

G4S Company scan



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July 2020

Colophon

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Layout: Frans Schupp

Cover photo: Former G4S building in
Stockholm – Holger Ellgaard / Wikimedia

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ISBN: 978-94-6207-151-3



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G4S

Company scan

SOMO

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Vincent Kiezebrink and Maarten Hietland**

Amsterdam, July 2020

Contents

1	Summary	3
2	Introduction	5
3	Corporate overview	6
3.1	Management	6
4	Shareholders and debt holders	8
4.1	Equity	8
4.2	Debt	11
5	Finances	15
5.1	Market capitalisation	15
5.2	Income	15
5.2.1	Specific revenue sources	18
5.3	Costs	20
5.3.1	Normal costs	20
5.3.2	Exceptional costs	21
5.4	Profit	21
5.4	Assets	23
6	Corporate structure and tax	24
6.1	Corporate structure	24
6.2	Tax controversies	29
6.3	Effective tax rate (ETR)	30
6.4	Subsidiaries in Corporate Tax Haven Index countries	31
6.4.1	British Virgin Islands	35
6.4.2	Cayman Islands	36
6.4.3	Mauritius	36
7	Corporate strategy	38
7.1	Growth model: increase revenue	38
7.2	Growth model: reduce costs	39
7.3	Growth model: acquisition	40
7.4	Investor interests	40
7.5	Divestments	42
7.6	Employees	44
7.7	Political spending	44
Annex A – Largest shareholders of G4S in the US, United Kingdom, Canada, France, Switzerland, Germany and Japan		45

1 Summary

This report investigates, on behalf of the Private Security Network, a number of financial aspects concerning the G4S group, such as ownership, debt, financial results, corporate structure, tax practices and business model. The findings are based on G4S's own reporting and communications, information from the Thomson Reuters Eikon and BVD Orbis databases, and other media sources. Feedback from the company has been incorporated into the report where relevant.

G4S employs over half a million staff in more than 90 countries worldwide and is comprised of two divisions: Secure Solutions, and Cash Solutions. In 2018, company turnover was GB£ 7.5bn with a fall in net profits to GB£ 88m. From 2009 to 2018, G4S generated GB£ 1.3bn in net profits, almost all of which was paid out in dividends to shareholders. G4S regularly incurs costs as a result of lawsuits, fines and penalty fees, such as the GB£ 100m class action lawsuit in California that the company agreed to settle in January 2019.

Key G4S customers include companies in the financial services, energy and retail sectors, as well as government institutions, such as embassies. The company's Secure Solutions division includes the Care & Justice unit, which is responsible for prison contracts in the UK, Australia and South Africa. In 2020, a large slice of the Cash Solutions division – which accounted for about 15 per cent of the company's turnover – was sold to The Brink's Company. G4S earns most of its revenues in the Americas, and Europe and the Middle East regions.

More than half of G4S's security services consist of supplying 'basic' manned security services to clients, as opposed to 'supplemented' manned security services (which include security technology such as artificial intelligence, data and social media monitoring). Using technology rather than staff can significantly reduce costs and thereby increase profits, so the company aims to undertake more of this kind of work. Labour costs currently comprise 70 per cent of the company's total turnover. In 2018, the average pay of a G4S employee was GB£ 9,390 in 2018 (the company's CEO earned GB£ 2.9m the same year).

Ten US and UK-based investment companies own over half of G4S's shares, with almost all of the company's equity (95 per cent) in the hands of only 100 investors. The largest shareholders are: INVESCO Asset Management (10 per cent), Harris Associates (8 per cent) and BlackRock (7 per cent). Though in recent years the number of pension funds investing in G4S has decreased – due to the company's poor human rights record – there are currently at least fourteen pension funds with investments in G4S.

Compared to its peer companies Prosegur and Securitas, G4S holds relatively high levels of debts, mainly through issuance of company bonds. Though BlackRock, Allianz and Danske Capital are the largest investors in these bonds, they hold a relatively small amount of the total value of the company's bond debts (less than 0.5 per cent). Several large banks have also provided credit facilities to G4S, including BankAmerica, Barclays Bank, BNP Paribas, ING Bank, Lloyds Bank, Unicredit, and the Royal Bank of Scotland.

G4S uses most of its profits to pay dividends to shareholders, with dividend payments increasing from GB£ 101m in 2009, to GB£ 150m in 2018 and continuing even in the years when the company's net income after tax was less than the sum of dividend payments. To maintain such payments, the company either financed them from its reserves or took on debt. From 2009 to 2018, G4S's total dividend payments were almost the same as the company's net profits after taxes, suggesting that G4S used all its profits to fund dividend payments to shareholders.

The corporate structure of G4S, and its elaborate use of subsidiary companies in tax haven jurisdictions, suggest that these may be mechanisms used by the company to lower tax bills, although more research is required to investigate this. The G4S Group contains over 600 companies, including some in countries where it has no business operations. Some companies – such as those in Mauritius, the British Virgin Islands and the Cayman Islands – appear to exist solely to reduce the company's tax bills by facilitating intra-company financial flows. In the past, G4S has been involved in several tax controversies, in countries such as Estonia, the United Kingdom (UK), and Australia.

2 Introduction

This company scan was produced as part of an investigation by the Private Security Network¹ into G4S, one of the largest private security companies in the world. G4S is a highly controversial company, which has been accused of violating employee rights, human rights (by abusing detainees in its detention centres, for example), and putting the need to avoid tax and generate higher profits before its contractual obligations to provide public services.

G4S employs over half a million staff in more than 90 countries worldwide. The company's main activities are providing security services (such as the management of detention centres) through its Secure Solutions division, and cash collection, processing and transport services through its Cash Solutions division. In February 2020, G4S announced the sale of a large part of its Cash Solutions division to The Brink's Company.

The purpose of this report is twofold. Firstly, it aims to investigate the company's corporate structure and financial activities, including its business model, ownership, debt, and tax practices. Secondly, it aims to provide information on the financial context in which G4S operates, and therefore be a resource for ongoing investigations within the Private Security Network.

This report first provides: an overview of G4S and its management (Chapter 3); an overview of G4S's shareholders and debt holders, indicating who might influence company policy and activities (Chapter 4); an assessment of G4S revenues and costs, profits and assets (Chapter 5); analysis of corporate structure and tax practices (Chapter 6); examination of corporate strategy concerning the company's business model, and its ability to meet the demands of its investors (Chapter 7).

The report is based on data from corporate databases, such as Thomson Reuters Eikon and Orbis, international Chambers of Commerce, public media sources, and G4S's own communications such as its website and annual reports. The report references all data sources used. Data was collected between June and November 2019, except for the data on shareholders, which dates from March 2020. A draft version of this report has been shared with G4S and the company's comments and suggestions have been incorporated into the report where relevant. The contents of the report remain the sole responsibility of the Centre for Research on Multinational Corporations (SOMO).

