

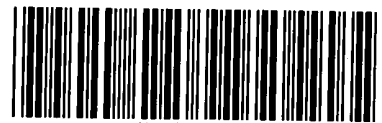
Registration number: 00390328

G4S Care and Justice Services (UK) Limited

Annual Report and Financial Statements

for the Year Ended 31 December 2016

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G4S Care and Justice Services (UK) Limited

Contents

Company Information	1
Strategic Report	2 to 4
Directors' Report	5 to 6
Statement of Directors' Responsibilities	7
Independent auditors' report	8 to 10
Income Statement	11
Statement of Other Comprehensive Income	12
Statement of Changes in Equity	13
Statement of Changes in Equity	14
Statement of Financial Position	15 to 16
Notes to the Financial Statements	17 to 40

G4S Care and Justice Services (UK) Limited

Company Information

Directors	J Hartley
	P Neden
	G Nienaber
Company secretary	V J Patel
Registered office	5th Floor, Southside
	105 Victoria Street
	London
	SW1E 6QT
Independent auditors	PricewaterhouseCoopers LLP
	1 Embankment Place
	London
	WC2N 6RH

G4S Care and Justice Services (UK) Limited

Strategic Report for the Year Ended 31 December 2016

The directors present their strategic report for the year ended 31 December 2016.

Fair review of the business

G4S Care and Justice Services (UK) Limited ("the company") offers highly specialised services to central and local governments and government agencies and authorities including adult custody and rehabilitation, prisoner escorting and immigration services.

As the numbers of those in custody continue to rise, governments are focusing increasingly on programmes to reduce rates of re-offending, whether in custody or in the community. Rehabilitation and education programmes for those in custody are widely seen as effective and appropriate responses to address offending behaviour of prisoners.

Accordingly, we continue to see attractive long-term growth opportunities in ancillary custodial services as governments consider how to extend their use to tackle other issues such as domestic violence.

In immigration, asylum, deportation, youth custody and associated services, declining margins coupled with greater reputation risk are expected to contribute to a more challenging operating environment.

As shown on the company's income statement on page 11, the company's profit for the year of £7,925,000 (2015: £9,164,000) includes £15,960,000 (2015: £20,704,000) net charge in respect of provisions for future unavoidable losses on specific contracts and claims provisions as described below.

Under the UK Compass asylum seeker contract with the Home Office, the company provides accommodation, transportation and subsistence services for asylum seekers whilst their claims are being processed. This contract commenced in 2012 and initially ran to 1 September 2017, with a potential extension of a further two years.

In 2014, an onerous contract provision was recognised in relation to the then-current assumptions regarding asylum seeker numbers, the duration and cost of accommodation and support services. The Compass provision was updated in December 2015 to reflect the estimated increase in asylum seekers assigned to the company, the availability of suitable accommodation approved by local authorities and the speed of processing of applications by the immigration authority.

On 8 December 2016 the Group announced an extension of the UK Compass asylum seeker contract by two years to August 2019. Estimates for future losses have been updated resulting in an increase in this provision of £14,193,000 (2015: £20,704,000).

In addition, the Company has also recognised a claims provision of £6,500,000 related to the estimated cost of settlement of subcontractor claims from commercial disputes in relation to prior years. Both these additional provisions were recorded within specific items in the income statement.

During the period two legacy PFI contracts which had previously been provided for as onerous have shown significantly improved performance over the period. Latest cash projections demonstrate that these contracts will generate cash inflows over their remaining life, resulting in the release of £4,733,000 of onerous provisions in the current year. This release has been recorded within specific items in the income statement.

Subsequent to the period end, in June 2017 the company disposed of its children's home care business to Prospects Group for £11,400,000.

G4S Care and Justice Services (UK) Limited

Strategic Report for the Year Ended 31 December 2016 (continued)

Key performance indicators

The company utilises a wide range of operational performance measures across its business activities. However, these are all activity or contract specific. The company's directors do not believe that further key performance indicators are necessary or appropriate for an understanding of the development, performance or position of the business as a whole.

Principal risks and uncertainties

All businesses are subject to risk and many individual risks are macro-economic or social and common across many businesses. The key risks are those which would materially damage the company'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 other currently considered immaterial become material.

1) COMPASS contract

Changes in demand for COMPASS contract

The company's ability to meet its obligations under the COMPASS contract are dependent on it being able to source suitable accommodation. An increase in demand for housing of asylum seekers under the COMPASS contract may result in an increase of costs without the ability for the company to recover such costs resulting in increased losses.

Risk mitigation approach

As one of G4S plc group's most significant running contracts, the company performs 360° contract assurance reviews which focus on key aspects of contract management and performance. There are also monthly reviews attended by the senior management of the company which cover current and expected demand along with current and future availability of accommodation either self-delivered or through subcontractors.

In 2017, an increased proportion of group internal audit reviews in the UK businesses will focus on major contracts.

2) Major changes in market dynamics

Such changes in dynamics could include changes in the housing market where asylum seeker accommodation is provided, changes in dynamics with suppliers, new technologies, government legislation or customer consolidation and could, particularly if rapid or unpredictable, impact the company's revenues and profitability.

Risk mitigation approach

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. We continue to invest in and develop our sales and business development systems. We perform customer satisfaction monitoring to improve measurement of our engagement with our clients and therefore making us more effective in driving stronger customer relationships.

3) Onerous contract obligations

Should the company commit to sales contracts which result in unavoidable disadvantageous pricing mechanisms, unachievable service levels or excessive liability, these could result in future losses which would have to be recognised upfront based on the company's best estimate.

G4S Care and Justice Services (UK) Limited

Strategic Report for the Year Ended 31 December 2016 (continued)

3) Onerous contract obligations (continued)

Risk mitigation approach

We have strict thresholds for the approval of major bids involving both detailed legal review and senior management oversight. These are embedded into our Salesforce opportunity management tool. When appropriate we conduct external reviews of bid models.

4) Poor operational service delivery

Should the company fail to meet the operational requirements of its customers, including a major failure of service delivery at a prison, it could impact its reputation, contract retention and growth.

Risk mitigation approach

The company, in conjunction with G4S plc, performs 360° contract assurance reviews which focus on key aspects of contract management and performance. In 2017, an increased proportion of group internal audit reviews in the UK businesses will focus on major contracts.

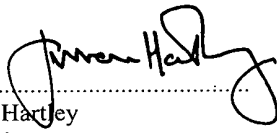
Senior management perform monthly reviews of contracts where commercial and/or performance issues have been identified.

In 2017, an increased proportion of group internal audit reviews in the UK businesses will focus on major contracts.

