Financial highlights – continuing businesses:

- Revenue up 6.3% to £6,823m (2015: £6,419m)
- PBITA up 9.7% to £454m (2015: £414m)
- Earnings up 16.6% to £246m (2015: £211m)
- Operating cash flow up 61.5% to £638m (2015: £395m)

Financial highlights – statutory results:

- Revenue up 10.6% to £7,590m (2015: £6,863m)
- Profit before tax up 279.5% to £296m (2015: £78m)
- Earnings of £198m (2015: £8m)
- Net debt: EBITDA 2.8x (2015: 3.4x)
- Final dividend maintained at 5.82p (2015: 5.82p) resulting in a total dividend of 9.41p (2015: 9.41p)

Basis of preparation

The following discussion and analysis on pages 32 to 40 is based on, and should be read in conjunction with, the consolidated financial statements, including the related notes, that form part of this annual report. The consolidated financial statements have been prepared in accordance with IFRS as adopted by the EU.

The Group applies the basis of preparation for its statutory results shown on page 114. As explained below, the Group makes use of Alternative Performance Measures (APMs) in the management of its operations and as a key component of its internal and external reporting.

G4S uses profit before interest, tax and amortisation ("PBITA") as a consistent measure of the Group's performance, excluding amortisation of acquisition-related intangible assets and specific and other separately disclosed items which the Company believes should be disclosed separately by virtue of their size, nature or incidence. Further details regarding these items can be found in note 8 on page 126.

Revenue, PBITA, operating cash flow and EPS for continuing (core) businesses and net debt to EBITDA are the financial Key Performance Indicators used by the Group in measuring progress against strategic objectives. PBITA and operating cash flow also form a significant element of performance measurement used in the determination of performance-related employee incentives. These APMs are not necessarily comparable with those used by other companies.

From 2016, the Group has reported its results across three distinct components, in line with its strategy for managing the business:

- Continuing (core) businesses, which comprise the Group's on-going activities;
- Onerous contracts, which are being managed effectively to completion; and
- Portfolio businesses, which are being managed for sale or closure, as part of the portfolio rationalisation programme announced by the Group in November 2013.

Taken together, these three components constitute continuing operations under IFRS or GAAP, as distinct from discontinued operations which, in accordance with IFRS 5, represent areas of the business which are being managed for sale or closure but which represent material business segments or entities. The Group now has minimal operations that meet the IFRS 5 definition of discontinued operations. The main APMs used by the Group for each component are reconciled with the Group's statutory results below.

In the following review, to aid comparability, 2015 prior year results are presented on a constant currency basis by applying 2016 average exchange rates, unless otherwise stated.

Summary Group results

Year ended 31 December 2016 (at 2016 average exchange rates)

£m	Continuing businesses	Onerous contracts	Portfolio businesses[a]	Restructuring	Acquisition-related amortisation and other[d]	Statutory
Revenue	**6,823**	181	586			**7,590**
PBITA	**454**	–	7			**461**
Profit before tax	**352**	–	3	(12)	(47)	**296**
Profit after tax	**268**	–	1	(10)	(39)	**220**
Earnings	**246**	–	–	(10)	(38)	**198**
Operating cash flow[c]	**638**	(16)	11	(18)		**615**

Year ended 31 December 2015 (at 2016 average exchange rates)

£m	Continuing businesses	Onerous contracts	Portfolio businesses[a]	Restructuring	Acquisition-related amortisation and other[d]	Adjusted statutory[b]
Revenue	**6,419**	196	760			**7,375**
PBITA	**414**	1	8			**423**
Profit before tax	**309**	1	4	(47)	(172)	**95**
Profit after tax	**235**	(1)	(4)	(38)	(150)	**42**
Earnings	**211**	(1)	(4)	(38)	(149)	**19**
Operating cash flow[c]	**395**	(18)	28	(46)		**359**

Year ended 31 December 2015 (at 2015 average exchange rates)

£m	Continuing businesses	Onerous contracts	Portfolio businesses[a]	Restructuring	Acquisition-related amortisation and other[d]	Statutory
Revenue	**5,958**	189	716			**6,863**
PBITA	**382**	1	8			**391**
Profit before tax	**280**	1	5	(44)	(164)	**78**
Profit after tax	**213**	1	(2)	(35)	(149)	**28**
Earnings	**191**	1	(1)	(35)	(148)	**8**
Operating cash flow[c]	**395**	(18)	28	(46)		**359**

a. Portfolio businesses that remain part of the Group and have not yet been sold or closed contributed £431m revenue (2015: £470m) and £3m PBITA (2015: £1m).