3 Corporate overview

Group 4 Securicor was created in 2004, and listed at the London and Copenhagen stock exchanges, following a merger between the British security company Securicor and the Danish Group 4 Falck.² Both these companies are long-standing; Falck dates back to 1901 in Denmark and Securicor to 1935 in Great Britain. Until the merger, each company grew by buying rivals in Europe, North America, Asia and Africa.³ In 2006, Group 4 Securicor rebranded as G4S, and continued to acquire global firms such as Hill & Associates Consultants Limited, GSL and Munt Centrale Holland B.V. According to its website, G4S employs approximately half a million staff worldwide, making it one of the largest private employers in the world.⁴ In 2018, the company declared net profits of GB£ 143m, less than 2 per cent of its total turnover of GB£ 7.5bn (see Chapter 5).⁵

G4S consists of two main business divisions: Security Solutions and Cash Solutions. Fifteen per cent of G4S's revenues stem from its Cash Solutions division, or cash handling unit, which operates in 44 countries worldwide.⁶ The company's Secure Solutions division generates the remaining 85 per cent of total revenues, and operates in more than 90 countries. It includes risk consulting, mobile and remote security, manned security services, and technology-based security services.⁷ Secure Solutions also includes the Care & Justice Services unit, responsible for running detention centres in the UK, South Africa and Australia and accounting for seven per cent of the Group's total revenues.⁸ In February 2020, G4S announced the sale of a large part of its Cash Solutions division to The Brink's Company for GB£ 727m.⁹ Spanish peer company, Prosegur, made a similar move in 2017 when it demerged its cash business.¹⁰

G4S operates mainly under its own name, but it does have a number of subsidiary companies operating under other names, such as AMAG Technology, and Hill & Associates. Over time, companies such as RONCO Consulting Corporation, ArmorGroup, Adesta, The Cotswold Group, and the Wackenhut company, acquired before 2012, have been rebranded and now operate as G4S.¹¹

3.1 Management

G4S is managed by two executive directors: Ashley Almanza, the Chief Executive Officer (CEO), and Tim Weller, the Chief Financial Officer (CFO).¹² Almanza, a South African national, was appointed in 2013, having previously worked at BG Group, a British oil and gas company, for about 20 years.¹³ Almanza has also been a non-executive board member (2011 – 2016) at Schrodgers Plc, a British asset management company, and at Noble Corporation Inc (2013 – 2018), an offshore drilling company. In 2016 Weller was appointed as CFO of G4S after holding the same position at Petrofac Limited (2011 - 2016), a service provider in the oil and gas industry, and at Cable & Wireless Worldwide, before that (2010-2011).

The directors' remuneration consist of five elements: base pay, benefits, an annual bonus, a long term incentive plan, and retirement benefits. The amount of bonus awarded to the CEO is decided by the company's performance (85 per cent) and whether he/she met his/her 'personal objectives' regarding company strategy and productivity (15 per cent).

In 2018, the G4S CEO earned GB£ 2.9m (down from GB£ 3.7m in 2017¹⁴) and the CFO earned GB£ 2m (up from GB£ 1.6m in 2017). In 2018, both the CEO and the CFO waived their bonuses, in spite of achieving a number of strategic objectives.¹⁵ This decision was taken, according to company reports, because of the poor performance of the company's Cash Solutions division in a number of markets.¹⁶ The remuneration of G4S's directors has been a topic of debate among its investors¹⁷ following a period of intense public scrutiny when the UK Ministry of Justice was forced to take control of a G4S prison after reports that staff had lost control on the ground.¹⁸

4 Shareholders and debt holders

As a publicly listed company on the London and Copenhagen stock exchanges, G4S has equity shareholders. G4S also gives out shares to its employees and management as part of their remuneration.

Though debt holders, such as bond holders and lenders, do not buy a stake or share in the company like shareholders, they can still wield a great deal of power and indirectly (or directly) influence how a company operates its business. Debt holders lend the company money by buying corporate bonds (which the company repays at an agreed date), or through financial loans or credit facilities (which are also repaid – with interest – to an agreed timeline). These lenders do not own the company, but they do own the company's debt, so the company must always be able to service its debt to avoid defaulting.

In 2018, G4S's debt-to-equity-ratio was 6.1 (2009-2018 average: 4.4)¹⁹, meaning that the company owed six times more money to lenders than it had raised from its shareholders or owners (see section 4.2). The return the company must pay on its loans and bonds is in interest, and the return to share and stock investors is in dividends.

4.1 Equity

G4S is a publicly listed company, and almost its entire share capital (99.30 per cent) is freely tradable ('free float') on the London Stock Exchange.²⁰ The company also has a secondary listing on the NASDAQ OMX exchange in Copenhagen, which reflects its Danish-British history. Secondary listings are not uncommon and can provide benefits to companies, such as improved access to new capital markets.²¹

In March 2020, ten shareholders owned 56 per cent of the company's shares, with the 100 largest investors owning more than 95 per cent.²² The three largest investors in the company are: Invesco Asset Management (10.0 per cent), the activist hedge fund²³; Harris Associates (7.7 per cent); BlackRock (7.4 per cent)²⁴ (Table 1).²⁵ All of the ten largest shareholders are based in the US or the UK. Of the 259 largest shareholders of the company, most (at the time of writing) come from the US (64), the UK (56), Canada (19), France (16), Switzerland (14), Germany (12) and Japan (15) (see Annex A for an overview of the largest shareholders in these countries). The sixth largest shareholder is Schroder Investment Management. The CEO of G4S, Ashley Almanza, was formerly a non-executive director at Schroder (2011 - 2016).

Table 1 Top 10 shareholders of G4S²⁶

Companies marked with * have invested in the company through several entities.

#	Investor	Country	% of outstanding shares	Value (\$)
1	INVESCO Asset Management Limited	United Kingdom	10.00%	419,520,630.36
2	Harris Associates L.P.	United States	7.67%	343,989,200.77
3	BlackRock*	United States	7.35%	283,792,295.00
4	Schroder Investment Management Ltd.	United Kingdom	5.44%	244,190,824.10
5	Mondrian Investment Partners Ltd.	United Kingdom	5.07%	207,829,266.33
6	Marathon Asset Management*	United Kingdom	4.72%	193,548,844.97
7	Woodford Investment Management Ltd.	United Kingdom	3.99%	174,443,328.06
8	The Vanguard Group, Inc.*	United States	4.17%	171,154,537.98
9	Brandes Investment Partners, L.P.	United States	4.12%	168,940,036.21
10	Tweedy, Browne Company LLC	United States	3.47%	151,653,081.47

Fourteen pension funds have invested in G4S shares, with a total value of US\$ 49m (1.15 per cent) (Table 2).²⁷ These pension funds include: the California Public Employees' Retirement System (US\$ 8.3m; 0.2 per cent), the Shell Asset Management Company B.V. (US\$ 4.2m; 0.10 per cent), and PGGM Vermogensbeheer (US\$ 2.9m; 0.07 per cent). Twelve banks hold another US\$ 59m worth of shares (1.53 per cent), including: Quintet Private Bank (formerly known as KBL European Private Bankers) (US\$ 19m; 0.46 per cent), Credit Suisse (Luxembourg) (US\$ 14.4m; 0.40 per cent) and Schweizerische Nationalbank, the Swiss national bank (US\$ 13.4m; 0.37 per cent) (Table 3).²⁸ Two sovereign wealth funds (state-owned investment funds) hold shares in G4S: the Hong Kong-based SAFE Investment Company Limited (US\$ 16m; 0.44 per cent) and Singaporean GIC Private Limited (US\$ 9.3m; 0.33 per cent) (Table 6).²⁹ Since 2015, a number of pension funds have publicly criticised the company's poor human rights record and ceased investing in G4S (section 7.5).