5) Brook House contact

In September 2017 allegations were made on BBC television about the Company's delivery of the Brook House contract. With respect to these allegations, we have not identified any reasonably estimable financial exposure at this time. In the meantime the company continues to review its control procedures.

Approved by the Board on 2 October 2017 and signed on its behalf by:



J Hartley
Director

G4S Care and Justice Services (UK) Limited

Directors' Report for the Year Ended 31 December 2016

The directors present their report and the audited financial statements for the year ended 31 December 2016.

Directors of the company

The directors of the company who were in office during the year and up to the date of signing the financial statements were;

J Hartley

P Neden

G Nienaber

Results and dividends

The results for the year are set out on page 11. The directors do not recommend the payment of a final dividend (2015: £nil).

A review of the progress of the company's business during the year, the key performance indicators, internal controls, principal business risks and likely future developments are contained in the Strategic report on pages 2 to 4.

Employment of disabled persons

It is the policy of the company to give fair consideration to applications for employment made by disabled persons acknowledging the particular abilities and aptitudes of each applicant and taking into account the requirements of the vacancies available. The company has been assessed and approved to use the Positive about Disabled People logo on its recruitment advertisements in the UK where the company is also a member of the Employers Forum on Disability to raise awareness in the organisation of the importance of giving assistance to disabled persons in employment.

In the event of a member of staff becoming disabled, every effort is made via the Company's Occupational Health Adviser to ensure that their employment with the company continues and that appropriate help is given to assist the member of staff.

It is the policy of the company to ensure that the training, career development and promotion of a disabled person, should, as far as possible, be identical to that of a person who does not suffer any disability.

Employee involvement

The company is committed to inform and involve its staff in the business of the company. Formal consultative committees exist to ensure that issues of mutual interest can be discussed and resolved. Company newsletters, employee magazines and other communications are used to keep staff informed of events within the company.

G4S Care and Justice Services (UK) Limited

Directors' Report for the Year Ended 31 December 2016 (continued)

Environmental matters

The company's business is not one that has a significant direct impact on the environment. However, the company recognises the importance of its responsibilities to reduce environmental impact in such areas as energy usage, recycling, environmentally-friendly products and paper products, where it operates in accordance with the policies of G4S plc as detailed in the group's annual report.

Financial Risk Management

The company operates under the financial risk management objectives and policies of its ultimate parent, G4S plc, into which the results of the company are consolidated. G4S plc's key objectives and policies include:

- Mitigating liquidity risk by ensuring there are sufficient undrawn committed facilities available to the G4S plc group;
- Conducting operating and financing activities wherever possible in the company's local currency; and
- Utilising interest rate swaps and to a lesser extent forward rate agreements to manage future cash outflows.

Further details of the financial risk management objectives and policies of the G4S plc group of which the company is a member, are included in Note 31 of the consolidated financial statements of G4S plc (www.g4s.com).

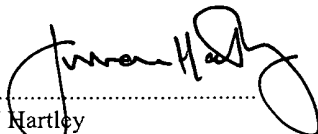
Disclosure of information to the auditors

Each director has taken steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditor is aware of that information. The directors confirm that there is no relevant information that they know of and of which they know the auditor is unaware.

Independent auditors

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office and a resolution confirming their appointment will be proposed at the Annual General meeting.

The financial statements on pages 11 to 40 were approved by the Board on 2 October 2017 and signed on its behalf by:


.....
J Hartley
Director

G4S Care and Justice Services (UK) Limited

Statement of Directors' Responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 'Reduced Disclosure Framework', and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006.

The directors are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

G4S Care and Justice Services (UK) Limited

Independent auditors' report to the members of G4S Care and Justice Services (UK) Limited

Report on the financial statements

Our opinion

In our opinion, G4S Care and Justice Services (UK) Limited's financial statements (the "financial statements"):

- give a true and fair view of the state of the company's affairs as at 31 December 2016 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

The financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), comprise:

- the Statement of Financial Position as at 31 December 2016;
- the Income Statement and Statement of Other Comprehensive Income for the year then ended;
- the Statement of Changes in Equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law (United Kingdom Generally Accepted Accounting Practice).

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In addition, in light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic Report and the Directors' Report. We have nothing to report in this respect.

G4S Care and Justice Services (UK) Limited

Independent auditors' report to the members of G4S Care and Justice Services (UK) Limited (continued)

Other matters on which we are required to report by exception

Adequacy of accounting records and information

Under the Companies Act 2006, we are required to report to you if, in our opinion:

- We have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006, we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of Directors' Responsibilities set out on page 7, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

G4S Care and Justice Services (UK) Limited

'Independent auditors' report to the members of G4S Care and Justice Services (UK) Limited (continued)

What an audit of financial statements involves

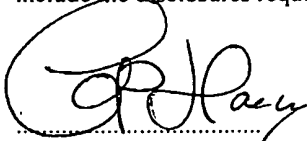
We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies, we consider the implications for our report. With respect to the Strategic Report and Directors' Report, we consider whether those reports include the disclosures required by applicable legal requirements.



Giles Hannam (Senior Statutory Auditor)

For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors

1 Embankment Place
London
WC2N 6RH

2 October 2017

G4S Care and Justice Services (UK) Limited

Income Statement for the Year Ended 31 December 2016

	Note	2016 £ 000	2015 £ 000
Revenue	5	335,405	333,006
Cost of sales		(306,113)	(302,878)
Cost of sales excluding specific items		(290,153)	(282,174)
Specific items - charges		(20,693)	(20,704)
Specific items - credits		4,733	-
Gross profit		29,292	30,128
Administrative expenses		(24,187)	(21,519)
Operating profit	6	5,105	8,609
Dividend income		3,816	5,216
Finance income	7	2,137	412
Finance expense	8	(810)	(2,172)
Profit before income tax		10,248	12,065
Tax on profit	12	(2,323)	(2,901)
Profit for the financial year		7,925	9,164

The revenues and results in the income statement above are derived from continuing operations.

The notes on pages 17 to 40 form an integral part of these financial statements.

G4S Care and Justice Services (UK) Limited

Statement of Other Comprehensive Income for the Year Ended 31 December 2016.

	2016 £ 000	2015 £ 000
Profit for the financial year	<u>7,925</u>	<u>9,164</u>
Total comprehensive income for the year	<u><u>7,925</u></u>	<u><u>9,164</u></u>

The notes on pages 17 to 40 form an integral part of these financial statements.