b. The 'adjusted statutory' figures represent the comparative 2015 statutory amounts had they been translated at 2016 average rates (other than for operating cash flow) but should not be considered as or used in place of the Group's statutory results.

c. Operating cash flow is stated after pension deficit contributions of £39m (2015: £44m), and for the year ended 31 December 2015 is presented at 2015 actual exchange rates.

d. Other includes goodwill impairment, net specific items, net profit on disposal/closure of subsidiaries, the results of discontinued operations and the associated tax impacts, see page 36. The Group's accounting policy for pre-tax specific items is disclosed in note 3 (b) on page 114. For tax items, adjustments to prior period tax positions are treated as specific (and are therefore excluded from profit after tax from continuing businesses) to the extent that they relate to transactions or events that were treated as specific items in prior years in order to ensure consistency of presentation. The amounts presented above in respect of profit before tax and profit after tax for "Restructuring" were presented within "Acquisition-related amortisation and other" within the Preliminary results announcement. These amounts have now been presented separately to provide a more meaningful analysis of their impact.

Results from continuing businesses

At 2016 average exchange rates	**2016 £m**	2015 £m	YoY%
Revenue	**6,823**	6,419	6.3%
Profit before interest, tax and amortisation (PBITA)	**454**	414	9.7%
PBITA margin	***6.7%***	*6.4%*	*+30b.p.*
Interest	**(102)**	(105)	(2.9)%
Profit before tax	**352**	309	13.9%
Tax	**(84)**	(74)	13.5%
Profit after tax	**268**	235	14.0%
Non-controlling interests	**(22)**	(24)	(8.3)%
Earnings (profit attributable to equity holders of the parent)	**246**	211	16.6%
EPS	**15.91p**	13.66p	16.5%
Operating cash flow	**638**	395	61.5%

Emerging markets grew 5.4% compared with the prior year, with revenues of £2.6bn, representing 38% of Group revenue (2015: 38%). Developed markets revenues were 6.8% higher than the prior year with strong growth in North America of 12.4% and good growth in Europe of 4.6%, while the UK & Ireland grew by a more modest 1.5%. Revenue from Cash Solutions was up 18.8% on 2015 and from Secure Solutions was up 4.1% on 2015.

PBITA of continuing businesses of £454m (2015: £414m) was up 9.7%. This growth reflects the strong performance of the Group in developed markets, improved product mix and the results of our on-going productivity programmes.

Reconciliation of previously reported underlying results to re-presented results from continuing businesses[a]

The table below reconciles underlying revenue and PBITA as reported previously to the re-presented prior year revenue and PBITA from continuing businesses.

For the year ended 31 December 2015	Underlying as previously reported £m	Onerous contracts £m	Businesses re-classified to portfolio[b] £m	Businesses re-classified from portfolio[c] £m	Continuing businesses at 2015 exchange rates £m	Exchange rate movements £m	Continuing businesses at 2016 exchange rates £m
Revenue							
Africa	391	–	(10)	12	393	2	395
Asia Pacific	610	(6)	(20)	20	604	62	666
Latin America	549	–	(2)	22	569	10	579
Middle East & India	716	–	(6)	6	716	77	793
Emerging markets	2,266	(6)	(38)	60	2,282	151	2,433
Europe	1,159	(48)	(133)	66	1,044	126	1,170
North America	1,518	–	(75)	–	1,443	173	1,616
UK & Ireland	1,490	(135)	(166)	–	1,189	11	1,200
Developed markets	4,167	(183)	(374)	66	3,676	310	3,986
Total revenue	6,433	(189)	(412)	126	5,958	461	6,419
PBITA							
Africa	40	–	–	–	40	–	40
Asia Pacific	45	–	(1)	–	44	5	49
Latin America	29	–	(1)	(5)	23	–	23
Middle East & India	76	–	(1)	1	76	9	85
Emerging markets	190	–	(3)	(4)	183	14	197
Europe	77	(1)	(11)	(1)	64	8	72
North America	94	–	(6)	–	88	10	98
UK & Ireland	116	–	(19)	–	97	–	97
Developed markets	287	(1)	(36)	(1)	249	18	267
Total PBITA before corporate costs	477	(1)	(39)	(5)	432	32	464
Corporate costs	(50)	–	–	–	(50)	–	(50)
Total PBITA	427	(1)	(39)	(5)	382	32	414
Earnings	227	(1)	(27)	(8)	191	20	211
Operating cash flow[d]	416	18	(41)	2	395	–	395

a. See basis of preparation on page 32.