Table 2 Pension funds that hold shares in G4S³⁰

#	Investor	Country	% of outstanding shares	Value (\$)
56	California Public Employees' Retirement System	United States	0.20%	8,344,187
61	Nuveen LLC	United States	0.17%	7,217,039
67	MLC Investments Limited	Australia	0.12%	4,753,670
69	California State Teachers Retirement System	United States	0.11%	4,427,308
70	Sjunde AP-fonden	Sweden	0.11%	5,832,666
72	Shell Asset Management Company B.V.	Netherlands	0.10%	4,184,010
78	BAE Systems Pension Funds Investment Management Ltd.	United Kingdom	0.08%	3,158,803
83	PGGM Vermogensbeheer B.V.	Netherlands	0.07%	2,889,974
92	Caisse de Depot et Placement du Quebec	Canada	0.06%	1,547,659
94	PSP Investments	Canada	0.05%	2,189,824
95	Florida State Board of Administration	United States	0.05%	1,952,089
106	Fjärde AP-Fonden	Sweden	0.04%	1,665,377
156	British Columbia Investment Management Corp.	Canada	0.02%	562,047
201	Vestcor Investment Management Corporation	Canada	0.00%	112,148

Table 3 Banks that hold shares in G4S³¹

#	Investor	Country	% of outstanding shares	Value (\$)
30	Quintet Private Bank	Luxembourg	0.46%	19,007,575
36	Credit Suisse (Luxembourg) S.A.	Luxembourg	0.40%	14,382,670
39	Schweizerische Nationalbank	Switzerland	0.37%	13,390,374
82	Verwaltungs- und Privat-Bank AG	Liechtenstein	0.07%	2,687,077
91	Dexia Bank Denmark A/S	Denmark	0.06%	3,130,479
99	Erik Penser Bankaktiebolag	Sweden	0.05%	1,794,030
105	Kreissparkasse Köln	Germany	0.04%	1,519,166
109	PKB Privat Bank AG	Switzerland	0.03%	1,366,921
133	Banque Internationale à Luxembourg (Suisse) SA	Switzerland	0.02%	993,010
138	Zürcher Kantonalbank (Asset Management)	Switzerland	0.02%	728,326
240	Commerzbank AG	Germany	0.00%	12,073
247	Berner Kantonalbank AG	Switzerland	0.00%	7,458

Table 4 Sovereign wealth funds that hold shares in G4S³²

#	Investor	Country	% of outstanding shares	Value (\$)
32	SAFE Investment Company Limited	Hong Kong	0.44%	16,050,664
45	GIC Private Limited	Singapore	0.33%	9,247,492

According to Reuters Eikon data, almost all of the company's directors and board members hold shares in the company.³³ The largest shareholder is CEO, Ashley Almanza (0.12 per cent). It is not uncommon for company directors to own, or be paid in, shares of that same company.

Mutual and pension funds hold 45 per cent of G4S's shares.³⁴ Mutual funds are investment funds made up of pooled money from different investors. These funds contract investment management companies to invest money on their behalf, such as those listed in Table 1.

The Oakmark International Fund is the largest shareholder fund of G4S. It owns 6.84 per cent of the company's shares (Table 5), and is managed by Harris Associates L.P., also a large investor. (Table 1). All funds in the top 10 are managed by large investment and asset management companies.

Table 5 Top 10 funds that hold shares in G4S³⁵

#	Investor	% of outstanding shares	Value (\$)
1	Oakmark International Fund	6.84%	306,913,569.05
2	Invesco High Income Fund UK	3.29%	138,099,565.25
3	Tweedy, Browne Global Value Fund	2.14%	87,718,347.49
4	ODDO BHF Avenir Europe	1.97%	79,008,055.56
5	Vanguard Total International Stock Index Fund	1.64%	65,627,533.57
6	Invesco Income Fund UK	1.39%	58,484,917.37
7	Edinburgh Investment Trust plc	0.96%	40,141,791.45
8	Vanguard FTSE 250 UCITS ETF	0.78%	31,145,423.52
9	Met Investors Series - Harris Oakmark International Portfolio	0.65%	29,020,708.04
10	Vanguard Developed Markets Index Fund	0.64%	25,670,612.78

4.2 Debt

To raise capital, companies can take on various forms of debt. In 2018, G4S's debt of GB£ 2.3bn consisted of company bonds (GB£ 1.7bn), bank loans (GB£ 305m), and private loans (GB£ 262m).³⁶ The company's debt-to-equity-ratio in this year was 6.1 (2009-2018 average: 4.4), indicating the company held large amounts of debt relative to the value of its equity,³⁷ and at a rate much higher than that of its peers Prosegur (2.7) and Securitas (2.5). A 'healthy' debt-to-equity ratio varies

between sectors and companies, but companies with relatively high debts are generally regarded as risky, with a higher chance of defaulting on their debts.³⁸

By the end of 2018, G4S held four public bonds (total value: GB£ 1.7bn), which had been issued in 2009 (GB£ 350m), 2016 (GB£ 448m), 2017 (GB£ 447m) and 2018 (GB£ 490m), respectively (Table 6).³⁹ Investors buy bonds on the market and the company repays these bonds (with interest) at an agreed, specified time in the future. BlackRock is the largest bondholder of the three most recent bonds (total value: US\$ 75m; 0.5 per cent of total bond value), followed by Allianz' asset management subsidiary PIMCO (US\$ 50m; 0.4 per cent) and Danske Capital (US\$ 47m; 0.3 per cent) (Table 7).⁴⁰ Data on the financiers of the fourth bond held by G4S is not yet publicly available in Thomson Reuters Eikon.

Banks can underwrite bonds by purchasing them from the company and then reselling them on the market for a profit. Eleven banks from Europe and the United States (Banco Santander, Barclays Bank, BNP Paribas, Citigroup, Danske Bank, DSK Hyp, HSBC Bank, ING Bank, Lloyds Bank, Merrill Lynch, and Unicredit) served as bond underwriters for the three bonds mentioned above.⁴¹

Table 6 Overview of bonds held by G4S by the end of 2018⁴²

Year of issuance	Value (GBP)	Due date	Interest rate (%)
2009	350m	May 2019	7.75
2016	448m	January 2023	1.5
2017	447m	June 2024	1.5
2018	490m	May 2025	1.88
Total	1,735m		

Table 7 Top 10 companies that hold G4S bonds⁴³

Companies marked with * have invested in the company through several entities

	Bond holder	Value (\$)	% of total bond value
1	BlackRock*	74,862,000	0.5
2	PIMCO (Allianz)*	49,964,000	0.4
3	Danske Capital	46,693,000	0.3
4	The Vanguard Group, Inc*	43,701,000	0.3
5	Nordea Investment Management*	40,976,000	0.3
6	Columbia Threadneedle Investments (UK)	40,884,000	0.3
7	DWS Investment GmbH	23,425,000	0.2
8	Robeco Institutional Asset Management B.V.	16,419,000	0.1
9	Evli Fund Management Company Ltd	16,380,000	0.1
10	AEGON Investment Management B.V.	14,348,000	0.1

Data was only available on one of the five private loans and bonds reported by G4S in its 2018 Annual Report (total value: GB£ 262m).⁴⁴ G4S took out this bond (value: US\$74.5m) in 2008. At least nine American investment and insurance companies financed the loan: Metropolitan Life Insurance Co (US), 40/86 Advisors Inc, AEGON USA Investment Management LLC, CIGNA Investments, Conning, Inc, Reinhart Partners Inc, Fort Washington Investment Advisors Inc, Mutual of Omaha Insurance Company, Life Insurance Co of North America and Shenkman Capital Management Inc.⁴⁵ The loan is due to be repaid by July 2020.