G4S Care and Justice Services (UK) Limited

Statement of Changes in Equity for the Year Ended 31 December 2015

	Share capital £ 000	Share premium £ 000	Revaluation reserve £ 000	Retained earnings £ 000	Total equity £ 000
At 1 January 2015	51,538	3,983	596	(28,495)	27,622
Comprehensive income:					
Profit for the financial year	-	-	-	9,164	9,164
Other comprehensive income:					
Excess depreciation on revalued properties	-	-	(16)	16	-
Deferred tax on revalued properties	-	-	14	(14)	-
Total comprehensive income/(expense)	-	-	(2)	9,166	9,164
Transactions with owners:					
Share based payment transactions	-	-	-	161	161
	-	-	-	161	161
At 31 December 2015	51,538	3,983	594	(19,168)	36,947

G4S Care and Justice Services (UK) Limited

Statement of Changes in Equity for the Year Ended 31 December 2016

	Share capital £ 000	Share premium £ 000	Revaluation reserve £ 000	Retained earnings £ 000	Total equity £ 000
At 1 January 2016	51,538	3,983	594	(19,168)	36,947
Comprehensive income:					
Profit for the financial year	-	-	-	7,925	7,925
Other comprehensive income:					
Excess depreciation on revalued properties	-	-	(16)	16	-
Deferred tax on revalued properties	-	-	14	(14)	-
Total comprehensive income	-	-	(2)	7,927	7,925
Transactions with owners:					
Share based payment transactions	-	-	-	235	235
	-	-	-	235	235
At 31 December 2016	51,538	3,983	592	(11,006)	45,107

The notes on pages 17 to 40 form an integral part of these financial statements.

G4S Care and Justice Services (UK) Limited

(Registration number: 00390328)

Statement of Financial Position as at 31 December 2016

	Note	2016 £ 000	2015 £ 000
Non-current assets			
Intangible assets	14	390	514
Property, plant and equipment	15	3,156	8,257
Investments	16	6,403	7,233
Deferred tax assets	12	10,442	12,515
Non-current trade and other receivables	17	419	3,642
		<u>20,810</u>	<u>32,161</u>
Current assets			
Inventories	18	1,102	913
Trade and other receivables	17	120,952	105,862
Cash and cash equivalents	19	12,519	1,849
Income tax asset		-	4,166
Assets of disposal group classified as held for sale*	13	6,798	-
		<u>141,371</u>	<u>112,790</u>
Total assets		<u>162,181</u>	<u>144,951</u>
Current liabilities			
Trade and other payables	20	(53,103)	(54,739)
Provisions	21	(47,061)	(28,872)
Obligations under finance leases and hire purchase contracts	22	(1,762)	(1,514)
Income tax liability		(404)	-
Liabilities of disposal group classified as held for sale*	13	(478)	-
		<u>(102,808)</u>	<u>(85,125)</u>
Non-current liabilities			
Obligations under finance leases and hire purchase contracts	22	(2,232)	(3,954)
Provisions	21	(12,034)	(18,925)
		<u>(14,266)</u>	<u>(22,879)</u>
Total liabilities		<u>(117,074)</u>	<u>(108,004)</u>
Net assets		<u>45,107</u>	<u>36,947</u>
Equity			
Share capital	25	51,538	51,538
Share premium		3,983	3,983
Revaluation reserve		592	594
Retained earnings		<u>(11,006)</u>	<u>(19,168)</u>
		<u>45,107</u>	<u>36,947</u>

The notes on pages 17 to 40 form an integral part of these financial statements.

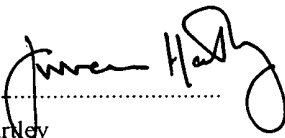
G4S Care and Justice Services (UK) Limited

(Registration number: 00390328)

Statement of Financial Position as at 31 December 2016 (continued)

*As the Directors had committed to sell the company's children's care home business at the balance sheet date, a disposal group is recognised within the net assets of the company at the year end.

The financial statements on pages 11 to 40 were approved by the Board on 2 October 2017 and signed on its behalf by:

A handwritten signature in black ink, appearing to read 'J Harley', is written over a horizontal dotted line.

J Harley

Director

The notes on pages 17 to 40 form an integral part of these financial statements.

G4S Care and Justice Services (UK) Limited

Notes to the Financial Statements for the Year Ended 31 December 2016

1 General information

G4S Care and Justice Services (UK) Limited (the 'company') is incorporated in the United Kingdom, registered in England and Wales, and domiciled in the UK. It is a private company, limited by shares. The company's registered office is 5th Floor, Southside, 105 Victoria Street, London, SW1E 6QT.

The company is exempt by virtue of Section 400 of the Companies Act 2006 from the requirement to prepare and deliver consolidated financial statements as it is a wholly-owned subsidiary of a company established in the EU and it is included in the audited consolidated financial statements of its EU-established ultimate parent, G4S plc. The registered office of G4S plc is 5th Floor, Southside, 105 Victoria Street, London, SW1E 6QT. These financial statements therefore present information about the company as an individual entity only and not as a group.

The financial statements are presented in sterling, which is the company's functional currency, and in thousands of pounds unless stated otherwise.

2 Statement of compliance

These financial statements were prepared in accordance with Financial Reporting Standards ('FRS') 101 'Reduced Disclosure Framework'.

3 Significant accounting policies

Basis of preparation

The financial statements have been prepared under the going concern basis and using the historical cost convention, except for the historical revaluation of certain property, plant and equipment, in accordance with Companies Act 2006 and applicable United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice ('UK GAAP') including FRS 101). The principal accounting policies and measurement bases adopted are set out below and have been applied consistently to all the years presented, unless stated otherwise. 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.

Exemptions

The company has taken advantage of certain disclosure exemptions in FRS 101, in part because its financial statements are included in the publicly available consolidated financial statements of G4S plc. Copies of the consolidated financial statements of G4S plc may be obtained by writing to the Company Secretary, G4S plc, 5th Floor, Southside, 105 Victoria Street, London, SW1E 6QT.

These disclosure exemptions relate to:

- the requirements of IAS 7 'Statement of Cash Flows';
- the statement of compliance with adopted IFRSs;
- new IFRSs that have been issued but are not yet effective and which have not been applied by the company;

G4S Care and Justice Services (UK) Limited

Notes to the Financial Statements for the Year Ended 31 December 2016 (continued)

3 Significant accounting policies (continued)

- comparative information for the movements from the beginning to the end of the year in respect of intangible assets, property, plant and equipment, and the number of shares, and certain other additional comparative information;
- financial instrument disclosures required by IFRS 7 'Financial Instruments: Disclosures';
- disclosures required by IFRS 13 'Fair Value Measurement';
- movements during the year in the number and weighted average exercise prices of shared-based payments, how the fair value of services received or equity instruments granted was determined and the effect of share-based payment transactions on the income statement and financial position;
- certain related party disclosures on key management compensation and transactions entered into between two or more wholly-owned members of a group; and
- capital management disclosures.