b. During 2016 we determined that we would exit a further 10 of our businesses, including G4S Israel, UK Utility Services, US Youth Services and UK Children's Services. We have therefore reported the results of these businesses in portfolio businesses in 2016 and have restated the 2015 results accordingly.

c. During 2016, for 14 of the businesses previously reported as portfolio businesses, management focus and changing market conditions have resulted in improved performance and we have formally concluded that we will retain these businesses. We have therefore reported the results of these businesses in continuing businesses in 2016 and have restated the 2015 results accordingly.

d. Operating cash flow is stated after pension deficit contributions of £44m and is shown at actual 2015 exchange rates.

Interest

Net interest payable on net debt from continuing businesses was £92m (2015: £93m). The pension interest charge was £10m (2015: £12m) resulting in a total interest cost of £102m (2015: £105m).

Tax

A tax charge of £84m (2015: £74m) was incurred on the profits of continuing businesses of £352m (2015: £309m) which represents an effective tax rate of 24% (2015: 24%). The effective tax rate for continuing businesses is a function of a variety of factors, with the most significant being (i) the geographic mix of its taxable profits and the respective country tax rates, (ii) the recognition of, and changes in the value of, deferred tax assets, (iii) permanent differences such as expenses disallowable for tax purposes and (iv) irrecoverable withholding taxes.

During the year, the Group recognised additional deferred tax assets of £72m (of which £40m arose through the tax charge on continuing businesses), relating to previously unrecognised brought forward tax losses. The timing of recognition of the tax losses as additional deferred tax assets in 2016 is supported by the improved taxable profit profile of the relevant Group companies, which itself is underpinned by the continuing progress of the Group's transformation strategy to generate future sustainable, profitable growth.

At any point in time, the Group is typically subject to tax audits in a number of different countries. In situations where a difference of opinion arises between the Group and a local tax authority in respect of its tax filings, the Group will debate the contentious areas and, where necessary, resolve them through negotiation or litigation. The Group relies upon advice and opinions from the Group tax department, local finance teams and external advisors to ensure that appropriate judgments are arrived at in establishing the appropriate accounting provisions in relation to such disputes.

In December 2016, as part of its response to the OECD's Base Erosion and Profit Shifting recommendations, the UK Government released draft legislation in respect of new rules to: (i) restrict the deductibility of net interest costs to a percentage of EBITDA and (ii) restrict the amount of taxable profits available to offset against carried forward tax losses to 50% of the available profits. Both of these proposals will take effect from 1 April 2017. Management is monitoring the progress of this draft legislation and assessing its possible impacts on the Group, which may result in a modest increase in the effective tax rate on future profits of continuing businesses.

Non-controlling interests

Profit from continuing businesses attributable to non-controlling interests was £22m in 2016, a decrease from £24m for 2015, reflecting a lower level of profitability of certain businesses in the Middle East & India region resulting in a decrease in the share of profit accruing to non-controlling partners.

Profit for the year – continuing businesses

The Group produced profit from continuing businesses attributable to equity holders ("continuing earnings") of £246m (2015: £211m), an increase of 16.6% for the year ended 31 December 2016.

Earnings per share – continuing businesses

Earnings per share from continuing businesses increased to 15.9p (2015: 13.7p), based on the weighted average of 1,546m (2015: 1,545m) shares in issue. A reconciliation of profit for the year from continuing businesses to EPS is provided below:

	Earnings per share – continuing businesses		
	2016 £m	2015 at constant exchange rates £m	2015 at actual exchange rates £m
Profit for the year from continuing businesses	**268**	235	213
Non-controlling interests	**(22)**	(24)	(22)
Profit attributable to shareholders (earnings)	**246**	211	191
Average number of shares (m)	**1,546**	1,545	1,545
EPS (p)	**15.9**	13.7	12.4p

Onerous contracts

The Group's onerous contracts had revenues of £181m (2015: £196m). In December 2016 the UK Compass asylum seeker contract with the Home Office was extended by two years to August 2019. Supplementary onerous contract provisions of a net £4m, primarily in respect of the Compass asylum seekers contract, were booked during 2016.

