investment decisions
Were the group to make acquisitions or capital expenditures that were inappropriate to its strategy or over-priced, or take on excessively onerous contractual obligations the group's profitability and returns on capital may be adversely affected

5 Cash losses
The group is responsible for much of the cash held on behalf of its customers Increases in the value of cash lost through criminal attack may increase the costs of the group's insurance Were there to be failures in the control and reconciliation processes in respect to customer cash these could also adversely affect the group's profitability

6 IT systems
The group makes widespread use of IT systems both for operational management, including tasks such as scheduling and route-planning, and for financial management, including calculating employee wages and billing customers. Failure in these systems, along with the failure of business continuity procedures in the event of physical damage to or inaccessibility of day-to-day operating systems, could result in reputational damage and the loss of revenue and profitability

7 Deterioration in labour relations
The group's most significant asset is its large and committed work force Were the current good relationships between the group and its employees to become strained the group's operational performance and reputation may be adversely affected

8 Defined benefit pension schemes
A prolonged period of poor asset returns and/or unexpected increases in longevity could require increases in the current levels of additional cash contributions to defined benefit pension schemes, which may constrain the group's ability to take advantage of growth opportunities

9 Terrorist attacks
The group operates in an industry which is sometimes involved in seeking to protect its customers against acts of terrorism Were terrorist incidents in the future to involve premises or events for which the group is contracted to provide security they could result in brand and reputational damage and so affect earnings and profitability

10 Regulatory requirements
Security can be a high-profile industry There is a wide and ever-changing variety of regulations applicable to our businesses across the world Changes in such regulations may adversely affect the group's revenues and profitability

Risk management
The group has a robust risk assessment and control process in place to identify and mitigate the controllable risks faced by the organisation Mitigation measures include

1 The group's diversity
The group operates around 150 businesses across over 100 countries and across a range of product areas. Most of the risks detailed above are market-specific and therefore, any particular issue could only impact part of the group's operations.

2 Management structure
The group operates a management structure that is appropriate to the scale and breadth of its activities Business performance and strategies are reviewed continuously by regional divisional and group management. Potential issues requiring management attention are therefore identified and there is a wide range of expertise available throughout the organisation which is utilised as necessary to address these issues

3 Authorisation procedures
The group has clear authorisation limits and procedures which are cascaded throughout the organisation For example all acquisition proposals have to be submitted for approval to the group capex committee, assessed against the group's return requirements, evaluated for risk and subject to appropriate due diligence

4 Group standards
Each of the group's businesses applies the systems and procedures appropriate to its size and complexity However the group requires that these conform to group standards in respect of matters such as operational and financial controls financial reporting, business continuity planning and project management techniques Further standards, particularly in respect of IT systems, are applied on a divisional or regional basis.

5 Internal audit
The Internal Audit department operates under a wide remit, which includes ensuring adherence to group authorisation procedures and control standards.

6 Market engagement
Most of the risks to which the group is exposed are market risks. So as to better understand and influence the market, the group is committed to a policy of proactive engagement across its geographic range with customers, industry associations, government regulators and employee representatives.

The group has a robust risk assessment and control process in place to identify and mitigate the controllable risks faced by the organisation

The group is committed to a policy of proactive engagement with customers, industry associations, government regulators and employee representatives

Our People

OUR PEOPLE ARE THE KEY BUILDING BLOCK FOR OUR FUTURE SUCCESS

The strength and depth of the leadership team in G4S underpins our success as a global industry leader

We believe it is possible to nurture many of our future leaders from within the organisation

We believe that long-term partnerships with employees and their representatives can help us raise standards wherever we operate

Leadership culture

The strength and depth of the leadership team in G4S underpins our success as a global industry leader and enables us to deliver first class performance year after year Our position in the market helps us attract driven talented individuals, allowing us to be very selective about who joins our organisation We invest heavily in making the right senior appointments because once these people join us, we find they want to stay and a good long-term match is therefore essential to both parties. In return for accepting the challenge of working in such a dynamic ambitious group we provide these business leaders with highly competitive reward packages which reflect their personal performance as well as the business results they deliver Moreover as individuals, they enjoy the genuine satisfaction of delivering the right solutions for our customers and find real pride in working for our organisation

While we are proactive in recruiting the best people externally, we believe it is possible and right, to nurture many of our future leaders from within the organisation To help our people build long-term careers across national and cultural boundaries, our group-wide Leadership Programme was launched in 2004 and now provides a growing stream of committed experts and managers.

This programme combines the academic content of the Executive MBA from Manchester Business School with the expertise of G4S in building customer-led security solutions and delivering sustainable business results. As well as winning awards in the wider business and HR communities, the success of the programme has been demonstrated clearly on an individual level in the career progression of many participants, and on an organisational level where the growing capability and confidence of the participants adds real value to our business. The diversity and international reach of these future leaders – who come from Africa, the Americas, Europe, Asia and the Middle East – also helps us to collaborate across the organisation to continually drive up standards in our business, the wider industry and even the countries in which we operate

Employee engagement

G4S is the largest employer listed on the London Stock Exchange and ensuring our front-line teams are attuned to our customers needs and our own values is therefore essential to our future success Our relations with our employees and their representatives are extremely important to us

Throughout our operations we have established global minimum standards for employee relations, which set out our commitment to principles such as the ILO Core Labour Standards and the UN Universal Declaration of Human Rights. As a business, we are fundamentally committed to constructive social dialogue and believe that long-term partnerships with employees and their representatives, including trade unions, can help us raise standards wherever we operate Thus:

> We have over 70 formal union recognition agreements around the world

> Over half our global workforce is covered by the terms of a union collective agreement

> In the US we are the most unionised company in the sector – over 30% of our employees are trade union members, compared to an industry average of 13%

> In Europe we have union representation levels of 55%, compared to an industry average of 46%

> In the UK, our relationship with the GMB, one of the UK's largest unions, has continued for more than 40 years.

We are also proud of our role as an industry leader in New Markets, where our presence supports sustainable development as we give back to the communities in which we operate Our socially responsible employment practices of inclusion and diversity help position us as the employer of choice in many countries, and are demonstrated by examples such as.

> South Africa, where our commitment to Black Economic Empowerment was demonstrated by the creation of an employee trust which owns 13% of our business in South Africa

> Hong Kong, where we participate in a wide range of programmes to provide assistance to people with disabilities and to unskilled and unemployed workers

> Kenya, where fifty employees with children are selected each year to receive special financial assistance for their childrens education

> Zambia, where we run a programme of activities to help relieve hardship and educate the local communities about the affect of HIV/AIDS

With rigorous pre-employment screening and selection techniques for our front-line staff we are confident that we employ the best people in our industry whose natural talents and drive enable them to make a difference from the start of their employment. Once in the business, we aim to further develop our employees' skills and competences, provide them with opportunities to build long-term careers in the group, and inspire them to reach their full potential The resulting growth in individual and organisational capability together with markedly higher levels of commitment from our people have a clear, positive impact on general business performance and, in particular on customer service

In New Markets, our presence supports sustainable development as we give back to the communities in which we operate

With rigorous pre-employment screening and selection techniques for our staff, we are confident that we employ the best people

We aim to develop our employees' skills and competences, provide them with opportunities to build long-term careers in the group, and inspire them to reach their full potential

Corporate Citizenship

G4S RECOGNISES ITS ETHICAL RESPONSIBILITY TO EMPLOYEES, CUSTOMERS, SUPPLIERS, INVESTORS AND LOCAL COMMUNITIES THE GROUP OPERATES IN A WIDE RANGE OF COUNTRIES AROUND THE WORLD, WHERE SITUATIONS AND ENVIRONMENTS ARE CONSTANTLY CHANGING WE ARE THEREFORE CONTINUALLY DEVELOPING OUR CORPORATE CITIZENSHIP POLICIES, PRACTICES AND PROCEDURES

Corporate citizenship code

G4S has introduced a corporate citizenship code which seeks to establish best practice guidelines for all the various businesses within the organisation covering a number of important ethical areas including human rights, health and safety employee relations and equal opportunities & diversity

The code reviewed every year has been distributed to all business units within the organisation with the objective of setting a standard to which all business units should adhere Compliance with the code is monitored regularly although there is some allowance made for geographical and cultural differences as a result of local regulations and business practices.

The foundation of our corporate citizenship code lies with our employees. We are well aware that the organisation s future success is being driven by the performance of our employees. Opportunities for development within the organisation are based only on personal performance ability and aptitude In addition, when selecting, recruiting and developing our employees, we aim to ensure that all employees receive the same treatment, regardless of gender ethnicity colour age, culture marital status religion, sexual orientation or disability We recognise that diversity and cultural differences are becoming an important strength in our organisation

Respect for human rights is another cornerstone of our corporate citizenship code G4S is committed to and supportive of the United Nations Universal Declaration of Human Rights and the International Labour Organisation's Core Labour Standards. We treat our employees in accordance with recognised international human rights conventions and regulations and aim to ensure that our employees activities do not compromise these conventions.

Employee trust fund

The group has established an employee trust fund which offers monetary support, at the discretion of the fund s trustees, to those employees and former employees in need of urgent financial assistance During 2006, the fund was utilised throughout our organisation in countries as diverse as Indonesia, the UK, Canada and the Democratic Republic of Congo.

Investing in the community

G4S is currently implementing an extensive "Investing in the Community programme, which aims to support a range of health welfare and community initiatives around the world and particularly in New Market regions The foundations of this programme are built on our culture of giving back to the communities in which we operate and encouraging our employees to do the same, examples of which are.

> In many African countries, G4S is working to provide better futures for our employees, their families and their local communities, including

> > Providing financial support for schools in countries like Mozambique and Uganda

> > Supporting and assisting a community programme in Kenya which aims to provide regular meals for around 800 children from deprived areas

> > Supplying financial and building maintenance support to a children's home in Zambia which specialises in supporting orphans who have lost their parents to AIDS

> "Above and Beyond" Award, which was awarded to The Wackenhut Corporation by an agency of the Department of Defence for extraordinary support of employees who serve in the National Guard and Reserve

> The G4S Sponsorship Matching programme, which matches funds raised directly by employees for local community projects. This programme effectively doubles the financial contribution towards local community initiatives

> Howard League for Penal Reform "Community Programme Award' and National Mentoring and Befriending Foundation Approved Provider Standard, were won by G4S Justice Services for its work in Wales, supporting short sentence prisoners and engaging with their communities.

In conjunction with our on-going encouragement to individuals and business units to become involved with community projects on an ad hoc basis our 'Investing in the Community programme is key to our corporate strategy – we feel that our presence helps to raise standards. In addition we believe that this programme will continue to help to create sustainable wealth for local communities around the world

The environment

The main business of the group is involved in the provision of security solutions personnel to our customers and therefore the organisation does not have a significant direct impact on the environment. However there are a number of areas in which the group focuses on further reducing its environmental impact.

Energy usage – We aim to maximise energy conservation through the adoption of best practices. Where practicable, computerised heating, lighting and ventilation controls are installed in buildings.

Recycling & waste management – We are committed to recycling of materials where possible and where the means to recycle materials exist. This includes the recycling of cash bags, uniforms, toner cartridges, paper and paper-based products.

The group has an international fleet of cash carrying vehicles which are equipped with a variety of unique security measures, making them difficult to reuse in other areas once their life cycle has been completed However, G4S Cash Services (UK) donates expired vehicles to an organisation which make use of any spare parts and then recycles the remaining shell of the vehicle for future industrial use

Use of environmentally friendly products – The group complies with the relevant standards on vehicle emissions and encourages business units to use diesel or unleaded petrol to fuel vehicles. Fuel conservation is achieved through enhanced vehicle design and regular maintenance to ensure appropriate levels of health and safety and to minimise any impact on the environment through inefficient fuel management and emissions.