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 is recognised in the period the service is provided. Certain low volume high value government contracts can cover a range of bundled services over a long period of time, that are provided on a time and materials basis. Revenue for these types of contracts is recognised on an accruals basis based on the individual services provided and in accordance with the terms of the contract.

Specific items

The company's income statement separately identified specific items. Specific items are those that in management's judgement need to be disclosed separately by virtue of their size, nature or incidence. In determining whether an event or transition is specific, management considers quantitative as well as qualitative factors such as the frequency or predictability of occurrence.

Contract losses included within specific items arise from the recognition of material future losses, net of the release of any surplus provisions. Where onerous contract provisions are material by virtue of their size, they are separately charged within specific items. Such losses are distinct from "in-year" losses, which are utilised against provisions for onerous contract losses. Specific items may not be comparable to similarly titled measures used by other companies.

Dividend income

Dividend income from investments is recognised when shareholders' right to receive payment has been established.

Finance income and expense

Finance 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's net carrying amount. Finance costs are recognised as an expense in the income statement on the same basis.

G4S Care and Justice Services (UK) Limited

Notes to the Financial Statements for the Year Ended 31 December 2016 (continued)

3 Significant accounting policies (continued)

Foreign currency

The financial statements are presented in sterling, which is the company's functional currency. Transactions in currencies other than the functional currency are translated at the rates of exchange prevailing on the dates of the transactions. At each reporting date, monetary assets and liabilities which are denominated in other currencies are retranslated at the rates prevailing on that date. 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.

Employee benefits

Retirement benefit costs

The G4S plc group, of which the company is a member, operates both defined contribution and defined benefit pension schemes.

Payments to the defined contribution schemes are charged as an expense as they fall due and represent contributions payable to the schemes for the year. Where the company is a member of state-managed or public sector schemes, payments are dealt with as payments to defined contribution schemes where the company's obligations under the schemes are equivalent to those arising in a defined contribution retirement benefits scheme.

With respect to the defined benefit pension schemes, as there is no contractual agreement or stated policy for charging the net defined benefit cost to the company, the pension charge recognised in the income statement represents the contributions payable to the schemes for the year.

Share based payments

The company benefits from share-based payments issued by its parent to certain employees. The company does not have an obligation to settle the transaction with its employees, as this is the obligation of the parent. Therefore, the company financial statements for the share-based payments as equity settled, and recognises the corresponding increase in equity as a contribution from its parent.

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. These changes exclude those resulting from any market-related performance conditions.

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 or other comprehensive income. 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.

G4S Care and Justice Services (UK) Limited

Notes to the Financial Statements for the Year Ended 31 December 2016 (continued)

3 Significant accounting policies (continued)

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the 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.

The carrying amount of each deferred tax asset 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 measured based on the tax rates that have been enacted or substantively enacted by the end of the reporting period. Tax liabilities or refunds may differ from those anticipated due to changes in tax legislation, differing interpretations of tax legislation and uncertainties surrounding the application of tax legislation. In situations where uncertainties exist, provision is made for contingent tax liabilities and assets on the basis of management judgement following consideration of the available relevant information.

Property, plant and equipment

Property, plant and equipment are stated at cost, net of accumulated depreciation and any provision for impairment.

Any revaluation surplus created by a revaluation of certain freehold land and buildings conducted prior to the adoption of FRS 101 on 1 January 2014 has been credited to the revaluation reserve in equity. An annual transfer is made from the revaluation reserve to retained earnings for the difference between depreciation based on the carrying amount of the assets and that based on the assets' original cost. Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

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:

Asset class	Depreciation method and rate
Land and buildings	3% and 12.5%
Short leasehold buildings	over the period of the lease
Plant and equipment	3 to 10 years

Assets held under finance leases are depreciated over the shorter of the expected useful economic life or 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.

Intangible assets

Other intangible assets

Capitalised computer software is stated at cost, net of amortisation 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 eight years.

Investments

Investments in subsidiary undertakings are stated at cost less provisions for impairment.

G4S Care and Justice Services (UK) Limited

Notes to the Financial Statements for the Year Ended 31 December 2016 (continued)

3 Significant accounting policies (continued)

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 on a first-in-first out basis. Net realisable value is based on estimated selling price, less further costs expected to be incurred to completion and disposal.

Financial instruments

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

Trade and other receivables

Trade receivables do not carry interest and are stated initially at their fair value. The carrying amount of trade receivables is reduced through the use of a bad debt allowance account. The company provides for bad debts based upon an analysis of those that are past due, in accordance with local conditions and past default experience.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits.

Trade and other payables

Trade payables are non-interest-bearing and are stated initially at fair value

Pre-contract costs and mobilisation costs

Pre-contract costs in respect of major outsourcing contracts, incurred after the point at which the group achieves preferred bidder status (at which point it is considered probable that the contract will be obtained) and before contract mobilisation, are capitalised and expensed over the life of the contract, subject to recoverability criteria. Costs incurred prior to this point are expensed as incurred. Capitalised costs are expensed immediately in the event that preferred bidder status is not followed by the award of the contract, or where these may no longer be expected to be recovered through future profits.

Mobilisation costs are those costs incurred after the signing of a contract with a customer, and prior to commencement of delivery of the contract. Costs incurred during this stage are generally only capitalised if the criteria to be capitalised as inventories or as property, plant and equipment are met. In all other cases mobilisation costs are expensed as incurred.

Impairment

The carrying value of the company's assets, with the exception of inventories, financial receivables 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.

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.

The company provides for impairments in financial assets when there is objective evidence of impairment as a result of one or more events that impact the estimated future cash flows of the financial assets.

G4S Care and Justice Services (UK) Limited

Notes to the Financial Statements for the Year Ended 31 December 2016 (continued)

3 Significant accounting policies (continued)

Deferred income

Amounts received prior to the delivery of services are recorded as deferred income and released to the income statement as the services are provided.

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. The amount recognised as a provision is the company's best estimate of the cost of settlement at the end of the reporting period.

In respect of claims and litigation, the company provides for anticipated costs where an outflow of resources is considered probable and a reasonable estimate can be made of the likely outcome. For all risks, the ultimate liability may vary from the amounts provided and will be dependent upon the eventual outcome of any settlement. Management exercise judgement in measuring the exposures to contingent liabilities (see note 21) through assessing the likelihood that a potential claim or liability will arise and in quantifying the possible range of financial outcomes.

Where the time value of money is material, provisions are stated at the present value of the expected expenditure using an appropriate discount rate.