Portfolio operations

The Group made further progress with its portfolio management programme and since 2013 has sold or is exiting 60 businesses with annualised revenues of c.£1.5bn and PBITA of £16m, based on the last full year when each of these businesses formed part of the Group. This programme has greatly improved the Group's strategic focus and has also generated £345m in disposal proceeds in relation to the 29 businesses sold to date. This includes the sale of 12 businesses this year in Finland, Kazakhstan, Brunei, Uzbekistan, Honduras, Thailand, Costa Rica and the UK, generating proceeds of £82m. The Group also reached agreement for the sale of G4S Israel for £88m which is expected to complete in the next few months.

Restructuring costs

The Group invested £12m (2015: £47m) in restructuring programmes during the year, relating to the multi-year strategic productivity programme which is being implemented across the Group. In addition, the Group incurred non-strategic reorganisation costs of £9m (2015: £10m) which are included within PBITA of continuing businesses.

Acquisition-related amortisation and other

	2016 £m	2015 at constant exchange rates £m	2015 at actual exchange rates £m
Acquisition-related amortisation and expenses	**32**	41	40
Goodwill impairment	**9**	71	66
Net specific items	**13**	73	70
Net profit on disposal/closure of subsidiaries	**(7)**	(13)	(12)
Tax effect of above	**(8)**	(22)	(15)
Loss from discontinued operations	**3**	2	2
Non-controlling interests' share of specific items	**(4)**	(3)	(3)
Total acquisition-related amortisation and other	**38**	149	148

Acquisition-related amortisation and expenses

Acquisition-related amortisation and expenses of £32m (2015: £41m) are lower than the prior year as certain intangible assets recognised on a number of historical acquisitions became fully amortised in 2015.

Net specific items

Specific items of a net £13m (2015: £73m) included a £10m charge due to the revision of estimates relating to legacy acquisitions and labour claims in Latin America, £7m relating to commercial restructuring in Middle East & India, and a net £4m supplementary onerous contract provision primarily in respect of the Compass asylum seekers contract, all offset by an £8m credit mainly relating to the recovery of a legal claim in Europe and of certain disputed debtor balances in the UK.

Profit on disposal and closure of subsidiaries and goodwill impairment

As part of the on-going portfolio programme, the Group realised a net profit on disposal/closure of subsidiaries of £7m (2015: £13m) relating to the disposal of a number of the Group's operations including the Cash Solutions business in Thailand, the businesses in Finland, Brunei and Kazakhstan and the Utilities Services and ATM engineering businesses in the UK, together with a loss arising on closure of a systems business in Latin America. The Group recorded a goodwill impairment charge of £9m (2015: £71m) in relation to businesses that are to be sold or closed.

Non-controlling interests' share of acquisition-related intangibles and other

Statutory profit includes the non-controlling interests' share of acquisition-related intangible and other charges of £4m (2015: £3m). Including these items, statutory profit attributable to non-controlling interests was £19m in 2016 (2015: £18m).

Profit for the year – statutory at actual historical exchange rates

The Group reported statutory earnings of £198m (2015: £8m) mainly driven by improved operating profit and lower charges for specific items, restructuring and goodwill impairment.

Earnings per share – statutory at actual historical exchange rates

Statutory earnings per share increased to 12.8p (2015: 0.5p), based on the weighted average of 1,546m (2015: 1,545m) shares in issue. A reconciliation of the Group's statutory profit for the year to EPS is provided below:

	Earnings per share		
	2016 £m	2015 at constant exchange rates £m	2015 at actual exchange rates £m
Profit for the year	**217**	40	26
Non-controlling interests	**(19)**	(21)	(18)
Profit attributable to shareholders (earnings)	**198**	19	8
Average number of shares (m)	**1,546**	1,545	1,545
Statutory earnings per share (p)	**12.8p**	1.2p	0.5p

Cash flow

A reconciliation of operating profit as presented in the Group's Consolidated income statement to movement in net debt is presented below with 2016 presented at actual rates for the year and the prior year presented at 2015 exchange rates. The definition of cash flow from continuing operations, as presented below, has been changed to include the Group's pension deficit repair payments, which were added back and treated as other uses of funds in prior reported results. The revised treatment more closely aligns the reconciliation with the Consolidated statement of cash flow contained within the statutory accounts on page 113.