Paper products – Where possible, the group makes use of environmentally friendly products and services. At the group level any major printing projects such as the annual report and accounts, interim reports and customer magazines are printed on paper which is produced in accordance with ISO 1400 environmental certification and is elementary chlorine free Business units throughout the organisation are encouraged to use environmentally friendly products where possible

The group is currently implementing an extensive "Investing in the Community" programme, which aims to support a range of health, welfare and community initiatives around the world

The group has established an employee trust fund which offers monetary support to those employees and former employees in need of urgent financial assistance

Board of Directors

Alf Duch-Pedersen (60)
Chairman
He was appointed to the board of the company in July 2004 on completion of the merger between Securicor and Group 4 Falck's security businesses, having been a member of the board of Group 4 Falck A/S from 2000 He joined the board of Falck A/S in 1992 and was its chairman when it merged with Group 4 A/S in 2000 He is chairman of the board of Danske Bank Aktieselskab, a member of the board of the Technical University of Denmark, chairman of the British Import Union and a member of the general council of the Confederation of Danish Industries. He became chairman of the board and of the Nomination Committee in July 2006

Nick Buckles (46)
Chief Executive
He joined Securicor in 1985 as a projects accountant. In 1996 he was appointed managing director of Securicor Cash Services (UK) and he became chief executive of the security division of Securicor in 1999 He was appointed to the board of Securicor plc in 2000 and became its chief executive in January 2002. He was appointed deputy chief executive and chief operating officer of the company on completion of the merger between Securicor and Group 4 Falck's security businesses in July 2004 becoming chief executive in July 2005 He is a non-executive director of Arriva plc

Grahame Gibson (54)
Executive director and chief operating officer
He was appointed to the board in April 2005 He joined Group 4 in 1983 starting as finance director (UK) and followed by a number of senior roles, including deputy managing director (UK) vice president (corporate strategy) vice president (finance and administration) vice president operations (Central & South Eastern Europe and UK) and chief operating officer of Group 4 Falck. Following the merger between Securicor and Group 4 Falcks security businesses in July 2004 he became divisional president for Americas & New Markets. He was appointed chief operating officer in July 2005

Trevor Dighton (57)
Chief Financial Officer
An accountant, he joined Securicor in 1995 after a previous career which included posts in both the accountancy profession and in industry including five years in Papua New Guinea, three years in Zambia and seven years with BET plc He was appointed finance director of the security division of Securicor in 1997 and deputy group finance director in 2001 He was appointed to the board of Securicor plc as group finance director in June 2002 and as chief financial officer of the company on completion of the merger between Securicor and Group 4 Falck's security businesses in July 2004

Lord Condon (60)
Deputy Chairman
He was appointed to the board on completion of the merger between Securicor and Group 4 Falck's security businesses, having been a member of the board of Securicor plc from 2000 He joined the Metropolitan Police in 1967 and after holding various senior appointments in the police force, including a period as Chief Constable of Kent, served as Commissioner of the Metropolitan Police between 1993 and 2000 He was created a life peer in 2001 He became deputy chairman of the board in September 2006 and is chairman of the Remuneration Committee and a member of the Nomination Committee

Thorleif Krarup (54)
Non-executive director
He was appointed to the board on completion of the merger between Securicor and Group 4 Falck's security businesses, having been a member of the board of Group 4 Falck A/S from 2003 He is chairman of Dangaard Telecom A/S deputy chairman of Lundbeck A/S the Lundbeck Foundation LFI A/S and ALK-Abello A/S and a director of Bang & Olufsen A/S, Lundbeckfonden and Scion DTU A/S He is a former chairman of TDC (Tele Danmark Corporation) and former group chief executive of Nykredit A/S, Unibank A/S and Nordea AB. He is chairman of the Audit Committee

Bo Lerenius (60)
Non-executive director
He was appointed to the board on completion of the merger between Securicor and Group 4 Falck's security businesses having been a member of the board of Securicor plc from April 2004 After a diverse early business career, he served as chief executive of Emstromgruppen a Swedish building materials operation between 1985 and 1992 when he joined Stena Line where he was chief executive and vice chairman In 1999 he became group chief executive of Associated British Ports Holdings plc. He is a non-executive director of Land Securities Group plc and is deputy chairman of the Swedish Chamber of Commerce for the United Kingdom. He is a member of the Audit and Remuneration Committees

Malcolm Williamson (68)
Senior independent director
He was appointed to the board on completion of the merger between Securicor and Group 4 Falcks security businesses having been a member of the board of Securicor plc from April 2004 After a 28-year career with Barclays Bank, he became managing director of Girobank and a member of the Post Office board in 1985 In 1989 he joined Standard Chartered plc being group chief executive from 1993 to 1998 Between 1998 and 2004 he was president and CEO of Visa International, Inc based in San Francisco He is chairman of Signet Group plc CDC Group plc and National Australia Group Europe Limited deputy chairman of Resolution plc and a non-executive director of JP Morgan Cazenove Holdings and National Australia Bank Limited He is the senior independent director and a member of the Audit and Nomination Committees.

Mark Seligman (51)
Non-executive director
He was appointed to the board in January 2006. An accountant, he spent 12 years with SG Warburg before joining BZW in 1995 and then following the takeover of BZW becoming head of UK Investment Banking at CSFB and subsequently deputy chairman of CSFB Europe In 2003 he became chairman of UK Investment Banking for CSFB stepping down in 2005 to become a senior adviser to the bank. He is an alternate member of the Panel on Takeovers and Mergers and is a director of the Industrial Development Advisory Board. He is a member of the Audit and Remuneration Committees

Mark Elliott (57)
Non-executive director
He was appointed to the board in September 2006. He is General Manager Global Solutions for IBM Based in the USA, he joined IBM in 1972 and has occupied a number of senior management positions in that company including General Manager IBM Europe Middle East and Africa where he was responsible for that company's operations in over 120 countries. He is a non-executive director of Reed-Elsevier PLC He is a member of the Remuneration Committee

Executive Management

Nick Buckles
Chief Executive

Nick has worked in the security industry for 22 years, focusing throughout this time on the commercial and strategic aspects of all areas of security services.

After a variety of commercial roles throughout the group, he was responsible for driving significant profit improvements in many Securicor businesses throughout the 1990s as a business unit managing director and divisional chief executive of the security division. He was also instrumental in the development of Securicor's security sector focus and in bringing together Group 4 Falck and Securicor to create the new combined group. Nick became chief executive of Group 4 Securicor in July 2005.

Nick is president of ESTA, the European cash services association. He is also chairman of the Ligue Internationale des Societes de Surveillance, the international association of leading security companies.

Grahame Gibson
COO & Divisional President – Security Services

Grahame has been involved in the security industry for 24 years, having joined Group 4's UK operating company in 1983 as finance director. Since that time Grahame has held a number of operational management and board positions in the UK, Denmark, the Netherlands and Austria. His broad experience of the security industry and management of businesses across a diverse range of cultures has been invaluable to the group throughout its development. Grahame joined the board of Group 4 Securicor in April 2005.

Grahame is a board member of the Ligue Internationale des Societes de Surveillance.

Søren Lundsberg-Nielsen
Group General Counsel

Søren began his career as a lawyer in Denmark and since 1984 he has had a wide range of legal experience as general counsel for international groups in Denmark, Belgium and the US before joining Group 4 Falck in 2001 as general counsel. Søren has been involved in a wide range of successful mergers and acquisitions during his career including the acquisition of Wackenhut and the merger of Group 4 Falck and Securicor. Søren now has overall responsibility for all internal and external legal services for Group 4 Securicor as well as the group's insurance programme.

Søren is a member of the Danish Bar and Law Society, a board member of the Danish Blood Donation Society and author of the book 'Executive Management Contracts' published in Denmark.

Trevor Dighton
Chief Financial Officer

Trevor has worked in the security industry for 21 years. After several years in both the accountancy profession and commerce working in the finance function and general management, he joined BET in 1986 as finance director of their Security and Communications Division.

Trevor joined Securicor in 1995 and, following a number of years as finance director of the security division, he was appointed to the board of Securicor plc in June 2002 as group finance director. He became chief financial officer of Group 4 Securicor in July 2004.

Trevor is a member of the Chartered Institute of Management Accountants.

Ken Niven
Divisional President – Cash Services

Ken has 11 years experience in the security industry having joined Securicor in 1996 as operations director of the UK cash services business where he was later promoted to managing director and was instrumental in the development of new product areas, including cash centre outsourcing and establishing Securicor's independent ATM network.

Ken was appointed to his current role in July 2004 and is responsible for the cash services division which includes all of the major cash services business units, and for sharing cash services best practice throughout the entire organisation. Ken joined the security industry following a successful career within the logistics management industry where he held senior roles at Express Foods, Excel Logistics and Coca Cola.

Ken is a member of the Chartered Institute of Logistics and Transport.

Irene Cowden
Group HR Director

Irene has spent her career in HR management, specialising in employee relations, organisational development, talent management and compensation issues. She has been involved in major change projects including the cultural and integration aspects of mergers and acquisitions as well as large scale organisational change involving workforce restructuring, working in partnership with major trade unions.

Irene has worked in the security industry for over 26 years and has held director level positions at business unit, divisional and corporate level.

Irene is a member of the Chartered Institute of Personnel and Development (MCIPD).

Report of the Directors

For the year ended 31 December 2006

The directors have pleasure in presenting their Annual Report together with the audited financial statements of Group 4 Securicor plc and the consolidated financial statements of that company and its subsidiaries, associated undertakings and joint ventures ('the group') for the year ended 31 December 2006

Group 4 Securicor plc has its primary listing on the London Stock Exchange and a secondary listing on the Copenhagen Stock Exchange

1 Principal activities of the group

Group 4 Securicor plc is a parent company with subsidiaries, associated undertakings and joint ventures.

The principal activities of the group comprise the provision of security services (including the provision of manned security services, justice services and security systems) and the management and transportation of cash and valuables

2 Group results

The consolidated result for the year and the appropriation thereof are shown in the consolidated income statement on page 50

Details of major business activities during the year future developments principal risks and uncertainties and prospects of the group are contained in the Operating and Financial Review on pages 10 to 27

3 Dividends

The directors propose the following net dividend for the year

> Interim dividend of 1 69p (DKK 0 1863) per share paid on 15 December 2006
> Final dividend of 2 52p (DKK 0 2766) per share payable on 8 June 2007

Shareholders on the Danish VP register will receive their dividends in Danish Kroner Shareholders who hold their shares through CREST or in certificated form will receive their dividends in sterling unless they prefer to receive Danish Kroner, in which case they should apply in writing to the Registrars by no later than 9 May 2007

4 Significant business acquisitions, disposals and developments

In January 2006 an option to acquire 49% of Group 4 Nesma For Security and Safety Ltd in Saudi Arabia was purchased

In April 2006 a further 26% of Group 4 Securitas Emirates LLC in the United Arab Emirates was acquired

In July 2006 a further 10% of AS Falck Baltics in Estonia was acquired

In August 2006 50% of Alfa-Segurança in Mozambique was acquired

In September 2006 the cash management assets and contracts of PT Transnational Solutions in Indonesia were acquired

In November 2006 75% of G4S Chile Holding, SA was acquired

In November 2006 Defence Systems Africa was acquired in D R Congo

In November 2006 Security Systems (Far East) Ltd was acquired in Hong Kong

In December 2006 the transportation business and related assets of Cognisa Security Inc, in the USA were disposed of

In December 2006 agreement was reached for the disposal of G4S Geld-und Wertdienste GmbH, the German cash services business

In March 2007 50 1% of Fidelity Cash Management Services (Pty) Ltd in South Africa was acquired

Report of the Directors (continued)

For the year ended 31 December 2006

5 Capital

The authorised and issued share capital of Group 4 Securicor plc at 31 December 2006 is set out on page 91 (note 35 to the consolidated financial statements)