Onerous contracts

Onerous contract provisions are recognised where the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. Management profit improvement plans to recover the position on loss-making contracts require a level of judgement and are generally taken into account in the calculation of the onerous contract provision only when implementation has commenced and tangible evidence exists of benefits being delivered. The provision is calculated based on discounted cash flows to the end of the contract. In general, provisions recognised for future losses are charged to the income statement. Where onerous contract provisions are material by virtue of their size, they are separately charged within specific items. In-year operating losses from onerous contracts are accounted for as a utilisation of the related provision for future losses. Any excess or shortfall to the initial estimate for onerous contract provisions is credited or charged in the income statement consistent with where the charge for the initial provision was recognised.

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. On occasion this classification requires a level of judgement. 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 consolidated statement of financial position as a finance lease obligation.

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.

Leases in which substantially all of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

G4S Care and Justice Services (UK) Limited

Notes to the Financial Statements for the Year Ended 31 December 2016 (continued)

3 Significant accounting policies (continued)

Non-current assets held for sale

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. Management 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.

Dividend distribution

Dividends are recognised as distributions to equity holders in the period in which they are paid or approved by the shareholders at a general meeting.

Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Share premium

The share premium reserve is used to recognise any premium over the nominal value of equity shares issued.

Revaluation reserve

The revaluation reserve comprises the surplus or deficit arising on the revaluation of land and buildings.

4 Accounting estimates, judgements and assumptions

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of the company's accounting policies. These judgements, 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 judgements, estimates and associated assumptions are based on management's best knowledge of current events and circumstances, the actual results may differ.

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 in preparing the company's financial statements are detailed below:

Revenue recognition and contract review

The company delivers outsourcing services that in some circumstances can be complex in nature and may be governed by unique contractual arrangements. In these cases, revenue is recognised in line with the contract at the fair value of the consideration received or receivable. In such contracts, there can be significant judgements and estimates in relation to variations or claims not specified within the original contract, to interpretation of complex contract wording, and in relation to estimates required to determine future costs to complete and expected margins, including the impact of contractual performance conditions which may give rise to penalties.

G4S Care and Justice Services (UK) Limited

Notes to the Financial Statements for the Year Ended 31 December 2016 (continued)

4 Accounting estimates, judgements and assumptions (continued)

Onerous contracts

When a long-term contract is expected to incur future unavoidable losses and has therefore become onerous, judgement is required to assess the future expected revenue and costs and hence to determine the appropriate level of provision. Further judgement is necessary in determining the extent to which account is taken of profit improvement plans developed by management to improve the profitability of the contract over the remainder of its life. Such plans are generally taken into account only once they have been developed and implementation has commenced, and there is tangible evidence of benefits being delivered. In addition, where onerous contracts have a termination date that can be extended solely at the customer's request, consideration is given, based on all facts and circumstances known by management, as to whether to provide for future losses to the earliest or the final termination date.

Deferred tax

Management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with an assessment of the effect of future tax planning strategies.

5 Revenue

The analysis of the company's revenue for the year from continuing operations is as follows:

	2016 £ 000	2015 £ 000
Rendering of services	<u>335,405</u>	<u>333,006</u>

Revenue arose from activities originating solely in the United Kingdom.

6 Operating profit

Arrived at after charging

	2016 £ 000	2015 £ 000
Depreciation expense	1,031	2,580
Amortisation expense	143	296
Impairment loss	830	7,991
Operating lease expense - plant and machinery	422	437
Operating lease expense - other	1,120	1,462
Loss on disposal of property, plant and equipment	<u>-</u>	<u>1</u>

Impairment losses include a £830,000 (2015: £3,667,000) charge in respect of investments and a £nil (2015: £4,324,000) charge in respect of finance leased assets.

7 Finance income

G4S Care and Justice Services (UK) Limited

Notes to the Financial Statements for the Year Ended 31 December 2016 (continued)

7 Finance income (continued)

	2016 £ 000	2015 £ 000
Interest receivable from group undertakings	2,136	412
Foreign exchange gains	1	-
	<u>2,137</u>	<u>412</u>

8 Finance expense

	2016 £ 000	2015 £ 000
Interest on bank overdrafts and borrowings	22	15
Interest on obligations under finance leases and hire purchase contracts	750	2,157
Other finance costs	38	-
	<u>810</u>	<u>2,172</u>

9 Staff costs

The aggregate payroll costs (excluding directors' remuneration) were as follows:

	2016 £ 000	2015 £ 000
Wages and salaries	127,885	131,285
Social security costs	11,888	12,179
Other pension costs	6,889	7,638
Redundancy costs	468	264
	<u>147,130</u>	<u>151,366</u>

The average monthly number of persons employed by the company (including directors) during the year was as follows:

	2016 No.	2015 No.
Direct	4,634	4,904
Administration and support	44	102
	<u>4,678</u>	<u>5,006</u>

G4S Care and Justice Services (UK) Limited

Notes to the Financial Statements for the Year Ended 31 December 2016 (continued)

10 Directors' remuneration

The directors' remuneration for the year was as follows:

	2016 £ 000	2015 £ 000
Aggregate emoluments*	-	441
Compensation for loss of office	-	214
	<u>-</u>	<u>655</u>

The remuneration of all three directors is paid by G4S Regional Management (UK&I) Limited which makes no recharge to the company. All three directors are directors of a number of fellow subsidiaries, and it is therefore not possible to make an accurate apportionment of their remuneration in respect of each of the subsidiaries. Accordingly, the above details include no remuneration in respect of these three directors. Their total remuneration is included in the aggregate of directors' remuneration disclosed in the financial statements of G4S Regional Management (UK&I) Limited.

In respect of the highest paid director:

	2016 £ 000	2015 £ 000
Aggregate emoluments*	-	441
Compensation for loss of office	-	214
Total	<u>-</u>	<u>655</u>

*Includes base pay, benefits, annual bonus, cash pension allowances paid, contributions to money purchase schemes and defined benefit pension schemes and share options exercised.

11 Auditors' remuneration

Fees payable to the Company's auditors for the audit of the Company's financial statements was £198,000 (2015: £226,000). The Company did not incur any non-audit fee in the current and prior year.