	2016 £m	2015 £m
Operating profit	**402**	183
Adjustments for non-cash and other items (see page 113)	**126**	245
Net working capital movement	**87**	(69)
Net cash flow from operating activities of continuing operations (page 113)	**615**	359
Adjustments for:		
Restructuring spend	**18**	46
Cash flow from continuing operations	**633**	405
Analysed between:		
Continuing businesses	***638***	*395*
Portfolio businesses	***11***	*28*
Onerous contracts	***(16)***	*(18)*
Investment in the business		
Purchase of fixed assets, net of disposals	**(107)**	(104)
Restructuring investment	**(18)**	(46)
Disposal proceeds	**82**	14
Acquisition of businesses	**(1)**	(17)
Net debt in disposed/acquired entities	**(15)**	(3)
New finance leases	**(7)**	(27)
Net investment in the business	**(66)**	(183)
Net cash flow after investing in the business	**567**	222
Other (users)/sources of funds		
Net interest paid	**(96)**	(91)
Tax paid	**(84)**	(102)
Dividends paid	**(162)**	(174)
Cash (used by)/from discontinued operations	**(9)**	26
Other	**6**	12
Other net uses of funds	**(345)**	(329)
Net cash flow after investment, financing, tax, dividends and pensions	**222**	(107)
Net debt at the beginning of the year	**(1,782)**	(1,639)
Effect of foreign exchange rate fluctuations	**(110)**	(36)
Net debt at the end of the year	**(1,670)**	(1,782)

Cash flow from continuing operations before restructuring spend was £633m (2015: £405m). Cash flow from portfolio businesses held for sale or closure was £11m (2015: £28m), and cash outflows from onerous contracts were £16m (2015: £18m), both of which are excluded from operating cash flows for continuing businesses. Operating cash flow from continuing businesses increased to £638m (2015: £395m), reflecting higher operating profits and enhanced working capital management.

The Group invested £107m (2015: £104m) in net capital expenditure and received proceeds of £82m (2015: £14m) from the disposal of businesses. The Group made no significant acquisitions during the year.

Net cash inflow after investing in the business and proceeds from portfolio rationalisation was £567m (2015: £222m). The Group's net cash inflow after investing in the business, financing, tax, dividends and pensions was £222m (2015: outflow of £107m).

Net debt

The Group's net debt as at 31 December 2016 was £1,670m (December 2015: £1,782m). The Group's net debt to EBITDA ratio was 2.8x (2015: 3.4x). The movement in net debt during the year included an increase of £110m (2015: £36m) arising from foreign exchange translation differences relating to the Group's debt held in foreign currencies, mainly US dollars and euros, in particular as a result of the exchange rate movements since June 2016.

The Group's business plan and current performance support a net debt/EBITDA of 2.5x or lower by the end of 2017.

Net debt maturity

In August 2016 the Group's credit rating was affirmed by Standard & Poor's as BBB- (negative). As of 31 December 2016 the Group had liquidity of £1,692m including cash, cash equivalents and bank overdrafts of £692m and unutilised but committed facilities of £1bn.

In August 2016 the Group put in place a new €600m bank facility to provide additional liquidity but this facility was subsequently cancelled following the successful issue of a new €500m Eurobond in November 2016. The bond matures in January 2023 and pays an annual coupon of 1.5%.

The next debt maturities are $200m of US Private Placement debt maturing March 2017 and a €600m Eurobond maturing in May 2017. The Group has good access to capital markets and a diverse range of finance providers. Borrowings are principally in pounds sterling, US dollars and euros, reflecting the geographies of significant operational assets and earnings.