Resolution 8 set out in the Notice of Meeting on page 107 is an ordinary resolution granting the directors power to enable them to allot shares up to an aggregate nominal value of £105 500 000 representing approximately 33% of the issued share capital The company does not hold any treasury shares as such However, the 6,022,967 shares held within the employee benefit trust and referred to on page 91 (note 35 to the consolidated financial statements) are accounted for as treasury shares. The intention of the directors is to allot shares upon the exercise of options granted over Securicor plc shares and rolled over into options over the companys shares. The directors do not have any other present intention of exercising this authority

Resolution 9 is a special resolution granting the directors power to enable them to allot shares for cash (a) in connection with a rights or similar issue or (b) other than to existing shareholders, in the latter case such allotment being limited to an aggregate nominal value of £15 995 000 representing approximately 5% of the issued share capital

Resolution 10 is a special resolution seeking authority to make market purchases of the companys shares. The maximum number of shares which could be purchased under this authority is 128 000 000 being a little less than 10% of the number of shares currently in issue The directors have no present intention of utilising this authority but believe it appropriate to obtain this flexibility in accordance with common business practice

Information concerning the company's shares held under option is set out on page 91 (note 35 to the consolidated financial statements)

6 Research and development expenditure

Research in connection with the development of new services and products and the improvement of those currently provided by the group is carried out continuously Research and development written off to profit and loss during the year amounted to £1 4m (2005 £1 4m)

7 Payment of suppliers

It is the companys and the group's policy to pay suppliers in accordance with the payment terms negotiated with them Thus prompt payment is normally made to those suppliers meeting their obligations. The company and the group do not follow any formal code or standard on payment practice

At 31 December 2006 the trade creditors of the company represented 13 days (2005 30 days) of annual purchases

At 31 December 2006 the consolidated trade creditors of the group represented 40 days (2005 46 days) of annual purchases

8 Employee involvement

Employee involvement and consultation is managed in a variety of ways. These include keeping employees informed about current activities, progress and general matters of interest through the group intranet, staff meetings, newsletters, bulletins and similar items produced by various individual companies as well as seeking their views through questionnaires and consultation with union representatives when appropriate

The groups policy and practice is to encourage the recruitment and subsequent training, career development and promotion of disabled persons according to their aptitudes and abilities, and the retention and retraining of employees who become disabled

9 Political and charitable contributions

Charitable contributions by the group during the year amounted to £94,000 (2005 £300 000)

There were no political contributions requiring disclosure under the Companies Act.

10 Substantial holdings

The directors have been notified of the following substantial shareholdings at 30 March 2007 in the ordinary capital of Group 4 Securicor plc

Skagen Alpha Limited	171 939,961* (13 43%)
Deutsche Bank AG	52 939 386 (4 14%)
Legal and General Group Plc	44,633 547 (3 48%)

* Jørgen Philip-Sørensen is interested in these shares for the purposes of section 324 of the Companies Act.

Report of the Directors (continued)

For the year ended 31 December 2006

11 Auditor

A resolution to re-appoint KPMG Audit Plc, chartered accountants, as auditor to the company and for their remuneration to be fixed by the directors will be submitted to the Annual General Meeting.

12 Directors

The directors, biographical details of whom are contained on pages 30 and 31 held office throughout the year, with the exception of Mark Elliott who was appointed on 1 September 2006.

Jørgen Philip-Sørensen and Waldemar Schmidt retired from the board on 30 June 2006

The directors retiring by rotation are Nick Buckles, Lord Condon and Alf Duch-Pedersen who being eligible, offer themselves for re-election The board believes that they possess experience and expertise relevant to the company's operations, that they continue to be effective, that they are committed to the success of the company and that they should be re-elected at the Annual General Meeting

Mr Elliott retires in accordance with the Articles of Association and, being eligible offers himself for election. The board believes that Mr Elliott's considerable knowledge and experience of running an international services business employing large numbers of people is a most valuable addition and therefore recommends that he be elected at the Annual General Meeting.

Of those directors proposed for election or re-election Lord Condon and Messrs Duch-Pedersen and Elliott do not have contracts of service and Mr Buckles contract of service has no unexpired term since it is not for a fixed term.

The contracts of service of the executive directors are terminable at 12 months notice None of the non-executive directors has a contract of service The company has executed deeds of indemnity for the benefit of each of the directors whose biographical details appear on pages 30 and 31 in respect of liabilities which may attach to them in their capacity as directors of the company These deeds are qualifying third party indemnity provisions as defined by section 309 B of the Companies Act 1985 and have been in effect since 3 November 2006 A copy of the form of indemnity is available on the companys website

Details of directors' interests in the share capital of Group 4 Securicor plc and of the directors remuneration are set out on pages 39 to 47

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware there is no relevant audit information of which the company's auditor is unaware and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the company's auditor is aware of that information

None of the directors had a material interest in any contract significant to the business of the group during the financial year

By order of the board

Peter David
Secretary
30 March 2007

The Manor
Manor Royal
Crawley
West Sussex RH10 9UN

Corporate Governance Statement

The boards statement on the company's corporate governance performance is based on the Combined Code on Corporate Governance published in July 2003 ('the Combined Code')

The Combined Code requires companies to disclose how they apply the codes principles and to confirm that they comply with the codes provisions or where they do not comply, to provide an explanation

a) Application of Combined Code principles

The board comprises the non-executive chairman (Alf Duch-Pedersen), a non-executive deputy chairman (Lord Condon) five other non-executive directors, the chief executive (Nick Buckles) the chief financial officer (Trevor Dighton) and the chief operating officer (Grahame Gibson) The board considers all the non-executive directors to be independent. The senior independent director is Malcolm Williamson

All continuing directors are subject to election by shareholders at the next Annual General Meeting following their appointment and will submit themselves for re-election at least every three years.

Membership of the three board committees is as follows.

Audit Committee

Thorleif Krarup (chairman)
Bo Lerenius (joined March 2006)
Mark Seligman
Malcolm Williamson

Remuneration Committee

Lord Condon (chairman)
Mark Elliott (joined March 2007)
Bo Lerenius
Mark Seligman (joined March 2006)

Nomination Committee

Alf Duch-Pedersen (chairman)
Lord Condon
Malcolm Williamson (joined June 2006)

Lord Condon became chairman of the Remuneration Committee on 1 July 2006 when Mr Duch-Pedersen left the committee upon becoming chairman of the board Waldemar Schmidt left the Remuneration Committee on his retirement from the board on 30 June 2006 Mr Duch-Pedersen became chairman of the Nomination Committee following the retirement of Jørgen Philip-Sørensen also on 30 June 2006 Mr Seligman is the member of the Audit Committee with recent and relevant financial experience

The terms of reference of each of the above committees are available on the companys website

It is intended that the chairmen of the three committees will be available to answer questions at the Annual General Meeting.

The directors met on ten occasions during the year ended 31 December 2006. There were ten board meetings, one of which was an extended two-day board and strategy session at which presentations on some of the groups key businesses were made to the board by senior executives and at which the group's business plan, legal financial and HR strategies were discussed Waldemar Schmidt, Malcolm Williamson, Mark Elliott and Bo Lerenius were each absent for one board meeting. At each meeting, the board receives reports from the chief executive, the chief financial officer and the company secretary an HR report and an investor relations report which include summaries of developments on HR matters and comments received from major shareholders since the previous board meeting. In addition the board receives monthly management accounts.

There are ten board meetings scheduled for the current year together with a two-day strategy session.

There is a detailed schedule of matters reserved to the board which are set out under five separate categories. (1) Board and management; (2) Operations; (3) Finance, (4) Business control; and (5) Secretarial By way of example board approval is required for (a) acquisitions, disposals, investments and capital projects exceeding £4m (b) any changes to the group's business strategy and (c) the annual trading, capital expenditure and cash flow budgets.

Corporate Governance Statement (continued)

a) Application of Combined Code principles (continued)

In the year under review the Audit Committee met four times the Remuneration Committee six times and the Nomination Committee twice All members attended each of the meetings except for Malcolm Williamson who was absent from two meetings of the Audit Committee, Waldemar Schmidt and Bo Lerenius who were each absent from one meeting of the Remuneration Committee (and Alf Duch-Pedersen did not attend the meeting of the Remuneration Committee at which his fees as future chairman of the board were discussed) and Jørgen Philip-Sørensen was absent from one meeting of the Nomination Committee

The performance of the board and its committees has been evaluated in a number of ways Having conducted a questionnaire-based self-assessment of the performance of the board as a whole in the previous year the findings have been considered during the year under review and, based on this feedback, steps have been taken during the year to increase the interaction between non-executive directors and the senior executives of the group s businesses. In addition the chairman has conducted individual evaluations of the performance of each of the directors and his findings have been discussed by the board

Both the Audit and Remuneration Committees have evaluated their performance by questionnaire-based self-assessment, completed, in the case of the Audit Committee, by both the committee's members and by the other regular attendees of its meetings The results of the assessments were reviewed by the committees concerned and some areas for improvement were identified As a result, additional meetings have been scheduled to give the committees more time to both carry out their duties and address some of their development and assessment needs.

The chief executive and the chief financial officer hold regular meetings with individual institutional shareholders to discuss the group s strategy and financial performance although price sensitive information is never divulged at these meetings. It is intended that all the directors will attend the Annual General Meeting and will be available to answer questions from shareholders (other than Mr Seligman whose unavailability at this time was made known at the time of his appointment)

The Nomination Committee is responsible for making recommendations on board appointments and on maintaining a balance of skills and experience on the board Alf Duch-Pedersen succeeded Jørgen Philip-Sørensen as chairman of the board when the latter retired in June 2006 The Nomination Committee had considered a number of possible candidates but concluded that Mr Duch-Pedersen s knowledge of the security industry and his retirement from executive duties with Danisco made him an ideal candidate The committee did not therefore believe that external advertising or the use of an external search consultancy would be beneficial The intended succession of Mr Duch-Pedersen was reported in the company s annual report for 2005 Mark Elliott was appointed as a non-executive director with effect from 1 September 2006 on the advice of the Nomination Committee which had received recommendations on a number of potential candidates from an external search consultancy

Audit Committee meetings are also attended by representatives of the group auditor, the chief financial officer the head of internal audit and the company secretary The committee considers the group's annual and interim financial statements and any questions raised by the auditor on the financial statements and financial systems. It also reviews, amongst other matters whistle blowing arrangements, risk management procedures and internal controls.

The Audit Committee has established a policy on the provision by the external auditor of non-audit services so as to ensure that the independence of the audit is not compromised Besides the formal audit function, the auditor is permitted to provide consultation and due diligence services related to mergers and acquisitions, audits of employee benefit plans, reviews of internal accounting and control policies, general advice on financial reporting standards and corporate tax services. The auditor is prohibited from providing other services without specific permission from the Audit Committee The value of non-audit services provided by the auditor must not exceed the fees charged for the statutory audit, save in the event of a major transformation deal The auditor has written to the Audit Committee confirming that, in its opinion it is independent.

b) Compliance with provisions of Combined Code

Save as set out below, the company complied throughout the year under review with the provisions set out in section 1 of the Combined Code

Non-compliance with Combined Code

Provisions A.1 3 and A.6 1 of the Combined Code provide that the non-executive directors led by the senior independent director, should meet without the chairman present at least annually to appraise the chairman s performance In view of the retirement of Jørgen Philip-Sørensen at the end of June 2006, it was thought to be unnecessary to review the out-going chairman's performance and too soon to conduct a meaningful review of the performance of his successor, Alf Duch-Pedersen before the year-end Such an appraisal will be carried out during the current year

Corporate Governance Statement (continued)

c) Risk management and internal control

The directors acknowledge their responsibility for the group's system of internal control and for reviewing its effectiveness. The system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

The risks associated with the group's activities are reviewed regularly by the board which considers major risks and evaluates their impact on the group. Policies and procedures, which are reviewed and monitored by the head of internal audit, are in place to deal with any matters which may be considered by the board to present significant exposure.