G4S Care and Justice Services (UK) Limited

Notes to the Financial Statements for the Year Ended 31 December 2016 (continued)

12 Tax on profit

Tax charged/(credited) in the income statement

	2016 £ 000	2015 £ 000
Current taxation		
UK corporation tax	404	-
UK corporation tax adjustment to prior periods	(154)	(4,165)
	<u>250</u>	<u>(4,165)</u>
Deferred taxation		
Arising from origination and reversal of temporary differences	1,229	2,165
Arising from changes in tax rates and laws	479	825
Arising from previously unrecognised tax loss, tax credit or temporary difference of prior periods	365	4,076
Total deferred taxation	<u>2,073</u>	<u>7,066</u>
Tax expense in the income statement	<u><u>2,323</u></u>	<u><u>2,901</u></u>

G4S Care and Justice Services (UK) Limited

Notes to the Financial Statements for the Year Ended 31 December 2016 (continued)

12 Tax on profit (continued)

The tax charge for the year is higher (2015: higher than) than the standard effective rate of corporation tax in the UK of 20% (2015: 20.25%).

The differences are reconciled below:

	2016 £ 000	2015 £ 000
Profit before tax	10,248	12,065
Corporation tax at standard rate	2,050	2,443
Increase/(decrease) in current tax relating to adjustments in respect of prior periods	(154)	(4,165)
Increase from effect of expenses not deductible in determining taxable profit (tax loss)	300	66
Decrease in tax due to income not taxable	(763)	(1,056)
Decrease from transfer pricing adjustments	(58)	-
Deferred tax expense/(credit) following a change in tax rates	479	825
Deferred tax expense/(credit) relating to adjustments in respect of prior periods	365	4,076
Decrease due to issue of share options	(53)	(26)
Decrease due to revaluation of property	(9)	(5)
Increase in current tax due to disallowable impairment of investments	166	743
Total tax charge	2,323	2,901

The UK corporation tax rate reduced from 21% to 20% with effect from 1 April 2015. Further reductions in the UK corporation tax rate applied from 1 April 2017 when the rate reduced to 19% and from 1 April 2020 when the rate reduces to 17%. All of these rate changes were enacted at the balance sheet date.

Deferred tax assets and liabilities on timing differences have been calculated using the UK corporation tax rate which will apply in the period during which they are expected to reverse.

Deferred tax assets and liabilities on timing differences expected to reverse in the period from 1 January 2017 to 31 March 2020 have been provided at 19%. Deferred tax assets and liabilities on timing differences expected to reverse on or after 1 April 2020 have been provided at 17%.

G4S Care and Justice Services (UK) Limited

Notes to the Financial Statements for the Year Ended 31 December 2016 (continued)

12 Tax on profit (continued)

Deferred tax

Deferred tax assets and liabilities

	Asset £ 000	Liability £ 000	Net deferred tax £ 000
2016			
Accelerated tax depreciation	2,989	-	2,989
Other items	84	-	84
Revaluation of property	-	(74)	(74)
Tax losses carry-forwards	7,343	-	7,343
Share-based payment	100	-	100
	<u>10,516</u>	<u>(74)</u>	<u>10,442</u>

	Asset £ 000	Liability £ 000	Net deferred tax £ 000
2015			
Accelerated tax depreciation	3,232	-	3,232
Other items	104	-	104
Revaluation of property	-	(86)	(86)
Tax losses carry-forwards	9,218	-	9,218
Share-based payment	47	-	47
	<u>12,601</u>	<u>(86)</u>	<u>12,515</u>

2016

Deferred tax movement during the year:

	At 1 January 2016 £ 000	Recognised in income £ 000	At 31 December 2016 £ 000
Accelerated tax depreciation	3,232	(243)	2,989
Other items	104	(20)	84
Revaluation of property	(86)	12	(74)
Tax losses carry-forwards	9,218	(1,875)	7,343
Share-based payment	47	53	100
Net tax assets/(liabilities)	<u>12,515</u>	<u>(2,073)</u>	<u>10,442</u>

G4S Care and Justice Services (UK) Limited

Notes to the Financial Statements for the Year Ended 31 December 2016 (continued)

12 Tax on profit (continued)

2015

Deferred tax movement during the prior year:

	At 1 January 2015 £ 000	Recognised in income £ 000	At 31 December 2015 £ 000
Accelerated tax depreciation	2,206	1,026	3,232
Other items	160	(56)	104
Revaluation of property	(100)	14	(86)
Tax losses carry-forwards	17,315	(8,097)	9,218
Share-based payment	-	47	47
Net tax assets/(liabilities)	<u>19,581</u>	<u>(7,066)</u>	<u>12,515</u>

13 Assets and liabilities classified as held for sale

During the year, the board resolved to dispose of the company's children's care home operations. Subsequent to the year end, in June 2017, a sale of the Company's children's care home business was completed to the Prospects Group. As a sale of these operations completed within 12 months of the year end and the Directors were committed to the sale of the business at the balance sheet date, the net assets of the children's homes have been classified as held for sale. Consequently, the value of the children's homes assets and liabilities are presented separately in the balance sheet. As the proceeds of disposal exceeded the book value of the related net assets, no impairment losses have been recognised on the classification of these operations as held for sale.

A breakdown of the assets and liabilities included with the disposal group as at 31 December 2016 is detailed below:

Assets

	£ 000
Property, plant and equipment	5,656
Trade and other receivables	1,127
Cash and cash equivalents	15
	<u>6,798</u>

Liabilities

	£ 000
Trade and other payables	435
Provisions	43
	<u>478</u>

G4S Care and Justice Services (UK) Limited

Notes to the Financial Statements for the Year Ended 31 December 2016 (continued)

14 Intangible assets

	Software £ 000
Cost	
At 1 January 2016	6,527
Additions	20
Disposals	(992)
Transfers	(1)
At 31 December 2016	<u>5,554</u>
Accumulated amortisation	
At 1 January 2016	6,013
Amortisation charge	143
Eliminated on disposals	(992)
At 31 December 2016	<u>5,164</u>
Carrying amount	
At 31 December 2016	<u>390</u>
At 31 December 2015	<u>514</u>

G4S Care and Justice Services (UK) Limited

Notes to the Financial Statements for the Year Ended 31 December 2016 (continued)

15 Property, plant and equipment

	Land and buildings £ 000	Short leasehold buildings £ 000	Plant & equipment £ 000	Total £ 000
Cost				
At 1 January 2016	4,402	362	23,386	28,150
Additions	508	-	1,089	1,597
Disposals	-	-	(3,320)	(3,320)
Transfers	(5)	-	6	1
Transfer to disposal group classified as held for sale	(4,905)	(181)	(1,495)	(6,581)
At 31 December 2016	-	181	19,666	19,847
Accumulated depreciation				
At 1 January 2016	421	139	19,333	19,893
Charge for the year	95	41	895	1,031
Eliminated on disposal	-	-	(3,308)	(3,308)
Transfer to disposal group classified as held for sale	(516)	(89)	(320)	(925)
At 31 December 2016	-	91	16,600	16,691
Carrying amount				
At 31 December 2016	-	90	3,066	3,156
At 31 December 2015	3,981	223	4,053	8,257

Included within the net book value of land and buildings above is £60 (2015: £3,980,933) in respect of freehold land and buildings.