The Group's main sources of finance and their applicable rates as of 31 December 2016 are set out below:

				Year of redemption and amounts (£m)[b]							
Debt instrument / Year of issue	Nominal amount[a]	Issued interest rate	Post hedging avg interest rate	2017	2018	2019	2020	2021	2022	2023	**Total**
US PP 2008	£44m	7.56%	6.59%		44						**44**
US PP 2007	US$450m	5.86% - 6.06%	1.86%	162		117			85		**364**
Public Bond May 2012	€600m	2.875%	3.12%	501							**501**
US PP 2008	US$298.5m	6.78% - 6.88%	6.90%		166		60				**226**
Public Bond Dec 2012	€500m	2.625%	2.65%		412						**412**
Public Bond 2009	£350m	7.75%	6.82%			350					**350**
Eurobond 2016	€500m	1.5%	2.25%							440	**440**
Revolving Credit Facility 2015	£1bn (multi curr)	undrawn	–								**–**
				663	622	467	60	–	85	440	**2,337**

a. Nominal debt amount. For fair value carrying amount see note 31.

b. Exchange rates at 31 December 2016 or hedged exchange rates where applicable.

£964m of the original £1bn multi-currency revolving credit facility matures in January 2022 with the remainder maturing in January 2021. As at 31 December 2016 there were no drawings from the facility.

The Group's average cost of gross borrowings in 2016, net of interest hedging, was 3.9% (2015: 4.0%).

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. Group Treasury is not a profit centre and it 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 144 to 148.

To assist the efficient management of the Group's interest costs, the Group operates a multi-currency notional pooling cash management system with a wholly-owned subsidiary of an A-rated bank. During the year the Group applied the new IFRIC interpretation on cash offsetting and as a result now presents cash and overdrafts within the pooling system gross in the statement of financial position.

Significant exchange rates applicable to the Group

The Group derives a significant portion of its revenue and profits in the currencies shown below, together with their respective closing and average rates:

	As at 31 December 2016	At 2016 average rates	At 2015 average rates
£/US$	**1.2345**	1.3558	1.5282
£/€	**1.1705**	1.2265	1.3795
£/South Africa Rand	**16.9500**	19.8742	19.5175
£/India Rupee	**83.8670**	91.0371	97.9690
£/Israel Shekel	**4.7483**	5.1912	5.9441
£/Brazil Real	**4.0165**	4.7252	5.1054

If December 2016 closing rates were applied to the results for the year to 31 December 2016, revenue from continuing businesses would have increased by 6.5% to £7,268m (for the year ended 31 December 2015: by 6.6% to £6,842m) and PBITA from continuing businesses would have increased by 6.6% to £484m (for the year ended 31 December 2015: by 7.5% to £445m).

Dividend

In assessing the dividend, the board considers:

- the future investment requirements of the continuing businesses;
- net debt to EBITDA;
- satisfying the Group's pension obligations;
- the availability of distributable reserves in the parent company; and
- reward to shareholders.

The directors recommend a final dividend of 5.82p (DKK 0.5029) per share (2015: 5.82p per share; DKK 0.5615). The interim dividend was 3.59p (DKK 0.3143) per share and the total dividend, if approved, will be 9.41p (DKK 0.8172) per share, consistent with 2015 (2015, the interim dividend 3.59p; DKK 0.3793 and the total dividend 9.41p; DKK 0.9408).

The proposed dividend cover is 1.7x (2015: 1.5x) on earnings from continuing businesses. Whilst the board's intention is that dividends will increase broadly in line with those earnings over the medium term, at present dividends are being maintained at the same level year-on-year pending achievement of the Group's leverage reduction targets.

Other information

Pensions

As at 31 December 2016 the net defined benefit pension obligation in the Consolidated statement of financial position was £437m (2015: £279m) or £368m net of tax (2015: £234m) of which £341m (2015: £205m) related to material funded defined benefit schemes.

The most significant of the Group's pension schemes is in the UK and accounts for over 73% (2015: 68%) of the total material scheme obligations. The scheme has approximately 30,000 members and further details of the make-up of the scheme are given in note 32 on page 150.

Defined benefit obligation – UK scheme

	2016 £m	2015 £m
Scheme assets	**2,339**	2,029
Obligations	**(2,659)**	(2,218)
Total UK obligations	**(320)**	(189)

The movement in the UK scheme obligation was a result of an increase of £310m in the value of scheme assets principally arising from an increase in underlying asset values, as well as an increase in the scheme obligations of £441m. The increase in the obligations is mainly a result of the discount rate used for valuation purposes decreasing to 2.5% (2015: 3.8%) and of the projected pension inflation rates increasing to 3.3% (2015: 3.1%).