The key features of the group's risk management process are:

> A common risk management framework is used to provide a profile of those risks which may have an impact on the achievement of business objectives.

> Each significant risk is documented, showing an overview of the risk, how the risk is managed, and any improvement actions. The risk profiles ensure that internal audit reviews of the adequacy, application and effectiveness of risk management and internal controls are targeted on the key risks.

> Risk management committees have been established at regional, divisional and group level. The regional committees meet twice a year and the divisional and group committees meet quarterly. A standard agenda covering risk and control issues is considered at each meeting and risk profiles are reviewed and updated at each meeting.

> Risk and control self-evaluation exercises are undertaken for each operating company at least twice a year and updated risk profiles are prepared. Similar exercises are undertaken as part of the integration process for all major acquisitions. The results of the company risk evaluations are assessed by the regional and divisional risk management committees.

The process, which is reviewed regularly by the board in accordance with the internal control guidance for directors in the Combined Code, is carried out under the overall supervision of the group risk management committee. This committee, which reports to the Audit Committee, includes both the chief executive and the chief financial officer.

The Audit Committee undertakes a high level review of risk management and internal control. Both the divisional risk management committees and the group risk management committee receive internal audit reports and regular reports on risks. They monitor the actions taken to manage risks.

The internal control system includes clearly defined reporting lines and authorisation procedures, a comprehensive budgeting and monthly reporting system, and written policies and procedures. In addition to a wide range of internal audit reports, senior management also receive assurance from other sources including security inspections, third party reviews, company financial control reviews, external audit reports, summaries of whistle blowing activity and risk and control self-evaluations.

The board has reviewed the group's risk management and internal control system for the year to 31 December 2006 by considering reports from the Audit Committee and has taken account of events since 31 December 2006.

Peter David
Secretary
30 March 2007

Directors' Remuneration Report

At 31 December 2006

This report provides details of the remuneration of each of the directors and sets out the company's remuneration policies for the current financial year and, subject to ongoing review, for subsequent financial years. The report will be put to the Annual General Meeting for approval by the shareholders.

The Remuneration Committee met six times during the period under review The members of the committee all of whom are considered to be independent, are Lord Condon (chairman), Mark Elliott, Bo Lerenius and Mark Seligman (Alf Duch-Pedersen left the committee when he became chairman of the board on 1 July 2006, at which time Lord Condon became chairman of the committee Waldemar Schmidt also left the committee when he retired from the board on 30 June 2006 Mark Elliott joined the committee on 1 March 2007) The committee is responsible for setting all aspects of the remuneration of the chairman the executive directors, the three other members of the group executive committee and the company secretary It is also responsible for the operation of the company's share plans. Its terms of reference are available on the company's website

Advice was provided to the committee by New Bridge Street Consultants LLP compensation consultants, who were appointed by the committee until 6 October 2006 when Towers, Perrin Forster & Crosby, Inc[1] ("Towers Perrin") were appointed by the committee in place of New Bridge Street Consultants The terms of appointment of both firms are available on the company's website New Bridge Street Consultants did not provide any other services to the company during the period under review, but Towers Perrin also provided benchmarking services in respect of a small number of the company's senior executives.

Nick Buckles, chief executive, provided guidance to the committee on remuneration packages for senior executives within the group. Further guidance was received from the group's HR director Irene Cowden Neither Mr Buckles nor Mrs Cowden participated in discussions regarding their own pay

Remuneration policy

The policy for the remuneration of the executive directors and the executive management team aims to achieve

> the ability to attract, retain and motivate high calibre executives;
> a strong link between executive reward and the group's performance;
> alignment of the interests of the executives and the shareholders; and
> provision of incentive arrangements which focus on both annual and longer-term performance

A significant proportion of total remuneration is related to performance through participation in both short-term and long-term incentive schemes. For base target performance, the performance-related element amounts to around 40% of the total package For stretch target performance, the performance-related element amounts to around 60% of the total package The committee believes that the current balance is appropriate although it is kept under review

Bonus payments do not form part of salary for pension purposes.

Elements of remuneration

a) Base salary and benefits

The salaries of the executive directors are reviewed with effect from 1 January each year Interim salary reviews may be carried out following significant changes in responsibility The salaries take account of a benchmarking exercise based on similarly sized companies with a significant part of their business overseas and also reflect responsibility individual performance, internal relativities and salary and other market information supplied by the compensation consultants appointed by the Remuneration Committee The overall objective is to achieve salary levels which provide a market competitive base salary, with the opportunity to earn above market norms, on the delivery of superior performance, through the company's incentive schemes. Benefits include pension arrangements and the provision of a company car (or a cash allowance in lieu of a car), health insurance and life assurance

1 Towers, Perrin Forster & Crosby Inc has given and not withdrawn, its written consent to the issue of this document with the inclusion of the reference to its name in the form and content in which it appears. A copy of the consent letter is available for inspection at the company's registered office

Directors' Remuneration Report (continued)

At 31 December 2006

Elements of remuneration (continued)

b) Performance-related bonus scheme

For the year under review, the executive directors participated in an annual performance related bonus scheme payments under which were dependent on the attainment of defined PBTA (profit before tax and amortisation) targets of the group, adjusted for the effect of any exceptional items and discontinued operations and using constant exchange rates The committee believes that PBTA best reflects the various key drivers of business success within the group. For achievement of the budgeted target, a bonus payment of 50% of base salary was due, increasing on a straight-line basis up to a bonus payment of 100% of salary for achievement of a stretch profit target. Any such bonus up to the value of 50% of the executive director's salary was payable in cash with any excess balance being awarded in the form of deferred shares. Any deferred shares will normally only be transferred to the executive director if he remains in employment (otherwise than where he leaves in certain specified circumstances) for a period of three years from the date of the award of the shares

The PBTA budgeted targets used for the above scheme are the same as the company's budgeted PBTA for the corresponding period (assuming constant exchange rates)

2006 was a strong year for the company with PBTA performance exceeding the budgeted target. The Remuneration Committee agreed that the bonus payment for such performance should be at the 76% level This was above the 50% level which would have been payable for achievement of budgeted PBTA, but below the 100% level which was the maximum payable under the scheme for achievement of the full stretch profit target.

c) Performance Share Plan (long-term incentive plan)

The Performance Share Plan was introduced in July 2004 Under the plan the executive directors and certain other senior executives receive conditional allocations of the company's shares which are released to them only on the achievement of demanding performance targets.

The maximum annual award of shares under the plan is currently one times base salary, save that, in exceptional circumstances the Remuneration Committee may determine that an award of up to one and a half times salary may be made The extent to which allocations of shares under the plan vest have been determined, as to half of the award by the companys normalised earnings per share growth relative to the RPI over a single three-year period and as to the second half of the award by the companys ranking by reference to TSR (total shareholder return being share price growth plus dividends paid) using the FTSE-100 constituent companies as at the date of the award as a comparator group, again over a single three-year period There is no provision for retesting.

The following targets apply to the first half of awards granted in the year under review with the three-year EPS (earnings per share) period ending on 31 December 2008

Average annual growth in EPS	Proportion of allocation vesting
Less than RPI + 6% per annum	Nil
RPI + 6% per annum (18% over three years)	25%
RPI + 6-11% per annum	Pro rata between 25% and 100%
RPI + 11% per annum (33% over three years)	100%

The following targets apply to the second half of each such award

Ranking of the company against the FTSE-100 constituent companies by reference to TSR	Proportion of allocation vesting
Below median	Nil
Median	25%
Between median and upper quartile	Pro rata between 25% and 100%
Upper quartile	100%

In addition there will only be a transfer of shares under the second half if (a) the growth in EPS of the company has exceeded the growth in RPI by 10% over a performance period of three financial years and (b) the Remuneration Committee is satisfied that the company's TSR performance is reflective of the company's underlying performance

Directors' Remuneration Report (continued)

At 31 December 2006

Elements of remuneration (continued)

c) Performance Share Plan (long-term incentive plan) (continued)

The Remuneration Committee believes that a combination of earnings per share growth and total shareholder return targets is the most appropriate performance measure for the performance share plan as it provides a transparent method of assessing the company's performance, both in terms of underlying financial performance and returns to shareholders. The company calculates whether the EPS performance targets have been achieved by reference to the company's audited accounts which provide an accessible and objective measure of the company's earnings per share whilst TSR comparative data will be supplied by Towers Perrin The committee will also ensure that the EPS targets are measured on a consistent basis and are not artificially impacted, either to the benefit or to the detriment of participants, by the change in accounting standards to International Financial Reporting Standards.

Awards will not normally vest where an employee ceases to be employed within the group unless cessation of employment is due to death, injury disability, redundancy, retirement or following a change of control of, or sale outside the group of, his or her employing company In these situations vesting will occur in the normal course and the performance targets will need to be satisfied pro rata to the time the allocation has been held However, only a proportion of the award based on the time which has elapsed from the award date to the end of the last complete month in which the employee was employed, may vest in these circumstances.

The company's current policy is to use market purchased shares to satisfy performance share plan awards.

The Remuneration Committee believes that continued shareholding by executive directors will strengthen the alignment of their interests with shareholders' interests. Accordingly, executive directors of the company will be expected to retain shares to the value of 30% of the after-tax gains made on the vesting of performance share plan awards until they have built up a shareholding equivalent to one times base salary

Remuneration strategy review

The company's executive remuneration strategy aims to provide market competitive levels of total remuneration in return for achievement of stretching short and long-term performance targets In particular, the company's short-term incentive plan is focused on rewarding the achievement of tough annual profit growth targets while the Performance Share Plan (the "PSP") is intended to reward the achievement of sustained earnings growth and superior returns to shareholders over time

During 2006 assisted by Towers Perrin (independent executive remuneration adviser to the Remuneration Committee and the company), the Remuneration Committee conducted a review of the company's executive incentive arrangements to ensure that they provide a strong alignment with the delivery of value to shareholders while enabling the company to continue to attract, retain and motivate high-calibre executives

The results of this review were that.

> Base salary levels are close to mid-market competitive norms against a basket of similarly sized and international companies and so the Remuneration Committee proposes not to make any changes to their approach in setting salaries.

> Maximum annual bonus levels are behind market norms The Remuneration Committee is comfortable with the level of bonus opportunity but has made certain structural changes as described below in order that bonuses are also linked to the successful delivery of key business objectives and milestones other than profit.

> Overall total compensation levels in respect of the three Executive Directors have fallen behind mid-market norms, largely as a result of below market long-term incentive levels. Furthermore, the Remuneration Committee feels that the current TSR peer group in the PSP is no longer appropriate and instead, wishes to move to a group of more directly comparable companies in the company's sector

> Finally the Remuneration Committee feels that the additional EPS underpin applying to the TSR portion of the PSP was unnecessary

As a result of this review, changes have been made to the annual performance-related bonus scheme so that in the event of achievement of a threshold level of profits which is slightly below the budgeted profit target, a bonus payment of 25% of base salary would be due and the amount of bonus payable is linked to achievement of key business objectives as well as PBTA. Thus, in the current year, 40% of base salary will be payable on achievement of budgeted PBTA, increasing on a straight-line basis up to a bonus of 80% of salary for achievement of a stretch profit target, with a further 20% on achievement of pre-defined key business objectives approved by the Remuneration Committee These objectives will vary for each individual according to their responsibilities and will support longer-term business development.

Directors' Remuneration Report (continued)

At 31 December 2006

Remuneration strategy review (continued)

In addition, the Remuneration Committee also proposes the following changes to the PSP for which the company is seeking shareholder approval at the 2007 Annual General Meeting

> The FTSE-100 comparator group will be replaced with the following bespoke global group of 16 support services companies. The current vesting schedule will be retained Relative TSR will be measured on a common currency basis.