Assets held under finance leases and hire purchase contracts

The net carrying amount of property, plant and equipment includes the following amounts in respect of assets held under finance leases and hire purchase contracts:

	2016 £ 000	2015 £ 000
Other property, plant and equipment	-	8

G4S Care and Justice Services (UK) Limited

Notes to the Financial Statements for the Year Ended 31 December 2016 (continued)

16 Investments

Subsidiaries	£ 000
Cost	
At 1 January 2016	14,649
At 31 December 2016	14,649
Accumulated impairment	
At 1 January 2016	7,416
Impairment	830
At 31 December 2016	8,246
Carrying amount	
At 31 December 2016	6,403
At 31 December 2015	7,233

The recoverable amount of the company's investments has been determined by their value in use, which is derived from discounted future cash flow forecasts. Post-tax cash flows for the first three years are based on the Group's Board approved three year business plans and are thereafter based on long-term growth rates. Further detail regarding the methodology used to assess cash flow forecasts, growth and discount rates is outlined in note 18 of the G4S plc consolidated financial statements for the year ended 31 December 2016.

In the year, an impairment charge of £830,000 (2015: £3,667,000) has been recorded in respect of the Company's investments. The charge in the year is in respect of the company's investment in G4S Policing Solutions Limited. G4S Policing Solutions Limited appointed liquidators on 24 March 2017.

Details of the subsidiaries as at 31 December 2016 are as follows:

Subsidiary undertakings	Class of holding	Ownership	Nature of business	Registered address
G4S Policing Solutions Limited*#	Ordinary	100%	Policing recruitment and support	Mazars LLP, Tower Bridge House, St Katherines Way, London, E1W 1DD
G4S Monitoring Technologies Limited*	Ordinary	100%	Manufacture and sell/lease monitoring units to Government agencies across the world	Southside, 105 Victoria Street, London, SW1E 6QT
G4S Monitoring Technologies France Limited	Ordinary	100%	Monitoring services	Southside, 105 Victoria Street, London, SW1E 6QT
Guidance Surveillance Electronique SAS	Ordinary	100%	Monitoring services	104 Rue d'amsterdam 75009 PARIS

* Direct ownership

In liquidation

G4S Care and Justice Services (UK) Limited

Notes to the Financial Statements for the Year Ended 31 December 2016 (continued)

17 Trade and other receivables

	2016 £ 000	2015 £ 000
Trade receivables	18,763	27,817
Provision for impairment of trade receivables	(37)	(211)
Net trade receivables	18,726	27,606
Amounts due from group undertakings (members of the G4S plc group)	81,425	60,728
Accrued income	13,785	13,163
Prepayments	2,239	2,691
Other receivables	4,777	1,674
	<u>120,952</u>	<u>105,862</u>
Non-current trade and other receivables		
Accrued income	419	3,642
	<u>121,371</u>	<u>109,504</u>

Included in amounts due from group undertakings is a £80,851,186 (2015: £46,505,597) short term loan receivable which is repayable on demand. Interest on this loan is charged at a rate of LIBOR plus 1.5%.

All other amounts due from group undertakings are trading in nature and attract no interest.

18 Inventories

	2016 £ 000	2015 £ 000
Raw materials and consumables	-	47
Work in progress	-	13
Other inventories	1,102	853
	<u>1,102</u>	<u>913</u>

The amount of inventory consumed and recognised in the income statement during the year is £2,909 (2015: £1,764,229). The amount of write-down of inventories recognised as an expense in the year is £64,859 (2015: £1,983).

19 Cash and cash equivalents

	2016 £ 000	2015 £ 000
Cash on hand	54	83
Cash at bank	12,465	1,766
	<u>12,519</u>	<u>1,849</u>

G4S Care and Justice Services (UK) Limited

Notes to the Financial Statements for the Year Ended 31 December 2016 (continued)

19 Cash and cash equivalents (continued)

Included in cash and cash equivalents is £313,000 (2015: £584,000) that is restricted and not available for general use by the company as it is held on behalf of third parties.

20 Trade and other payables

	2016	2015
	£ 000	£ 000
Trade payables	9,550	1,605
Accrued expenses	17,574	21,736
Amounts owed to group undertakings (members of the G4S plc group)	6,334	9,748
Social security and other taxes	14,347	11,659
Other payables	4,158	9,178
Deferred income	1,140	813
	<u>53,103</u>	<u>54,739</u>

Amounts owed from group undertakings are trading in nature and attract no interest.

G4S Care and Justice Services (UK) Limited

Notes to the Financial Statements for the Year Ended 31 December 2016 (continued)

21 Provisions and contingent liabilities

	Asset replacement £ 000	Onerous contracts £ 000	Claims provisions £ 000	Other provisions £ 000	Total £ 000
At 1 January 2016	2,700	35,952	-	9,145	47,797
Additional provisions	-	14,193	6,500	-	20,693
Increase/(decrease) in existing provision	(1,115)	66	-	1,415	366
Utilisation of provision	-	(5,028)	-	-	(5,028)
Unused provision reversed	-	(4,733)	-	-	(4,733)
At 31 December 2016	<u>1,585</u>	<u>40,450</u>	<u>6,500</u>	<u>10,560</u>	<u>59,095</u>
Non-current liabilities	-	12,034	-	-	12,034
Current liabilities	<u>1,585</u>	<u>28,416</u>	<u>6,500</u>	<u>10,560</u>	<u>47,061</u>

G4S Care and Justice Services (UK) Limited

Notes to the Financial Statements for the Year Ended 31 December 2016 (continued)

21 Provisions and contingent liabilities (continued)

Asset replacement

The asset replacement provision represents expected expenditure existing at the balance sheet date in accordance with the terms of customer contracts in respect of plant and equipment currently in use, but not owned by the company. This provision will be utilised over the contract lives.

Onerous contracts

The present value of estimated future net cash outflows relating to onerous customer contracts is provided for where the unavoidable costs of meeting the obligations in a customer contract exceed the economic benefits expected to be received under the contract. The forecast is based on assumptions made of the costs required to meet the performance obligations interpreted in the contracts and the timing and extent to which the defects in one of the facilities will be rectified. While the provision represents management's best estimate based on forecast contract losses, there is a range of possible outcomes including a settlement through a commercial and dispute solution process.

Under the UK Compass asylum seeker contract with the Home Office, the group provides accommodation, transportation and subsistence services for asylum seekers whilst their claims are being processed. This contract commenced in 2012 and initially ran to 1 September 2017, with a potential extension of a further two years.