In addition to issuing public bonds and taking out private loans, G4S also has a GB£ 750m revolving credit facility.⁴⁶ A revolving credit facility is a type of loan from a bank/group of banks. The company pays a fee for an open line of credit, and any loan taken using the facility is used for general purposes, or to refinance other loans.⁴⁷ According to the G4S 2018 Annual Report, the company was not using any funds from this facility at the end of 2018.⁴⁸ The size of the company's revolving credit facility was reduced from GB£ 1.1bn in 2011 and GB£ 1bn in 2015. G4S also held a term credit facility worth GB£ 275m, as well as other, smaller bank loans (worth GB£ 30m in 2018). In 2019, the company issued a bridge loan of US\$ 383m in order to repay most of a bond it took out previously (worth GB£ 350m).⁴⁹ In 2014, Centerra Group acquired US-based G4S Government Solutions through a leveraged buyout (LBO). The then subsidiary of G4S financed itself by taking out a US\$ 70m revolving credit facility.⁵⁰

Data from the Reuters Eikon database shows that, in 2018, at least fifteen banks were involved in funding G4S's revolving credit facility (Table 8). The Eikon database provides details only on the total amount of funding and not on each bank's individual financial contribution. However, assuming that each party committed to approximately the same amount of financing, then each bank would have contributed around GB£ 66.7m to this credit facility. Thirteen of these banks were also involved in providing a revolving credit facility to G4S in 2015 and/or 2011, along with four other banks (Table 8). Citizens Financial Group (which was a subsidiary of the Royal Bank of Scotland at the time) and PNC Bank NA financed the credit that Centerra Group used for the leveraged buyout of G4S Government Solutions. Data on the financiers of other loans and credits was unavailable in Thomson Reuters Eikon.

Table 8 Banks involved in the provision of revolving credit facilities to G4S⁵¹

Type of financing	Revolving credit facility			Credit for sale of G4S Government Solutions	
	Year	2018	2015		2011
Total value		1,000m GBP	1,000m GBP	1,100m GBP	70m USD
Estimated average financing per bank		66.7m GBP	66.7m GBP	110m USD	35m USD
Participating banks					
ANZ Banking Group (NZ)			X		
Banco Santander SA	X		X		
BankAmerica Corp	X		X	X	
Barclays Bank	X		X	X	
BBVA	X		X		
BNP Paribas SA	X		X	X	
Citigroup / Citibank NA	X		X		
Danske Bank			X	X	
HSBC Holdings PLC	X			X	
ING Bank NV	X		X	X	
KBC Bank NV	X		X		
Lloyds Bank PLC / Lloyds TSB Capital 1 LP	X		X	X	
Mitsubishi UFJ Financial Group	X				
Nordea Bank Sverige AB				X	
PNC Bank NA					X
Royal Bank Of Scotland Plc / Citizens Financial Group ⁵²			X	X	X
Skandinaviska Enskilda Banken	X		X		
Standard Chartered PLC	X		X		
UniCredit	X		X	X	
Wells Fargo & Co	X				

5 Finances

5.1 Market capitalisation

A company's market capitalisation (also called 'market cap') is the value of a company's outstanding shares, or the number of outstanding shares, multiplied by the share price, at any one time. Market capitalisation is used to calculate a company's value but, because it changes when the share price changes, it can only ever be an indication of how the market values the company. A number of things can cause share prices to move, either up or down, such as company statements, reported (or rumoured) news about the company, markets or industries the companies operate in, and/or external factors that could impact the company's operations or its financial outlook.

G4S's market capitalisation at the close of business on 1 June 2020 was GB£ 1.42bn.⁵³ In comparison, security peers Prosegur's market capitalization was GB£ 1.25bn and Securitas' was approximately GB£ 3.7bn on the same date.⁵⁴

5.2 Income

G4S is a service provider that provides security services and cash delivery related services to its clients. Since 2009, G4S's annual revenues have averaged around GB£ 7.3bn (Table 9).⁵⁵ After an initial increase to GB£ 7.5bn in 2011, the company's turnover subsequently declined by 9.0 per cent falling to GB£ 6.8bn in 2015. In the next two years, the company's revenues recovered and peaked at GB£ 7.8bn in 2017, but in 2018, revenues fell again to GB£ 7.5bn, marking a year-on-year decline of 4.0 per cent. The main reason for the 2018 revenue drop was lower revenues from business that were sold or closed between 2017 and 2018.⁵⁶

Table 9 Revenues per division, including exceptional costs, 2014-2018 (in millions GBP)⁵⁷

	2018	2017	2016	2015	2014
Total statutory revenue	7,512	7,828	7,590	6,863	6,848

In 2018, G4S reported new contracts valued at GB£ 1.4bn, 18.7 per cent of its total revenues.⁵⁸ From 2014 to 2018, G4S won new contracts worth an annual average of GB£ 1.3bn, 17.7 per cent of its average annual turnover.⁵⁹ Such an increase does not mean that the company's turnover also grew by the same percentage during this time, as other contracts came to an end and the company sold some of its businesses.

Fifteen per cent of G4S's revenue stems from its Cash Solutions division, which operates in 44 countries worldwide (Table 10).⁶⁰ The remaining 85 per cent of revenue is generated by the company's Secure Solutions division which operates in more than 90 countries. The Secure Solutions

division includes the Care & Justice Services department, which accounts for seven per cent of the division's total revenue and is responsible for, amongst other things, running detention centres in the UK and Australia. When reporting on the Care & Justices Services Department in its Annual Report, G4S does not refer to its activities at detention centres in South Africa, even though it has been operating/managing the Mangaung Correctional Centre (MCC) since 2000.⁶¹ Responding to a draft version of this report, G4S stated that there are contractual restrictions on its ability to talk about this contract and that its care and justice operations in South Africa are 'immaterial in terms of revenue contribution'.⁶²

In 2018, the company claimed that 45 per cent of its security revenues were 'technology-enabled', an increase of 42 per cent from the year before. 'Technology-enabled' means that manned security activities are supplemented with security technology, software or support from global security operations centres.⁶³ G4S now provides such 'technology-enabled' security services in almost 70 of the 90 countries in which it operates.⁶⁴ The remaining 55 per cent of G4S's security revenues, still come from manned security services that are not 'technology-enabled'.