Atkins WS	Capita Group	Hays	Rexam
Brambles Industries	Compass Group	MITIE Group	Securitas AB
Brinks	Garda	Prosegur	Serco Group
Bunzl	Group 4 Securicor	Rentokil Initial	Sodexho Alliance

> The annual limit within the PSP will be raised to 250% of salary However, it is the Remuneration Committee's intention that awards will initially be no higher than 150% of salary per year (or 100% of salary for senior executives below board level) If in the future the committee wished to grant at levels greater than 150%, either in exceptional circumstances or because, for example, the market had risen, major shareholders would be consulted prior to any change in this policy Going forward the Remuneration Committee also wishes to place greater emphasis on the EPS portion of the PSP, therefore two thirds of future awards will be linked to existing EPS performance targets and the remaining one third will be linked to TSR performance relative to the new comparator group

> The current explicit EPS underpin to the TSR target will be replaced with a commitment by the Remuneration Committee to ensure that the underlying financial performance of the company is satisfactory prior to permitting the vesting of any award in respect of the TSR portion of the plan Given the emphasis on EPS growth within the PSP, the committee feels that the current underpin is unnecessary The Remuneration Committee believes that EPS has a greater motivational impact for executives as it comes under their accountability and control However it is acknowledged that TSR aligns the interests of shareholders and executives over the longer term and the revised TSR peer group provides a more relevant market perspective

> In line with current best practice participants in the PSP will receive a further share award with a value equivalent to the dividends which would have been paid in respect of future PSP awards vesting at the end of the performance period

> The PSP rules will be amended to comply with age discrimination legislation by removing the provision relating to ineligibility within 2 years of retirement.

> Where a participant leaves employment, or there is a corporate transaction affecting the company, awards under the PSP currently vest subject to having achieved performance conditions and subject to prorating of the award for the time since award The Remuneration Committee considers this approach to be consistent with best practice, but wishes to retain the ability to allow for a greater proportion of the award to vest if it considers it to be appropriate in exceptional circumstances, and so an amendment allowing such discretion is proposed in this respect

The Remuneration Committee believes that these proposals are important in providing a more performance-related remuneration package that will more effectively attract, retain and motivate executives, bring total pay packages closer to mid-market norms and introduce greater alignment with business objectives. Shareholders are asked to confirm their approval of the above changes at the company's Annual General Meeting

Fees, service contracts and letters of appointment

The chairman's annual fee is £225 000 The annual fee for the non-executive directors, which is set by the chairman and the executive directors, is £48 600, with a further £40 000 for the role of deputy chairman £15 000 for the chairmanship of each of the Audit and Remuneration Committees and £15 000 for the role of senior independent director No other fees are paid for membership of the board committees. These fees are subject to periodic review which takes into account comparative fee levels in other groups of a similar size and the anticipated time commitment for the non-executive directors.

The service contracts of those who served as executive directors during the period are dated as follows.

Nick Buckles	2 June 2004
Trevor Dighton	2 June 2004
Grahame Gibson	6 December 2006

Directors' Remuneration Report (continued)

At 31 December 2006

Remuneration strategy review (continued)

The contracts of Messrs Buckles Dighton and Gibson are terminable by the company on 12 months' notice The contracts are terminable by the executive directors on 12 months notice There are no liquidated damages provisions for compensation payable upon early termination, but the company reserves the right to pay salary in lieu of notice It is the company's policy that it should be able to terminate service contracts of executive directors on no more than 12 months notice and that payments for termination of contract are restricted to the value of salary and other contractual entitlements for the notice period As part of the wider remuneration review referred to above, the Remuneration Committee undertook a comprehensive review of all the provisions relating to termination in these directors' contracts and is satisfied that the current arrangements are appropriate and in line with best practice

The chairman and the other non-executive directors do not have service contracts but letters of appointment which provide for initial three-year terms which began on 19 May 2004 other than in the cases of Mr Seligman, whose term began on 1 January 2006, and Mr Elliott, whose term began on 1 September 2006 All directors are required to stand for re-election by the shareholders at least once every three years

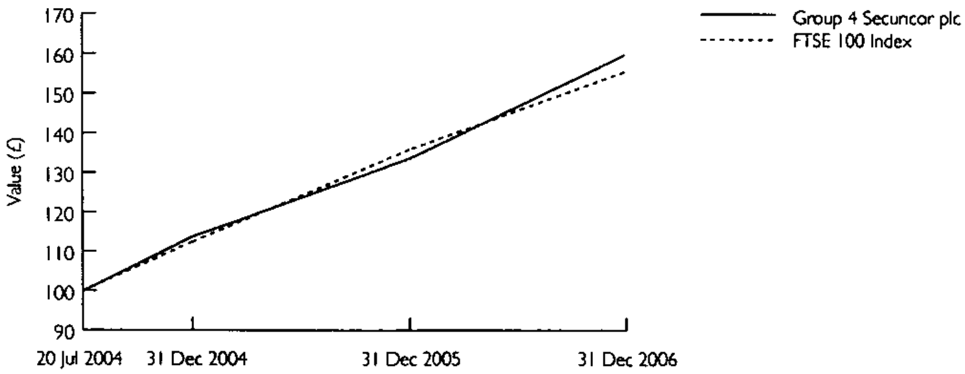
It is the companys policy that executive directors may each hold not more than one external non-executive appointment and may retain any associated fees. Mr Buckles is a non-executive director of Arriva plc for which he received fees of £35 500 in the year ended 31 December 2006 Neither of the other executive directors currently holds an external non-executive appointment.

Performance graph

The performance graph below shows the total cumulative shareholder return of the company from its first day of listing, 20 July 2004, until 31 December 2006, based on a hypothetical shareholding worth £100, compared with the return achieved by the FTSE-100 constituent companies over the same period The directors believe this to be an appropriate form of broad equity market index against which to base a comparison given the size and geographic coverage of the company The FTSE 100 index has also been used for comparative total shareholder return purposes in the companys performance share plan For future performance graphs, consideration will given to using the bespoke global group of 16 support services companies which it is proposed should be used as the comparator group for the companys performance share plan going forward

Total Shareholder Return

Source: Datastream



This graph shows the value at 31 December 2006 of £100 invested in Group 4 Securicor plc on 20 July 2004 compared with the value of £100 invested at the same time in the FTSE 100 Index The other points plotted show the value at the intervening financial year ends

Directors' Remuneration Report (continued)

At 31 December 2006

THE FOLLOWING INFORMATION HAS BEEN AUDITED

Base salaries and bonuses

	Salary and fees £	Benefits £	Performance related bonus £	2006 Total £	2005 Total £
Chairman (non-executive) Jørgen Philip-Sorensen (retired 30 June 2006)	90 000	–	–	90,000	170 000
Alf Duch Pedersen	161 250	–	–	161 250	93 750
Executive directors Nick Buckles (see note 1 below)	660 000	21,390	501,600	1,182,990	1 534 625
Trevor Dighton (see note 1 below)	400,000	20,763	304 000	724 763	894,386
Grahame Gibson (appointed 1 April 2005) (see notes 1 & 2 below)	449 691	33,191	346 112	828,994	844,954
Other non-executive directors Lord Condon (see note 3 below)	67 633	–	–	67,633	42,500
Mark Elliott (appointed 1 September 2006)	16 200	–	–	16,200	–
Thorlief Krarup	60 550	–	–	60,550	42,500
Bo Lerenius	46 800	–	–	46 800	42,500
Waldemar Schmidt (retired 30 June 2006)	22 500	–	–	22,500	42,500
Mark Seligman (appointed 1 January 2006)	46 800	–	–	46 800	–
Lord Sharman (retired 31 December 2005)	–	–	–	–	106 250
Malcolm Williamson	61 800	–	–	61,800	42,500
Total	2,083,224	75,344	1 151,712	3,310,280	3 856 465

Notes.

1 The performance-related bonuses derived from the company's bonus scheme were paid as 50% of basic salary in cash and 26% of basic salary through the award of deferred Group 4 Securicor shares based on a share price of 192 75p, being the average middle market closing price of the company's ordinary shares over the three days immediately following the date of the companys preliminary results announcement 13 March 2007 The awards were

Nick Buckles	89,027 shares
Trevor Dighton	53,956 shares
Grahame Gibson	61,993 shares

2 Grahame Gibson was reimbursed £23,635 for expenses associated with his relocation from the West Midlands to Surrey This sum is subject to UK income tax. The company also paid air fares amounting to £13,360 for flights between the UK and the USA for Mr Gibson's wife and infant children This sum is taxable in the USA.

3 Lord Condon was paid an additional £10 000 in the period for his duties as a director of G4S Global Risks Limited a subsidiary of the company

Directors' Remuneration Report (continued)

At 31 December 2006

Base salaries and bonuses (continued)

The annual base salaries of the executive directors and the annual fees of the non-executive directors at 31 December 2006 were.

Executive directors	£
Nick Buckles	660 000
Trevor Dighton	400 000
Grahame Gibson	449 691

Non-executive directors	£
Alf Duch-Pedersen (chairman)	225 000
Lord Condon	103,600
Mark Elliott	48 600
Thorleif Krarup	63 600
Bo Lerenius	48 600
Mark Seligman	48 600
Malcolm Williamson	63,600

Directors' share options

	Option	At 31 12 05	Granted during 2006	Outstanding at 31 12 06	Option price (p)
Nick Buckles	A	72,901	–	72,901	107 98
	B	95,000	–	95,000	164 00
	C	75,000	–	75,000	133 75
	D	55 000	–	55 000	153 00
	E	700 000	–	700 000	108 00
	F	14,453	–	0	64 00
Trevor Dighton	B	55 000	–	55 000	164 00
	C	40 000	–	40 000	133 75
	D	30 000	–	30,000	153 00
	E	350 000	–	350,000	108 00
	F	14 453	–	0	64 00

Option A = 1996 Securicor Executive Share Option Scheme, exercisable until June 2008
Option B = Securicor Executive Share Option Scheme exercisable until December 2009
Option C = Securicor Executive Share Option Scheme exercisable until June 2010
Option D = Securicor Executive Share Option Scheme exercisable until December 2010
Option E = Securicor Executive Share Option Scheme, exercisable until December 2011
Option F = Securicor Sharesave Scheme, exercisable between October 2006 and March 2007

The above options, which had been granted over Securicor plc shares, were rolled over into options over Group 4 Securicor shares No further grants of options under these schemes will be made

Both of the above directors exercised all their options under Option F above The market price of the shares on the day on which the directors exercised these options was 168 25p. Neither of the above directors exercised options under any other of the above schemes, during the year

As a result of implementation of the Scheme of Arrangement of Securicor plc in July 2004 the performance conditions for the executive share options referred to above ceased to apply This would not occur under the current Performance Share Plan

The market price of the ordinary shares at 31 December 2005 was 161p At 31 December 2006 it was 188p

The highest and lowest market prices of an ordinary share during the year to 31 December 2006 were 193 75p and 158p respectively

Directors' Remuneration Report (continued)

At 31 December 2006

Directors' interests in Performance Share Plan

	At 31 12 05	Shares awarded conditionally during year	Date of award	Market price at date of award	Vesting date	At 31 12 06
Nick Buckles	720,990	341 085	17 03 06	192 75p	17 03 09	1 062,075
Trevor Dighton	539 780	206 720	17 03 06	192 75p	17 03 09	746 500
Grahame Gibson	493 510	241 600	17 03 06	192.75p	17 03 09	735,110

The conditions subject to which allocations of shares vest under this plan are described under (c) Performance Share Plan on pages 40 to 42

Directors' interests in shares of Group 4 Securicor plc (unaudited)

(including awards of deferred shares but excluding shares under option and shares awarded conditionally under the performance share plan both as shown above)

	At 31 12 06	At 31 12.05
Nick Buckles	975 043	871 563
Lord Condon	2,000	2,000
Trevor Dighton	650,964	582,555
Alf Duch-Pedersen	128,560	56 560
Mark Elliott	–	–
Grahame Gibson	397,834	335,841
Thorleif Krarup	3 206	3,206
Bo Lerenius	16 000	16 000
Mark Seligman	50,000	–
Malcolm Williamson	2,000	2,000

All interests shown above are beneficial

No changes in these holdings have taken place since 31 December 2006

Each of Nick Buckles, Trevor Dighton and Grahame Gibson also has a deemed interest in 6,022 967 ordinary shares held in the Group 4 Securicor Employee Benefit Trust.