The Group made additional pension contributions of £39m (2015: £44m) into the scheme during the year. Following strong investment performance in the G4S pension scheme at the end of the latest triennial valuation process, the trustees of G4S's UK pension schemes agreed during the year a reduced annual pension deficit payment of £39m in 2016, with a 3% per annum increase until the next funding valuation due in 2018.

Interest-rate risk and interest-rate swaps

The Group's investments and borrowings at 31 December 2016 were a mix of fixed rates of interest and floating rates of interest linked to LIBOR and EURIBOR.

The private placement notes in March 2007 and July 2008 and the public notes in May 2009, May 2012, December 2012 and November 2017 were all issued at fixed rates, whilst the Group's investments and bank borrowings were all at variable rates of interest linked to LIBOR and EURIBOR.

The Group's interest risk policy requires Treasury to fix a proportion of its interest exposure on a sliding scale in US dollars, sterling and euro, using the natural mix of fixed and floating interest rates emanating from the bond and bank markets and by utilising interest rate and cross-currency swaps. Part of the proceeds of the private placement and public notes have been swapped to floating interest rates and accounted for as fair-value hedges, with a net gain at 31 December 2016 of £27m (2015: net gain £40m). The market value of the pay-fixed receive-variable swaps and the pay-fixed receive-fixed cross-currency swaps outstanding at 31 December 2016, accounted for as cash-flow hedges, was a net asset of £31m (2015: net liability of £36m).

Foreign currency

The Group has many overseas subsidiaries and joint ventures, denominated in various different currencies. Treasury policy is to manage significant translation risks in respect of net operating assets and its consolidated net debt/EBITDA ratio by holding foreign currency denominated loans, where possible. On occasion, the Group uses foreign exchange contracts to hedge the residual portion of net assets not hedged by way of loans.

At 31 December 2016, the Group's US dollar and Euro net assets were approximately 80% and 93% respectively, hedged by foreign currency loans. As at 31 December 2016, net debt held in US dollar and Euro and in those currencies officially pegged to these two currencies, equated broadly to a ratio of 2.2x EBITDA generated from these currencies (2015: 2.5x EBITDA).

Tax policy

The Group's policy in relation to tax is as follows:

- we manage our tax affairs responsibly and transparently;
- we only undertake tax planning which aligns with our commercial and economic activity;
- we endeavour to involve fully our tax team in all significant business developments so that we can assess fully any potential tax consequences of our actions in advance;
- we utilise tax incentives, reliefs and exemptions in line with tax legislation;
- in international matters, we follow the terms of the relevant Double Tax Treaties and OECD guidelines in dealing with such issues as transfer pricing and establishing tax presence;
- we actively seek open dialogue with Her Majesty's Revenue and Customs (HMRC) and other tax authorities, in pursuit of a professional relationship of constructive compliance, with the aim of achieving early agreement on disputed items and obtaining certainty where possible;
- we provide all relevant information when requested to do so by HMRC or other tax authorities;
- if we discover errors in tax returns or correspondence with tax authorities, we disclose and correct them promptly; and
- we take an active role in contributing to the UK and international tax policy-making process, where relevant, including taking part in formal and informal consultations.

The Group operates in a large number of countries and is typically subject to tax in those jurisdictions. The Group employs an in-house team of tax professionals who interface with the regional and country business and finance teams to manage the Group's tax risks in a controlled and proactive manner. The complex international tax environment means that there is always an element of tax risk and uncertainty inherent within the Group's operations. Group companies are routinely subject to tax audits which can take a considerable period of time to conclude. As and when appropriate, the Group obtains advice from external professional firms to support its positions.

As a high-profile provider of public services, the Group considers it is important that we increase the public's understanding of tax matters and their trust in larger corporate groups by being transparent about our tax affairs and co-operating with the tax authorities.

By managing responsibly the Group's tax affairs in line with our tax policy, the Group is also adhering fully to the Confederation of British Industry's seven tax principles.

Corporate governance

The Group's policies regarding risk management and corporate governance are set out in the Risk management section on pages 50 to 55 and in the Corporate governance report on pages 62 to 77.

Tim Weller
Chief Financial Officer