Table 10 Revenues and Profit Before Interest, Tax and Amortisation (PBITA) per division and region, in 2017 and 2018⁶⁵

	2018				2017			
	millions GBP	% of total turnover of Secure Solutions	PBITA (millions GBP)	PBITA as % of revenues	millions GBP	% of total turnover of Secure Solutions	PBITA (millions GBP)	PBITA as % of revenues
Secure Solutions	6,230		403	6.5	6,045		377	6.2
Africa	405	6.5	32	7.9	381	6.3	27	7.1
Americas	2,443	39.2	129	5.3	2,332	38.6	117	5.0
Asia	881	14.1	63	7.2	831	13.7	57	6.9
Europe & Middle East	2,501	40.1	179	7.2	2,501	41.4	176	7.0
Cash Solutions	1,059		121	11.4	1,168		146	12.5
Total Group (after corporate costs)	7,289		474	6.5	7,213		474	6.6

In the Security Solutions division, the Europe & Middle East (40.1 per cent), and the Americas (39.2 per cent), are the two most important regions in terms of revenue sources. However, the highest profit margin from all four regions, comes from revenues generated in Africa. G4S does not publish revenue breakdowns by geography for its Cash Solutions unit.

G4S's 2018 Annual Report states that thirty-five per cent of total revenues came from 'major corporates & industrials', with governmental institutions the company's second largest source of revenue, at 21 per cent (Table 11). The latter category includes revenue earned by the company's

Care & Justice Services division, (7 per cent of total revenues), as well as ‘embassy security, local government, support for disaster relief, charity and NGO work, border protection and landmine clearance’ (14 per cent.⁶⁶) Other G4S customers include financial institutions, retail, private energy/utilities, consumers and ports/airports. Globally, financial services, oil and gas, and government agencies, are among the key sectors G4S has identified (Table 12).

From 2014 to 2018, the share of government contracts relative to total revenue fell slightly (21 per cent in 2018, down from 25 per cent in 2014). Income from ‘major corporates and industrials’ has increased to 35 per cent in 2018, from 29 per cent in 2014, while the relative shares of other customer types remained fairly stable, according to the company (Table 11).

Table 11 Revenue sources, 2014-2018 (in per cent)⁶⁷

	2018	2017	2016	2015	2014
Major corporates & industrials	35	34	33	32	29
Government – total	21	20	20*	24	25
Government – Care & Justice services	7	7	5	9	9
Government – other services	14	13	15	15	16
Financial institutions	16	18	16	16	18
Retail	9	10	11	7	8
Private energy/utilities	6	6	7	8	8
Consumers	6	6	6	5	5
Transport & logistics	2	2	2	2	2
Ports & airports	3	2	3	4	3
Leisure & tourism	2	2	2	2	2

* In 2016, G4S separately reported revenues from NGOs/government/multilateral agencies (14 percent) and public services (6 percent).

Table 12 Key sectors and largest countries by revenue, per region⁶⁸

Region	Key countries	Key sectors
Africa (24 countries)	South Africa, Kenya	Mining, oil and gas, retail, energy, agriculture, financial services
North America (2 countries)	USA, Canada	Financial services, extractives, retail, government, embassies, manufacturing
Latin America (18 countries)	Brazil, Colombia, Peru, Argentina	Financial services, extractives, retail, embassies and manufacturing
Asia (16 countries)	India, Australia, Thailand, Hong Kong	Financial services, retail, manufacturing, government, energy
Europe (26 countries)	UK & Ireland, the Netherlands, Belgium, Denmark	Healthcare, government, multilateral agencies, aviation, automotive, energy, financial services, aerospace, defence, chemicals, biotechnology, food, retail
Middle East (11 countries)	Saudi Arabia, United Arab Emirates	Oil and gas, retail, energy, banking, agriculture

5.2.1 Specific revenue sources

Although more specific data on revenue sources and individual contracts is generally not reported by the company, the UK Government has published information on the value of the contracts between the Ministry of Justice and G4S, in response to a parliamentary question. In 2019, G4S had five direct contracts with the UK Ministry of Justice and was also contracted as the operator of another four contracts, managed by Special Purpose Vehicles (SPVs).⁶⁹ The annual contract value of these direct and operating contracts is GB£ 229m, and the total value of these contracts amounts to GB£ 4.7bn (Table 13).⁷⁰ It should be noted, however, that in April 2019 the UK Government terminated the G4S contract for HMP Birmingham because of G4S's poor management of the prison.⁷¹ The contract came to an end in June 2019.

Table 13 Value of contracts between UK Ministry of Justice and G4S in 2019⁷²

Direct contracts UK Department of Justice - G4S					
Contract	Main Contractor	Contract Start Date	Contract End Date	Total Contract Value (GBP)	Average annual value (GBP)
Total Facilities Management Work Package A - HMCTS Wales, Midlands, NE, NW, Newbold Revel, MoJ Shared Service Centre	G4S Integrated Services (UK) Limited	1-2-2012	31-10-2019	174,724,495	22,558,544
Custodial services at HMP Birmingham*	G4S Care and Justice Services (UK) Ltd	13-4-2011	30-9-2026	419,031,097	27,093,487
Custodial services at HMP Oakwood	G4S Care and Justice Services (UK) Ltd	13-4-2011	23-4-2027	330,429,750	20,616,581
Provision of Electronic Monitoring Hardware	G4S Monitoring Technologies Ltd	4-11-2016	3-11-2019	15,000,000	5,007,998
Supplying electronic monitoring services, including related infrastructure, firmware and software	G4S Monitoring Technologies Ltd	10-11-2017	9-9-2021	22,500,000	5,874,285
Total value				961,685,342	81,150,896
Contracts as operator via Special Purpose Vehicle (SPV) under Private Finance Initiative (PFI) contracts					
Contract	Operated by	Contract Start Date	Contract End Date	Total Contract Value (GBP)	Average annual value (GBP)
HMP Altcourse	G4S Care and Justice Services	1-12-1997	31-5-2023	1,213,636,422	47,603,168
HMP Parc	G4S Justice Services	15-12-1997	14-12-2022	1,534,747,827	61,398,318
HMP Rye Hill	G4S Justice Services	21-1-2001	20-1-2026	520,112,727	20,807,357
Oakhill Secure Training Centre	G4S Justice Services	18-8-2004	26-6-2029	471,600,000	18,974,653
Total value				3,740,096,976	148,783,497
Total value of direct and operator contracts				4,701,782,318	229,934,393

* The UK Government terminated G4S's contract for HMP Birmingham on 30 June 2019. The total contract value displayed is the original value for the contract that would run until 2026.

In addition to fulfilling contracts for government institutions, G4S also benefitted from public funding by taking part in a publicly funded research project, and a project supported by the International Finance Corporation (IFC), the private sector branch of the World Bank. G4S was a member of a consortium of companies contracted to construct and maintain two hospitals in Alexandria, Egypt, with IFC support.⁷³ The IFC provided advisory services for this project. Although G4S was named as the provider of security services in four other projects for which the IFC provided funds, it was not directly financed by the IFC in these projects.^{74 75}

G4S was also part of a European Union funded research project called STRANDS, developing robots able to perform security and care tasks. The project ran from 2013 to 2017, was funded via a GB£ 7.2m grant from the European Union,⁷⁶ and was led by universities in the UK, Sweden, Germany and Austria. The project also involved G4S and an Australian care home provider, who directly benefitted from the research results.⁷⁷

5.3 Costs

5.3.1 Normal costs

According to the company, staff costs (wages, social security costs and employee benefits) form the bulk of G4S's expenses. In 2018, G4S reported that it spent 70 per cent of its income on staff costs (GB£ 5.3bn).⁷⁸ The company reported that its average staff costs increased in 2018 because of tight labour markets in Europe and the US⁷⁹ along with increased costs for recruitment, screening, training and unbilled overtime as staff turnover increased.