Directors' pension entitlements

For the period under review the executive directors participated in non-contributory categories of the group's defined benefit pension schemes with a normal retirement age of 60 Trevor Dighton accrued pension at a rate of 1/30ths of the statutory earnings cap until 5 April 2006 when the cap was lifted Nick Buckles accrued pension at a rate of 1/52ths of his final pensionable salary Grahame Gibson accrued pension at a rate of 1/52ths of his final pensionable salary until 5 April 2006 when he opted for enhanced protection and ceased further accrual An actuarial reduction is applied to pensions payable before normal retirement age and an increase is applied where retirement is deferred beyond normal retirement age

For death before retirement a capital sum equal to four times pensionable salary is payable together with a spouse's pension of 50% of the member's prospective pension at the age of 60 plus a return of any contributions paid prior to the admission to the non-contributory category

For death in retirement, a spouse's pension of 50% of the member's pre-commutation pension is payable

Post retirement pensions increase in line with the increase in the Retail Prices Index subject to a maximum of 5% per annum

Directors' Remuneration Report (continued)

At 31 December 2006

Directors' pension entitlements (continued)

Pension entitlements and corresponding transfer values increased as follows during the 12 months ended 31 December 2006 (all figures are in £'000s)

	Gross increase in accrued pension (1)	Increase in accrued pension net of inflation (2)	Total accrued pension at 31/12/06 (3)	Value of net increase in accrual over period (4)	Total change in transfer value during period (5)	Transfer value of accrued pension at 31/12/06 (6)	Transfer value of accrued pension at 31/12/05 (7)
Nick Buckles	37	29	263	328	336	3,129	2,793
Trevor Dighton	11	10	45	169	190	766	576
Grahame Gibson	20	13	206	178	481	2,368	1 887

Notes

(i) Pension accruals shown are the amounts which would be paid annually on retirement based on service to the end of the year with the exception of Mr Gibson whose accrual ended on 5 April 2006

(ii) Transfer values have been calculated in accordance with version 8 1 of guidance note GN11 issued by the actuarial profession

(iii) The value of net increase (4) represents the incremental value to the director of his service during the year, calculated on the assumption that service terminated at the year-end It is based on the increase in accrued pension (2) with the exception of Mr Gibson whose accrual ended on 5 April 2006.

(iv) The change in transfer value (5) includes the effect of fluctuations in such value due to factors beyond the control of the company and the directors such as stock market movements

(v) Between 6 April 2002 and 5 April 2003 Mr Dighton received a salary supplement of 30% of base salary in excess of the earnings cap in lieu of pension provision in respect of his base salary in excess of the cap. Following the Government's announcement of proposed changes to the tax rules for pensions, these payments were suspended with effect from 6 April 2003 pending a review of Mr Dighton's pension arrangement. In September 2005 it was agreed that Mr Dighton should be granted an Unfunded Lump Sum Retirement Benefit (ULSRB) to be calculated as the accumulation of notional contributions of 30% of his base salary in excess of the earnings cap deemed to be invested in the FTSE All Share Total Return Index. The ULSRB is money-purchase in nature and was consolidated with Mr Dighton's benefits from the Securicor Group Pension Scheme under the transitional arrangements following 6 April 2006. A sum of £229 568 was paid to the Securicor Group Pension Scheme in respect of Mr Dighton's ULSRB in April 2006.

(vi) Mr Gibson receives a salary supplement in lieu of pension of 40% of his basic salary with effect from 6 April 2006

Paul Condon

Lord Condon
Chairman of the Remuneration Committee
30 March 2007

Statement of directors' responsibilities in respect of the annual report and the financial statements

The directors are responsible for preparing the Annual Report and the group and parent company financial statements, in accordance with applicable law and regulations.

Company law requires the directors to prepare group and parent company financial statements for each financial year Under that law they are required to prepare the group financial statements in accordance with IFRSs as adopted by the EU and applicable law and have elected to prepare the parent company financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice)

The group financial statements are required by law and IFRSs as adopted by the EU to present fairly the financial position and the performance of the group the Companies Act 1985 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation

The parent company financial statements are required by law to give a true and fair view of the state of affairs of the parent company

In preparing each of the group and parent company financial statements, the directors are required to

> select suitable accounting policies and then apply them consistently

> make judgments and estimates that are reasonable and prudent,

> for the group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the EU

> for the parent company financial statements, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the parent company financial statements, and

> prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and the parent company will continue in business.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 1985 They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the directors are also responsible for preparing a Report of the Directors, Directors' Remuneration Report and Corporate Governance Statement which comply with that law and those regulations.

Independent auditor's report to the members of Group 4 Securicor plc

We have audited the group and parent company financial statements ('the financial statements') of Group 4 Securicor plc for the year ended 31 December 2006 which comprise the Consolidated Income Statement, the Consolidated and Parent Company Balance Sheets, the Consolidated Cash Flow Statement, the Consolidated Statement of Recognised Income and Expense and the related notes. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors Remuneration Report that is described as having been audited

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985 Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the company and the company's members as a body for our audit work, for this report, or for the opinions we have formed

Respective responsibilities of directors and auditors

The directors responsibilities for preparing the Annual Report and the Consolidated Financial Statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU and for preparing the Parent Company financial statements and the Directors' Remuneration Report in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 48.

Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland)

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and as regards the group financial statements, Article 4 of the IAS Regulation. We also report to you if, in our opinion, the Directors Report is not consistent with the financial statements. This information given in the Report of the Directors includes that specific information presented in the Operating and Financial Review that is cross referred from the group results section of the Report of the Directors. In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed

We review whether the Corporate Governance Statement reflects the company's compliance with the nine provisions of the Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the group's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's and company's circumstances, consistently applied and adequately disclosed

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the Directors Remuneration Report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Directors Remuneration Report to be audited

Opinion

In our opinion,

> the group financial statements give a true and fair view, in accordance with IFRSs as adopted by the EU of the state of the group's affairs at 31 December 2006 and of its profit for the year then ended,
> the group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation,
> the parent company financial statements give a true and fair view in accordance with UK Generally Accepted Accounting Practice of the state of the parent company's affairs at 31 December 2006,
> the parent company financial statements and the part of the Directors Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and
> the information given in the Directors' Report is consistent with the financial statements.

KPMG Audit Plc
Chartered Accountants
Registered Auditor
30 March 2007

KPMG Audit Plc
30 March 2007

8 Salisbury Square
London
EC4Y 8BB

Consolidated income statement

For the year ended 31 December 2006

	Notes	2006 £m	2005 £m
Continuing operations			
Revenue	5 6	**4,353 6**	4045 7
Profit from operations before amortisation of acquisition-related intangible assets, exceptional items and share of profit from associates		**274 2**	249 7
Share of profit from associates		**2 8**	5 3
Profit from operations before amortisation of acquisition-related intangible assets and exceptional items (PBITA)	6	**277 0**	255 0
Amortisation of acquisition-related intangible assets		**(36 0)**	(33 8)
Exceptional items. Restructuring costs consequential upon acquisitions		**–**	(18 2)
Profit from operations before interest and taxation (PBIT)	6 8	**241 0**	203 0
Finance income	12	**81 2**	72 6
Finance costs	13	**(122 2)**	(112 2)
Profit from operations before taxation (PBT)		**200 0**	163 4
Taxation			
– Before amortisation of acquisition-related intangible assets and exceptional items		**(67 5)**	(67 3)
– On amortisation of acquisition-related intangible assets		**10 8**	10 0
– On exceptional items		**–**	(2 3)
	14	**(56 7)**	(59 6)
Profit from continuing operations after taxation		**143 3**	103 8
Loss from discontinued operations	7	**(33 4)**	(13 1)
Profit for the year		**109 9**	90 7
Attributable to			
Equity holders of the parent		**96 5**	80 8
Minority interests		**13 4**	9 9
Profit for the year		**109 9**	90 7
Earnings per share attributable to ordinary equity shareholders of the parent	16		
For profit from continuing operations			
Basic		**10 2p**	7 4p
Diluted		**10 2p**	7 4p
For profit from continuing and discontinued operations.			
Basic		**7 6p**	6 4p
Diluted		**7 6p**	6 4p

Consolidated balance sheet

At 31 December 2006

	Notes	2006 £m	2005 £m
ASSETS			
Non-current assets			
Goodwill	19	**1,170 9**	1,176 3
Other acquisition-related intangible assets	19	**220 6**	241 4
Other intangible assets	19	**22 2**	27 3
Property, plant and equipment	20	**355 0**	354 6
Investment in associates	22	**7 3**	3 9
Trade and other receivables	25	**49 9**	50 3
Deferred tax assets	34	**115 7**	112 9
		1,941 6	1 966 7
Current assets			
Inventories	23	**49 9**	35 3
Trading investments	24	**73 7**	61 4
Trade and other receivables	25	**798 9**	829 8
Cash and cash equivalents	27	**307 5**	263 8
		1,230 0	1,190 3
Total assets		**3,171 6**	3 157 0
LIABILITIES			
Current liabilities			
Bank overdrafts	27 28	**(97 5)**	(58 7)
Bank loans	28	**(70 1)**	(87 7)
Obligations under finance leases	29	**(13 6)**	(12 1)
Trade and other payables	30	**(707 6)**	(758 4)
Current tax liabilities		**(26 3)**	(27 6)
Retirement benefit obligations	32	**(42 2)**	(30 0)
Provisions	33	**(40 3)**	(44 5)
		(997 6)	(1 019 0)
Non-current liabilities			
Bank loans	28	**(830 3)**	(790 1)
Obligations under finance leases	29	**(42 5)**	(33 9)
Trade and other payables	30	**(1 0)**	(1 0)
Retirement benefit obligations	32	**(208 3)**	(211 0)
Provisions	33	**(38 7)**	(47 3)
Deferred tax liabilities	34	**(81 7)**	(84 8)
		(1,202 5)	(1,168 1)
Total liabilities		**(2,200 1)**	(2,187 1)
Net assets		**971 5**	969 9
EQUITY			
Share capital	35	**320 0**	317 2
Share premium and reserves	36	**615 2**	625 0
Equity attributable to equity holders of the parent		**935 2**	942 2
Minority interests		**36 3**	27 7
Total equity		**971 5**	969 9

The consolidated financial statements were approved by the board of directors and authorised for issue on 30 March 2007