In 2014, an onerous contract provision was recognised in relation to the then-current assumptions regarding asylum seeker numbers, the duration and cost of accommodation and support services. The Compass provision was updated in December 2015 to reflect the estimated increase in asylum seekers assigned to the Group, the availability of suitable accommodation approved by local authorities and the speed of processing of applications by the immigration authority.

On 8 December 2016 the Group announced an extension of the UK Compass asylum seeker contract by two years to August 2019. Estimates for future losses have been updated resulting in an increase in this provision of £14,193,000 (2015: £20,704,000). These additional provisions were recorded within specific items in the income statement.

During the period two legacy PFI contracts which had previously been provided for as onerous have shown significantly improved performance over the period. Latest cash projections demonstrate that these contracts will generate cash inflows over their remaining life, resulting in the release of £4,733,000 of onerous provisions in the current year. This release has been recorded within specific items in the income statement.

Claims provision

The Company has recognised a claims provision of £6,500,000 related to the estimated cost of settlement of subcontractor claims from commercial disputes in relation to prior years. This has been recorded within specific items in the income statement.

Other provisions

A number of other provisions have been included within the financial statements. These provisions include commitments in regards to restructuring, employee benefits and other legal costs. All amounts are payable within 12 months of the year end reporting date but individually have no material impact on the Company's financial position.

Contingent liabilities

In addition, in the ordinary course of business, other contingent liabilities exist where the Company is subject to commercial claims and litigation from a range of parties in respect of contracts, agreements, regulatory and compliance matters, none of which are expected to have a material impact on the Company.

G4S Care and Justice Services (UK) Limited

Notes to the Financial Statements for the Year Ended 31 December 2016 (continued)

21 Provisions and contingent liabilities (continued)

The company, together with certain other group companies, is jointly and severally liable under the terms of a guarantee provided in respect of a cash pooling arrangement with The Royal Bank of Scotland.

22 Obligations under leases and hire purchase contracts

Finance leases

	Minimum lease payments £ 000	Interest £ 000	Present value £ 000
2016			
Within one year	2,287	(525)	1,762
In two to five years	2,430	(198)	2,232
	<u>4,717</u>	<u>(723)</u>	<u>3,994</u>
	Minimum lease payments £ 000	Interest £ 000	Present value £ 000
2015			
Within one year	2,400	(886)	1,514
In two to five years	5,000	(1,046)	3,954
	<u>7,400</u>	<u>(1,932)</u>	<u>5,468</u>

The present values of future finance lease payments are analysed as follows:

	2016 £ 000	2015 £ 000
Current liabilities	1,762	1,514
Non-current liabilities	2,232	3,954
	<u>3,994</u>	<u>5,468</u>

Operating leases

The total future value of minimum lease payments is as follows:

	2016 £ 000	(As restated*) 2015 £ 000
Within one year	2,033	1,595
In two to five years	4,880	3,548
In over five years	308	1,154
	<u>7,221</u>	<u>6,297</u>

*The 2015 breakdown has been restated having identified an error in the 2015 financial statements.

The amount of non-cancellable operating lease payments recognised as an expense during the year was £1,542,000 (2015: 1,899,000).

G4S Care and Justice Services (UK) Limited

Notes to the Financial Statements for the Year Ended 31 December 2016 (continued)

23 Pension arrangements

The G4S plc group operates both defined benefit and defined contribution pension schemes. Employer contributions to these schemes are fixed at a set level or set percentage of employees' pay. Total pension costs of £6,889,000 (2015: £7,476,187) have been charged to the income statement.

Defined benefit pension schemes

The defined benefit scheme is comprised of three sections. The UK scheme is closed to future accrual apart from some sub-sections of the GSL section, and for most members defines the pension based on final salary. Certain sub-sections of the GSL section have historically remained open to provide a facility to accept former public-sector employees who join the G4S plc group through outsourcings. In the Group 4 and Securicor sections, members retain their link to final salary where appropriate on their benefits accrued up to closure in 2011.

As there is no contractual agreement or stated policy for charging the net defined benefit costs of the defined benefits schemes to the company, the pension charge recognised in the income statement represents the contributions payable for the year.

Further information on the defined benefit schemes has been disclosed in the consolidated financial statements of G4S plc.

Defined contribution pension scheme

The pension charge recognised in the income statement for the defined contribution scheme represents the contributions payable for the year.

24 Share based payments

The shares are allocated under G4S plc performance share plan and vest after three years, to the extent that certain non-market performance conditions are met. The vesting occurs on the third anniversary of the date the shares were allocated conditionally.

The weighted average remaining contractual life of conditional share allocations outstanding at 31 December 2016 was 15 months (2015: 17 months). The weighted average share price at the date of allocation of shares allocated conditionally during the year was 188p (2015: 264.8p). The contractual life of all conditional allocations was three years.

25 Share capital

Allotted, called up and fully paid shares

	2016		2015	
	No. 000	£ 000	No. 000	£ 000
Ordinary shares of £1 each	51,538	51,538	51,538	51,538

G4S Care and Justice Services (UK) Limited

Notes to the Financial Statements for the Year Ended 31 December 2016 (continued)

26 Related party transactions

Summary of transactions with joint ventures

The immediate parent company participates in a number of joint ventures held within the G4S plc group via an investment partnership agreement with Semperian PPP Investment Partners Group Limited. Sales are made to these joint ventures in the normal course of business. The significant transactions of the company with these joint venture companies are:

	2016 Services/sales to £ 000	2016 Amounts receivable £ 000	2015 Services/sales to £ 000	2015 Amounts receivable £ 000
Brigend Custodial Services Limited	44,469	5,108	47,469	4,819
ECD Cookham Wood Limited	-	-	2,945	-
ECD Onley Limited	-	-	10,762	1,593
Fazakerley Prison Services Limited	29,738	3,649	34,095	3,423
Onley Prison Services Limited	13,928	1,627	15,013	1,592

27 Events after the balance sheet date

Subsequent to the period end, in June 2017 the company disposed of its children's care home business to Prospects Group for £11,400,000.

28 Parent and ultimate parent undertaking

The Company's ultimate parent company and ultimate controlling party is G4S plc, a company incorporated in the United Kingdom.

The parent undertaking of both the smallest and largest group, which included the Company and for which group financial statements are prepared, is also G4S plc. G4S Regional Management (UK&I) Limited, a company incorporated in the United Kingdom, is the Company's immediate parent undertaking.

Copies of the group financial statements for G4S plc are available upon request from the Company Secretary, 5th Floor, Southside, 105 Victoria Street, London, SW1E 6QT.