At the 2018 presentation of annual results, the G4S CEO stated that the company invested up to twice as much on training, compared to its peers, and that training employees in the US was particularly costly.⁸⁰ He said that, to remain competitive, the company will continue to evaluate training costs and may, as a result, reduce employee training time.

G4S provides global figures on its staff costs in its annual report and, in 2018, these revealed that the average wage for a G4S employee was GB£ 9,390 (including social security costs and employment benefits).⁸¹ That same year, Ashley Almanza, G4S CEO, earned GB£ 2.9m (including wages, benefits, bonuses and pension benefits), a fall from GB£ 3.7m GBP in 2017.⁸² The amount of the CEO's bonus is based on the company's financial performance (85 per cent) and on having met personal objectives (15 per cent).

These figures imply that after staff costs, the company has a 30 percent gross margin left to cover all other costs, tax and profit. Other costs include the purchase and maintenance of assets, such as buildings and vehicles, as well as operational, overhead and financing costs. G4S does not manufacture most of its own equipment (such as surveillance cameras, access control technology, artificial intelligence, software, surveillance systems), but sources it instead from suppliers, such as Avigilon, Software House (a subsidiary of Tyco Security Products), Honeywell, Axis Communications and HIK Vision.⁸³

5.3.2 Exceptional costs

G4S also regularly books exceptional costs related to lawsuits and fines, along with charges for loss-making contracts.

Exceptional costs include compensation in cases where G4S is obliged to pay employees and former employees who have taken the company to court. In 2018, for example, G4S reported that it had reserved GB£ 100m for a settlement reached in a California class action suit regarding meal and rest breaks for the company's security officers.⁸⁴ The company also required an additional GB£ 12m to compensate employees in Asia, and a further GB£ 11m to settle claims with former employees in the Americas region. In 2017, the company spent another GB£ 9m on settling labour disputes from earlier years in the Americas region.⁸⁵ In 2018, G4S spent GB£ 35m to equalise pension benefits between men and women, following a UK High Court Ruling on gender discrimination in the Lloyds Banking Group pension scheme.⁸⁶

In 2018, G4S warned its investors that, because of its involvement in various labour disputes and litigation processes around the world, and also given that 'further disputes and claims from employees [that] could arise in the future', there would be a financial risk to their investments.⁸⁷ G4S blames this risk on 'complex' labour laws and regulations in various countries which, they claim, are 'open to interpretation'.⁸⁸

G4S also warned investors that the company may incur future costs because of the ongoing investigation by the UK Serious Fraud Office (SFO), on behalf of the UK Government, into the company's overcharging for the electronic tagging of offenders.⁸⁹

Another exceptional cost relates to what G4S calls 'onerous contracts', or contracts that end up costing more than they earn.⁹⁰ In 2018, such contracts generated a GB£ 5m net loss out of a total revenue of GB£ 118m.⁹¹ The company also booked an additional provision of GB£ 11m for expected income losses from onerous contracts including two with the UK Care & Justice Services, and the COMPASS asylum seeker contract in the UK, which ended in August 2019.⁹²

UK government data shows that, between 2010 and 2015, the UK Ministry of Justice imposed 97 'financial remedies', or fines, on G4S for failing to meet agreed obligations in five contracts with prisons.⁹³ The total value of fines imposed for failing to meet contractual targets in six custodial services contracts, three youth justice contracts, and a facilities contract between 2010 and 2017, amounted to GB£ 7m.⁹⁴

5.4 Profit

With the exception of 2013 when G4S reported a loss of GB£ 226m or 3.04 per cent, G4S reported a profit every year from 2009 to 2018, averaging at around⁹⁵ GB£ 132.9m or 1.79 per cent of its revenues. This average profit margin was considerably lower than that of its two main competitors, Securitas (2.9 per cent) and Prosegur (4.8 per cent).⁹⁶ Net profit margins after taxes rose in 2016 (2.90 per cent) and 2017 (3.54 per cent), but fell by two-thirds to 1.17 per cent (GB£ 88m) in 2018⁹⁷

The 2018 fall was due to the company reporting falling sales, losses incurred on units sold in Hungary and Israel; the company's controversial youth detention business in the US (sold in 2017); higher security costs in South Africa due to attacks on cash transporter vans, and the GB£ 100-130m California class action settlement resulting from the lawsuit between G4S and thousands of (former) staff.⁹⁸

The company uses Profit Before Interest, Tax and Amortisation (PBITA) as the accounting standard to communicate the results of divisions and regions. The PBITA of the Cash Solutions division fell to 11.4 per cent in 2018 (2017: 12.5 per cent), while profit margins for the Secure Solutions increased to 6.5 per cent (2017: 6.2 per cent).⁹⁹ The highest profit margins for the security division are in Africa (7.9 per cent) and the lowest are in the Americas (5.3 per cent). Africa also has the security division's strongest revenue growth figures, although in absolute terms the Americas and the Europe & Middle East regions still represent much larger markets. Revenues in Africa and Asia grew by 6.3 and 6.0 per cent respectively, while growth figures in the Americas region were slightly lower (4.8 per cent).¹⁰⁰ The company's earnings in Europe and the Middle East remained stable compared to 2017.

In 2018, G4S restructured the way it reports on business units, separating revenues from its Cash Solutions and Secure Solutions divisions and reducing its geographic units to four (from seven), by combining its UK home market with Europe, and Latin America with the US and Canada. Figures from 2016 and 2017 show that the company's cash and security activities in the UK and Ireland, and in North America, each contributed almost half of the company's 2017 profits (Table 14).¹⁰¹ In 2017, the Asia Pacific region reported the highest profit margins (8.5 per cent), followed closely by the UK & Ireland (8.4 per cent). Margins were considerably lower in Europe (7.3 per cent), North America (6.1 per cent) and Latin America (3.8 per cent). Although G4S uses a more aggregated regional division in its 2018 report, it states that revenues in the UK and Ireland continued to grow.¹⁰²

Table 14 Geographic division of revenues and operating profits in 2017 and 2016¹⁰³

	2017				2016			
	Revenue	Operating profit	% margin	% of total profit	Revenue	Operating profit	% margin	% of total profit
Africa	554	39	7.0	7.8	502	35	7.0	8.7
Asia Pacific	763	65	8.5	13.0	717	56	7.8	13.9
Latin America	732	28	3.8	5.6	660	15	2.3	3.7
Middle East & India	864	56	6.5	11.2	862	76	8.8	18.9
Europe	1,491	109	7.3	21.8	1,442	95	6.6	23.6
North America	2,034	124	6.1	24.8	1,908	115	6.0	28.6
UK & Ireland	1,419	119	8.4	23.8	1,513	119	7.9	29.6
Total	7,857	501	6.4		7,604	402	5.3	

Most of the profits reported by G4S at a consolidated level are used to pay dividends to shareholders in a timeline set out by the company.¹⁰⁴ From 2009 to 2018, G4S increased its total dividend payments from GB£ 101m to GB£ 150m.¹⁰⁵ These payments continued even in years when the company's net income after tax was lower than the sum of dividend payments (2013, 2014, 2015 and 2018, respectively). The company must have financed such dividend payments from its reserves or by incurring debt. G4S's total dividend payments, between 2009 and 2018, practically equal the company's net profits after taxes. In other words, G4S spent almost all its profits on dividend payments to shareholders. G4S did not buy back any shares between 2013 and 2018.¹⁰⁶

5.4 Assets

A company's assets are comprised of all the resources a company owns which generate value. Assets can be either current assets (cash, and other short-term assets that can be converted into cash within a year) or non-current/fixed assets (long-term resources, such as buildings and machines).¹⁰⁷ In 2018, G4S's total assets were worth GB£ 5.5bn,¹⁰⁸ with about half this amount (GB£ 2.7bn) made up of current assets, including GB£ 1bn worth of cash and cash equivalents, and undrawn funds from the company's revolving credit facility.¹⁰⁹ The company holds a relatively high amount of cash, according to the G4S CFO, because it is complicated to pool cash reserves from the different countries in which it operates,¹¹⁰(although this is presumably an issue all transnational corporations face).