They were signed on its behalf by

Nick Buckles
Director

Trevor Dighton
Director

Consolidated cash flow statement

For the year ended 31 December 2006

	Notes	2006 £m	2005 £m
Profit from continuing operations before taxation		**200 0**	163 4
Trading loss from discontinued operations before taxation		**(18 1)**	(7 6)
Adjustments for			
Finance income		**(81 2)**	(72 6)
Finance costs		**122 2**	112 2
Finance costs attributable to discontinued operations		**0 9**	0 9
Depreciation of property, plant and equipment		**82 8**	75 4
Amortisation of acquisition-related intangible assets		**36 0**	33 8
Amortisation of other intangible assets		**7 4**	6 8
Impairment of other intangible assets		**2.5**	–
(Profit)/loss on disposal of property, plant and equipment and intangible assets other than acquisition-related		**(1 6)**	2 8
Share of profit from associates		**(2 8)**	(5 3)
Equity-settled transactions.			
– Performance share plan and deferred share awards		**3 6**	1 2
– Share options		**1 4**	1 5
Operating cash flow before movements in working capital		**353 1**	312 5
Increase in inventories		**(6 9)**	(6 3)
Increase in receivables		**(17 7)**	(67 9)
(Decrease)/increase in payables		**(13 5)**	0 1
Decrease in provisions		**(47 6)**	(10 9)
Cash generated by operations		**267 4**	227 5
Tax paid		**(70 3)**	(53 0)
Net cash flow from operating activities		**197 1**	174 5
Investing activities			
Interest received		**11 5**	9 8
Cash flow from associates		**2 7**	12 3
Purchases of property, plant and equipment and intangible assets other than acquisition-related		**(93 2)**	(108 0)
Proceeds on disposal of property plant and equipment and intangible assets other than acquisition-related		**10 7**	18 2
Acquisition of subsidiaries and separately acquired customer-related intangible assets		**(96 7)**	(69 7)
Net cash balances acquired		**3 5**	3 0
Disposal of subsidiaries		**9 9**	42 1
(Purchase)/disposal of trading investments		**(21 8)**	4 8
Own shares purchased		**(3 1)**	(6 1)
Acquisition of minority shareholders of the former Group 4 Falck A/S		**–**	(9 5)
Net cash used in investing activities		**(176 5)**	(103 1)
Financing activities			
Share issues		**9 1**	4 9
Dividends paid to minority interests		**(3 0)**	(5 1)
Dividends paid to equity shareholders of the parent		**(49 8)**	(39 9)
Net increase in borrowings		**95 1**	47 3
Interest paid		**(59 3)**	(47 9)
Net cash inflow from hedging financial instruments		**11 8**	–
Repayment of obligations under finance leases		**(8 4)**	(7 6)
Net cash flow from financing activities		**(4 5)**	(48 3)
Net increase in cash, cash equivalents and bank overdrafts	37	**16 1**	23 1
Cash cash equivalents and bank overdrafts at the beginning of the year		**205 1**	177 7
Effect of foreign exchange rate fluctuations on cash held		**(11 2)**	4 3
Cash, cash equivalents and bank overdrafts at the end of the year	27	**210 0**	205 1

Consolidated statement of recognised income and expense

For the year ended 31 December 2006

	2006 £m	2005 £m
Exchange differences on translation of foreign operations	**(42 6)**	36 5
Actuarial losses on defined retirement benefit schemes	**(33 4)**	(22 6)
Change in fair value of cash flow hedging financial instruments	**1 1**	0 4
Change in fair value of net investment hedging financial instruments	**11 6**	(6 2)
Tax on items taken directly to equity	**(1 4)**	12 3
Net (expense)/income recognised directly in equity	**(64 7)**	20 4
Profit for the year	**109 9**	90 7
Total recognised income	**45 2**	111 1
Attributable to		
Equity holders of the parent	**31 8**	101 2
Minority interests	**13 4**	9 9
Total recognised income	**45 2**	111 1

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 groups 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 groups 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 groups 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 groups 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 groups consolidated net operating assets are denominated, the group utilises derivative financial instruments (see note 3(d) for details of the groups 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 groups variable-rate borrowings and foreign exchange risk on transactions, on the translation of the groups results and on the translation of the groups 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.

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

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 2006 £m	Discontinued operations 2006 £m	Total 2006 £m	Continuing operations 2005 £m	Discontinued operations 2005 £m	Total 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 valuables 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	Acquisition-related intangible assets			Other intangible assets		Total
	£m	Trademarks £m	Customer related £m	Technology £m	Development expenditure £m	Software £m	£m
Cost							
At 1 January 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	Acquisition-related intangible assets			Other intangible assets		Total
	£m	Trademarks £m	Customer related £m	Technology £m	Development expenditure £m	Software £m	£m
Cost							
At 1 January 2005	1,1507	16 6	2389	11 1	–	46 7	1,4640
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	1,2290	16 9	259 7	12 3	2 8	47 2	1,5679
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

2006	Land and buildings £m	Equipment and vehicles £m	Total £m
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 groups 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

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 £1 bn 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 & Poors or Moodys rating agency. For long-term transactions, the financial counterparty must have a minimum rating of A+/A1 from Standard & Poors 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 £1 18 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 Authorised	At 31 December 2006 Issued and fully paid £	At 31 December 2005 Authorised	At 31 December 2005 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 companys 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	7763 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 groups 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**	6946490
Post-employment benefits	**826,777**	500902
Other long-term benefits	**22,138**	22162
Termination benefits	**–**	2,451470
Share-based payment	**2,022,518**	1,697,589
Total	**7,209,377**	11,618613

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

Parent company balance sheet

At 31 December 2006

	Notes	2006 £m	2005 £m
Fixed assets			
Tangible assets	b)	3 9	3 8
Investments	c)	587 5	437 5
		591 4	441 3
Current assets			
Debtors	d)	1,176 3	1,497 0
Cash at bank and in hand		7 7	14 0
		1,184 0	1 511 0
Creditors – amounts falling due within one year			
Bank overdraft (unsecured)		(61 1)	(30 0)
Borrowings (unsecured)	e)	(25 0)	–
Other	f)	(504 5)	(757 2)
		(590 6)	(787 2)
Net current assets		593 4	723 8
Total assets less current liabilities		1,184 8	1,165 1
Creditors – amounts falling due after more than one year			
Borrowings (unsecured)	e)	(786 2)	(731 2)
Other	f)	(0 3)	–
		(786 5)	(731 2)
Provisions for liabilities and charges	h)	(3 8)	(5 1)
Net assets		394 5	428 8
Capital and reserves			
Called up share capital	35	320 0	317 2
Share premium and reserves	i)	74 5	111 6
Equity shareholders' funds	j)	394 5	428 8

The parent company financial statements were approved by the board of directors and authorised for issue on 30 March 2007

They were signed on its behalf by

Nick Buckles
Director

Trevor Dighton
Director

Notes to the parent company financial statements

a) Significant accounting policies

Basis of preparation

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

Exemptions

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

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

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

The consolidated financial statements of the group contain financial instrument disclosures and comply with FRS 25 Financial instruments: disclosures and presentation Consequently the company has taken advantage of certain exemptions in FRS 25 from the requirement to present separate financial instrument disclosures for the company

Tangible fixed assets

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

Fixed asset investments

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

Financial instruments

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

> **External debtors**
> Debtors do not carry interest and are stated at their fair value

> **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

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

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

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

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits.

Provisions

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

Notes to the parent company financial statements (continued)

a) Significant accounting policies (continued)

Derivative financial instruments and hedge accounting

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

Derivative financial instruments are recognised in the balance sheet as financial assets or liabilities at fair value. The gain or loss on remeasurement to fair value is recognised immediately in the 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.

> **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.

Leases

Assets held under finance leases are included as tangible fixed assets at their capital value and depreciated over the shorter of the lease term and their useful economic life. The capital element of future rentals is included within creditors and finance charges are allocated to accounting periods over the period of the lease.

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

Foreign currencies

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

Taxation

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

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

Pensions

The company participates in multi-employer pension schemes in the UK, which provide benefits based on final pensionable pay. The company is unable to identify its share of the schemes' assets and liabilities on a consistent and reasonable basis. In accordance with FRS 17 the company treats the schemes as if they were defined contribution schemes and recognises charges as and when contributions are due to the scheme. Details of the schemes are included in note 32 to the consolidated financial statements.

Notes to the parent company financial statements (continued)

a) Significant accounting policies (continued)

Share-based payments

The company has applied the optional transitional exemptions in FRS 20 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 company 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 company's estimate of the shares that will eventually vest. The amount expensed is adjusted over the vesting period for changes in the estimate of the number of shares that will eventually vest, save for changes resulting from any market-related performance conditions

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

The company grants share options over its own shares to the employees of subsidiary companies. The company does not receive goods or services in exchange for these options. These are accounted for as a written call option on the entity's own shares under FRS 25 and do not result in an accounting entry upon grant. When the share options are subsequently exercised the resulting entries are either to increase share capital and share premium for new shares issued or to record a reduction in the treasury shares owned by the employee benefit trust.

Dividends

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

Financial guarantees

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

Own shares held by employee benefit trusts

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

b) Tangible fixed assets

	Land and buildings £m	Equipment and vehicles £m	Total £m
Cost			
At 1 January 2006	3 0	2 2	5 2
Additions at cost	–	0 5	0 5
Disposals	–	(0 3)	(0 3)
At 31 December 2006	3 0	2 4	5 4
Depreciation			
At 1 January 2006	(0 6)	(0 8)	(1 4)
Charge for the year	(0 2)	(0 2)	(0 4)
Disposals	–	0 3	0 3
At 31 December 2006	(0 8)	(0 7)	(1 5)
Net book value			
At 31 December 2006	**2 2**	**1 7**	**3 9**
At 31 December 2005	2 4	1 4	3 8

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

Notes to the parent company financial statements (continued)

c) Fixed asset investments

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

Subsidiary undertakings	Total £m
Shares at cost:	
At 1 January 2006	437 5
Additions	150 0
At 31 December 2006	**587 5**

Full details of significant investments held by the parent company and the group are detailed in note 43 to the consolidated financial statements

d) Debtors

	2006 £m	2005 £m
Amounts owed by group undertakings	1,150 7	1 472 2
Prepayments and accrued income	0 9	7 4
Derivative financial instruments at fair value	8 6	1 7
Other debtors	16 1	15 7
Total debtors	1,176 3	1,497 0

Included within derivative financial instruments at fair value is £1 4m due after more than one year (2005 £nil) See note g) for further details

Included in other debtors is £6 5m (2005 £1 3m) with regard to deferred tax comprised as follows

	2006 £m	2005 £m
Accelerated capital allowances	(0 3)	0 8
Other timing differences	6 8	0 5
Total deferred tax	6 5	1 3

The reconciliation of deferred tax balances is as follows

	Total £m
At 1 January 2006	1 3
Credited to profit and loss	7 4
Charged to equity in relation to cash flow hedges	(2 2)
At 31 December 2006	**6 5**

e) Unsecured borrowings

The unsecured borrowings are at floating rates and in the following currencies

	2006 £m	2005 £m
Sterling	89 9	–
Euro	291 3	314 7
US dollar	430 0	416 5
Total unsecured borrowings	811 2	731 2

The payment profile of the unsecured borrowings is as follows

	2006 £m	2005 £m
Repayable within one year	25 0	–
Repayable within two to five years	786 2	731 2
Total unsecured borrowings	811 2	731 2

There were no fixed rate financial liabilities and no financial liabilities upon which no interest is paid

Notes to the parent company financial statements (continued)

e) Unsecured borrowings (continued)

Undrawn committed facilities mature as follows.

	2006 £m	2005 £m
Within one year	5 0	–
Within two to five years	212 5	268 8
Total undrawn committed facilities	217 5	268 8

The fair value of the companys bank borrowings equates to their book values Fair values are determined by reference to market values where available, or calculated by discounting cash flows at prevailing interest rates. Borrowing at floating rates exposes the company to cash flow interest rate risk. The management of this risk is detailed in note g)

f) Creditors

	2006 £m	2005 £m
Amounts falling due within one year		
Trade creditors	0 5	1 1
Amounts owed to group undertakings	493 6	736 4
Other taxation and social security costs	1 2	0 5
Other creditors	4 2	2 9
Accruals and deferred income	4 0	8 7
Derivative financial instruments at fair value	1 0	7 6
Total creditors – amounts falling due within one year	504 5	757 2
Amounts falling due after more than one year		
Derivative financial instruments at fair value	0 3	–

g) 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
	8 6	1 7	1 3	7 6
Less: Non-current portion	(1 4)	–	(0 3)	–
Current portion	7 2	1 7	1 0	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 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	–	–	–
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 4	0 4

Notes to the parent company financial statements (continued)

g) Derivative financial instruments (continued)

Currency risk and forward foreign exchange contracts

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

The company enters into forward foreign exchange contracts so as to hedge group translation risk not hedged by way of loans. Gains and losses on such forward foreign exchange contracts are recognised in the profit and loss account. The notional value of outstanding forward foreign exchange contracts at 31 December 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.

Interest rate risk and interest rate swaps

Borrowing at floating rates as described in note e) exposes the company to cash flow interest rate risk, which the company manages within policy limits approved by the directors. Interest rate swaps and, to a limited extent, forward rate agreements are utilised to fix the interest rate on a proportion of borrowings on a reducing scale over forward periods up to a maximum period of five years. At 31 December 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

Counterparty credit risk

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

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

h) Provisions for liabilities and charges

	Onerous contracts £m
At 1 January 2006	5 1
Additional provisions in the year	0 1
Utilisation of provisions	(1 4)
At 31 December 2006	**3 8**

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

i) Share premium and reserves

	Share premium £m	Profit and loss account £m	Own shares £m	Employee Benefit Trust reserve £m	Total £m
At 1 January 2006	4 0	111 9	(6 3)	2 0	111 6
Retained loss	–	(6 4)	–	–	(6 4)
Changes in fair value of hedging derivatives	–	13 1	–	–	13 1
Shares issued	6 3	–	–	–	6 3
Dividends declared	–	(49 8)	–	–	(49 8)
Own shares purchased	–	–	(3 1)	–	(3 1)
Equity-settled transactions.					
– Performance share plans	–	–	–	2 3	2 3
– Deferred shares	–	–	–	1 3	1 3
– Share options	–	1 4	–	–	1 4
Tax on equity movements	–	(2 2)	–	–	(2 2)
At 31 December 2006	**10 3**	**68 0**	**(9 4)**	**5 6**	**74 5**

The (loss)/profit for the year to 31 December 2006 attributable to shareholders was £(6 4)m (31 December 2005 £151 4m)

Notes to the parent company financial statements (continued)

j) Reconciliation of movements in equity shareholders' funds for the year ended 31 December 2006

	2006 £m	2005 £m
Retained (loss)/profit for the year	(6 4)	151 4
Changes in fair value of hedging derivatives	13 1	(5 8)
Shares issued	9 1	4 9
Dividends declared	(49 8)	(39 8)
Own shares purchased	(3 1)	(6 1)
Equity-settled transactions.		
– Performance share plans	2 3	1 2
– Deferred shares	1 3	–
– Share options	1 4	1 5
Tax on equity movements	(2 2)	–
Net (decrease)/increase in shareholders' funds	(34 3)	107 3
Opening equity shareholders funds	428 8	321 5
Closing equity shareholders funds	394 5	428 8

k) Operating lease commitments

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

	2006 £m	2005 £m
Within one year	0 1	0 2
In the second to fifth years inclusive	0 7	0 2
After more than five years	0 8	1 2
Total operating lease commitments	1 6	1 6

l) Auditor's remuneration

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

m) Staff costs and employees

	2006 Number	2005 Number
The average monthly number of employees of the company during the year was.	123	122

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

	2006 £m	2005 £m
Wages and salaries	22.0	20 6
Social security costs	1 9	1 6
Pension costs	1 3	0 9
Total staff costs	25 2	23 1

n) 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. The majority of the shares under option are attributable to employees of the company, however the company bears the full cost of share-based payment charges applicable to subsidiary undertakings. Therefore all disclosures relevant to the company are presented within note 40 to the consolidated financial statements.

o) Contingent liabilities

To help secure cost effective finance facilities for its subsidiaries, the company issues guarantees to some of its finance providers. At 31 December 2006 guarantees totalling £315 4m were in place in support of such facilities.

The company is included in a group registration for UK VAT purposes and is therefore jointly and severally liable for all other UK group companies unpaid debts in this connection. The liability of the UK group registration at 31 December 2006 totalled £18 8m.

Group financial record

£m	Presented under IFRS 2006	2005	2004	Presented under the then UK GAAP 2003	2002
Turnover	**4,353 6**	4045 7	3093 6	2,569 5	2 152 6
Profit before interest, taxation amortisation of acquisition-related intangible assets and exceptional items	**277 0**	255 0	165 5	118 4	93 7
Profit/(loss) after taxation	**109 9**	90 7	(65 4)	(3 2)	12 5
Profit/(loss) attributable to shareholders	**96 5**	80 8	(72 3)	(9 7)	7 6
Non-current assets	**1,941 6**	1 966 7	1 876 0	693 6	658 5
Net assets	**971 5**	969 9	909 9	323 6	290 8
Net debt	**672 8**	657 3	586 4	382 4	487 0
Net debt/equity (%)	**69**	68	64	118	167
Return on net assets (%) (profit/(loss) after taxation/net assets)	**11**	9	(7)	(1)	4
Adjusted earnings per ordinary share (pence)	**12 2p**	11 2p	9 5p	8 0p	6 1p
Dividends for the year per ordinary share (pence)	**4 21p**	3 54p	1 85p	0 46p	0 43p
Average headcount (number)	**440,128**	395,771	306 313	230,472	218,278

The five year record comprises only the results of the security businesses of the former Group 4 Falck A/S up to the acquisition of Securicor plc on 19 July 2004 After that date, the record reflects the results of the combined businesses

The figures presented for 2002 to 2003 are in accordance with the then UK GAAP The main adjustments that would be required to make them consistent with the 2006 financial statements which have been prepared under IFRS relate to

a) the non-amortisation of goodwill
b) the recognition of separable or contractual intangible assets on a business combination
c) the recognition of the funding balances for each retirement benefit scheme
d) the recognition of a charge to income in respect of share options granted
e) the accounting treatment of joint ventures under the proportionate consolidation method rather than the gross equity method of accounting
f) the recognition of all derivative financial instruments at fair value
g) the recognition of all taxable temporary timing differences between the accounting base and tax base of assets and liabilities
h) dividends being provided for in the year in which they are declared
i) the reclassification of certain contracts as finance leases rather than operating leases
j) the reclassification of securities held by the group's captive insurance companies as a component of net debt

Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting of Group 4 Securicor plc will be held at Ironmongers' Hall, Barbican, London EC2Y 8AA on Thursday 31 May 2007 at 2.00pm.

Resolutions 1 to 8 will be proposed as ordinary resolutions. Resolutions 9 to 11 will be proposed as special resolutions.

1 To receive the financial statements of the Company for the year ended 31 December 2006 and the reports of the directors and auditor thereon

2. To receive and approve the Directors' Remuneration Report contained in the financial statements for the year ended 31 December 2006

3 To confirm and declare dividends.

4 To elect Mark Elliott (member of the Remuneration Committee) as a director

5 To re-elect the directors who retire by rotation

(a) Nick Buckles

(b) Lord Condon (member of the Remuneration and Nomination Committees)

(c) Alf Duch-Pedersen (member of the Nomination Committee)

6. To re-appoint KPMG Audit Plc as auditor of the Company from the conclusion of this meeting until the conclusion of the next general meeting at which accounts are laid before the shareholders, and to authorise the directors to fix their remuneration

7 That the directors be and are hereby authorised to make the amendments to the Group 4 Securicor Performance Share Plan as detailed in the Directors' Remuneration Report on page 42 of the Company's 2006 Annual Report and Accounts.

8 That the directors be and are hereby generally and unconditionally authorised in accordance with section 80 of the Companies Act 1985 ("the Act") to exercise all the powers of the Company to allot relevant securities (as defined in section 80(2) of the Act) up to an aggregate nominal amount of £105,500,000 provided that the authority hereby given shall expire on 1 May 2012, save that the Company shall be entitled to make offers or agreements before the expiry of such authority which would or might require relevant securities to be allotted after such expiry and the directors shall be entitled to allot relevant securities pursuant to any such offer or agreement as if this authority had not expired and all unexpired authorities previously granted to the directors to allot relevant securities be and are hereby revoked

9 That the directors be and are hereby granted pursuant to section 95 of the Act, power to allot equity securities (as defined in section 94(2) of the Act) for cash as if section 89(1) of the Act did not apply to such allotment, provided that this power shall be limited to

(i) the allotment of equity securities in connection with a rights issue open offer or other offer of securities in favour of the holders of ordinary shares on the register of members at such record dates as the directors may determine where the equity securities respectively attributable to the interests of the ordinary shareholders are proportionate (as nearly as may be) to the respective numbers of ordinary shares held or deemed to be held by them on any such record date subject to such exclusions or other arrangements as the directors may deem necessary or expedient to deal with treasury shares fractional entitlements or legal or practical problems arising under the laws of any overseas territory or the requirements of any regulatory body or stock exchange or by virtue of shares being represented by depositary receipts or any other matter whatever and

(ii) the allotment (otherwise than pursuant to sub-paragraph (i) above) to any person or persons of equity securities up to an aggregate nominal value of £15,995,000

and shall expire on 1 May 2012 save that the Company shall be entitled to make offers or agreements before the expiry of such power which would or might require equity securities to be allotted after such expiry and the directors shall be entitled to allot equity securities pursuant to any such offer or agreement as if the power conferred hereby had not expired

Notice of Annual General Meeting (continued)

10 That the Company be and is hereby generally and unconditionally authorised to make market purchases (within the meaning of section 163(3) of the Act) of ordinary shares of 25p each in the capital of the Company provided that

(i) the maximum number of shares which may be purchased is 128 000 000

(ii) the minimum price which may be paid for each share is 25p

(iii) the maximum price which may be paid for each share is an amount equal to 105% of the average of the middle market quotations for an ordinary share in the Company as derived from The London Stock Exchange Daily Official List for the five business days immediately preceding the day on which such share is contracted to be purchased, and

(iv) this authority shall expire at the conclusion of the Annual General Meeting of the Company to be held in 2008 (except in relation to the purchase of shares the contract for which was entered into before the expiry of this authority and which might be executed wholly or partly after such expiry)

11 That the name of the Company be changed to G4S plc

By order of the board
Peter David
Secretary
30 March 2007

The Manor
Manor Royal
Crawley
West Sussex RH10 9UN

Notes

(a) Every member entitled to attend and vote at the meeting may appoint another person as his proxy to attend and on a poll, to vote thereat instead of him and such proxy need not be a member Forms appointing proxies must be deposited at the office of the Company's registrar by 2.00pm on 29 May 2007 The appointment of a proxy will not prevent a member from attending and voting at the Annual General Meeting should he decide to do so.

(b) To have the right to attend and vote at the meeting (and also for the purposes of calculating how many votes a person may cast) a person must have his name entered on the register of ordinary shares by no later than 5 30pm on 29 May 2007 Changes to entries on the register after this time shall be disregarded in determining the rights of any person to attend or vote at the meeting

(c) By attending the meeting, a member expressly agrees that he is requesting and willing to receive any communications made at the meeting.

(d) If the addressee of this notice has sold or transferred all of his shares in the Company this notice should be passed to the person through whom the sale or transfer was effected so that it can be passed on to the purchaser or transferee

(e) The marked-up rules of the Group 4 Securicor Performance Share Plan to show the proposed changes are available for inspection at the offices of Herbert Smith LLP, Exchange House Primrose Street, London EC2A 2HS, during usual business hours on any business day from the date of this notice until the conclusion of the Annual General Meeting and at Ironmongers Hall Barbican, London EC2Y 8AA for at least 15 minutes before and during the Annual General Meeting

Financial calendar and corporate addresses

Results announcements
Interim results – August
Final results – March

Dividend payment
Interim paid – 15 December 2006
Final payable – 8 June 2007

Annual General Meeting
31 May 2007

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