The company says that the majority of its non-current assets (GB£ 2.9bn) is covered by goodwill (GB£ 1.9bn).¹¹¹ Goodwill is an intangible asset based on the value of a company's brand name, customer base, relations with customers and employees, patents and proprietary technology, and which is calculated, roughly, by taking the firm's purchase price, and subtracting the fair market value of both the assets and liabilities.¹¹² The value of goodwill is highly subjective and not directly linked to generating cash flow.¹¹³

Although an average goodwill-assets ratio of 37.8 per cent from 2009 to 2018 seems relatively high, it is comparable with two of G4S's major competitors, Securitas (39.4 per cent) and Prosegur (35.0 per cent).¹¹⁴ The company's property, plant and equipment is worth GB£ 367m. The company's investments, including those in joint ventures, were worth GB£ 31m in 2018.¹¹⁵ G4S does not appear to have made any substantial acquisitions since 2011 (see section 7.3).¹¹⁶

6 Corporate structure and tax

The corporate structure of G4S is extensive and highly complex and consists of at least 600 companies in more than 110 countries, according to Bureau Van Dijk's Orbis database.¹¹⁷ While the Orbis dataset is helpful in clarifying corporate structures, there is limited information available on G4S because of the number of G4S subsidiaries based in tax havens¹¹⁸ and 'secrecy jurisdictions', such as Jersey, Guernsey and the British Virgin Islands¹¹⁹. Many of these G4S subsidiaries, according to Orbis, are 100 per cent owned by G4S Plc, the ultimate parent company in the UK. The direct ownership, or the immediate parent of the subsidiary, however, is not known, probably because the parent company's country of registration does not require companies to disclose such information. Given the dearth of disclosed information from these tax-havens, it is impossible to establish with any certainty, specific parent-subsidiary relations. This chapter will, therefore, elaborate on the corporate structure of G4S and assess red flags when such corporate structures appear to facilitate tax avoidance. Although there is limited public information available on the company's corporate structure, the Corporate Tax Haven Index lists a number of countries where G4S has subsidiaries, and which may be being used to lower the company's tax bills.

Multinationals that avoid taxes generally do so by shifting profits from high tax jurisdictions to low tax jurisdictions. For example, a multinational operating in the Netherlands may not want to be subject to the country's 25 per cent corporate income tax rate. To avoid paying this tax on its profits, the company might move capital to a tax haven jurisdiction, such as the British Virgin Islands, and finance its Dutch operations from there, through loans, for example. The interest paid on those loans then lowers the taxable profit in the high-tax Netherlands, while increasing the taxable base in the low-tax British Virgin Islands. As a result, less tax is paid, to the detriment of the Dutch government and people who rely on taxes to pay for public services including education, healthcare, and infrastructure.

To identify specific tax avoidance structures, requires an in-depth analysis of a vast number of the company's subsidiaries' annual reports, as the consolidated accounts, or the accounts of the entire company combined, do not generally reveal specific tactics used at subsidiary level. Providing proof of such tax avoidance falls outside the scope of this research. Instead, this chapter aims to identify potential red flags, or indications, of tax avoidance by assessing G4S's effective tax rate and its legal presence in several so-called tax haven jurisdictions.

6.1 Corporate structure

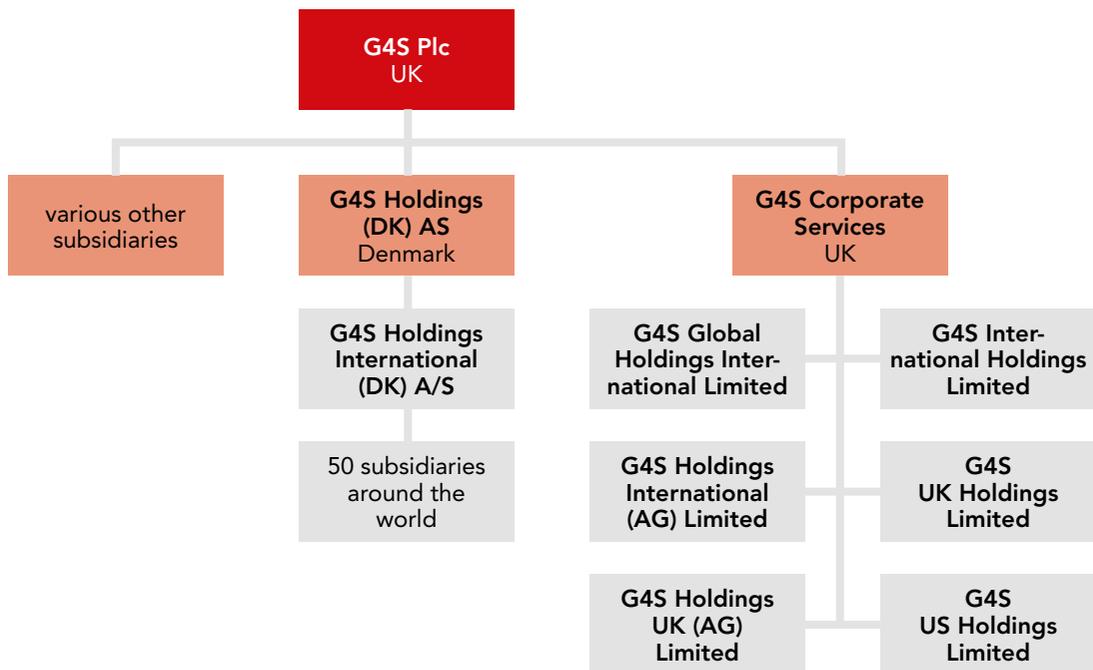
G4S states that it has operations in 90 countries around the world.¹²⁰ In actual fact, based on its legal presence – the subsidiaries it owns – G4S is present in over 110 countries.¹²¹ This discrepancy reflects how large multinational corporations structure their operations and ownership beyond actual economic activity. Companies use subsidiaries to secure a legal presence in jurisdictions that provide various benefits, such as secrecy for companies looking to escape accountability for their actions elsewhere, or help with avoiding tax.

The corporate structure of G4S reflects its history as a merger between the British security company Securicor and the Danish Group 4 Falck. The group’s ultimate parent is G4S Plc, which is based in London, UK.¹²² The two main branches of the group are formed by the Danish company G4S Holdings (DK) AS, and the UK-based company, G4S Corporate Services Limited (Figure 1). No clear structuring patterns or organisation appear to emerge from the names and host countries of G4S’s subsidiaries, though it’s apparent that the company has not separated its cash and security-focused subsidiaries.

According to G4S, the company’s complex corporate structure is because of its history of mergers and acquisitions in a range of countries, including the UK, Denmark, the Netherlands and the United States.¹²³ Responding to a draft version of this report, G4S said that it is aiming to simplify its corporate structure and deregister dormant companies, including those in countries where it no longer operates, such as Russia.¹²⁴ In recent years, G4S stated, it has deregistered more than 220 companies, as part of this simplification process, though it is difficult and time-consuming.

G4S Plc is the ultimate parent company of the G4S Group. The group holdings contain two main branches: the UK-based G4S Corporate Services branch, and the Danish G4S Holdings (DK) branch (Figure 1). G4S Holdings (DK) AS holds 53 subsidiaries in countries around the world, including Denmark, Hungary, Brazil, Norway, Belgium, the US, Ireland, Germany, Russia, Canada, South Korea, Colombia, Trinidad & Tobago, Czech Republic, Spain, the Netherlands, Austria, Greece, Malaysia, Cyprus, Thailand, South Africa, the Philippines, and Chile.¹²⁵

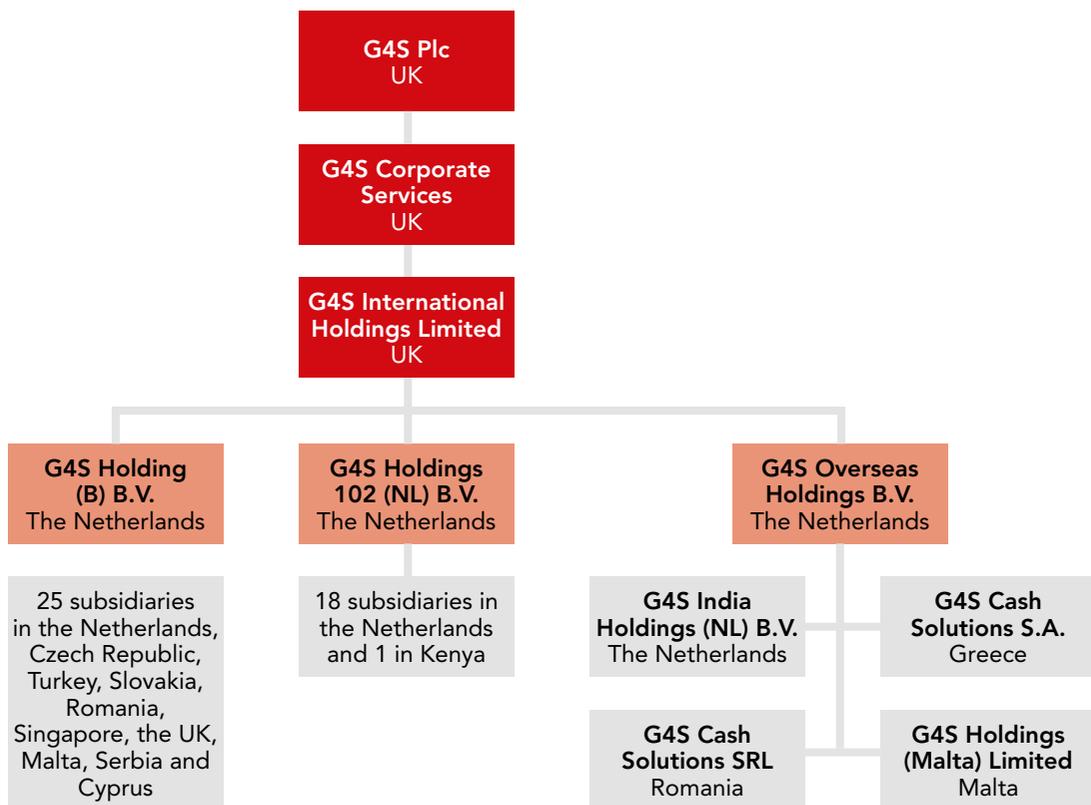
Figure 1 Simplified excerpt of the corporate structure of G4S Plc and its Danish and British branches¹²⁶



G4S Corporate Services Limited comprises six holding companies, of which three contain substantial numbers of subsidiaries;¹²⁷ G4S Holdings UK (AG) Ltd owns ten subsidiaries, including four in Russia, and G4S UK Holdings Limited owns 41 subsidiaries, mainly based in the UK, but also in Australia, South Africa and Peru.

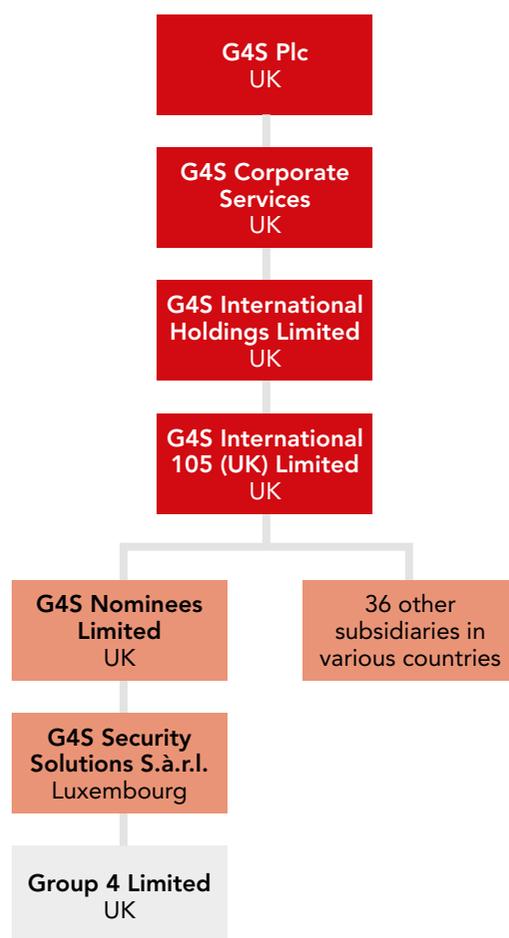
G4S International Holdings Limited has 132 subsidiaries in 28 different countries as well as G4S Holding (B) B.V., G4S Holdings 102 (NL) B.V. and G4S Overseas Holdings B.V., and three Dutch holding companies that own other G4S subsidiaries around the world (Figure 2). G4S Holding (B) B.V. contains 25 subsidiaries, including G4S Secure Solutions (CZ), A.S. (based in the Czech Republic), G4S Güvenlik Hizmetleri Anonim Şirketi (Turkey) and G4S Secure Solutions (Singapore) Pte. Ltd. (Singapore). G4S Holdings 102 (NL) B.V. is the ultimate owner of G4S Kenya Limited (registered in Kenya), among other companies. Subsidiaries of G4S Overseas Holdings B.V. include G4S India Holdings (NL) BV (registered in the Netherlands), G4S Cash Solutions S.A. (Greece), G4S Cash Solutions SRL (Romania), and G4S Holdings Malta Limited (Malta). While all these companies ultimately belong to the same British parent company, this corporate structure demonstrates that G4S owns a substantial number of subsidiaries through Dutch holding companies (Figure 2). Further research is required to determine if, and how, such a structure might facilitate tax avoidance.

Figure 2 Ownership of foreign subsidiaries through Netherlands-based holding companies¹²⁸



G4S sometimes operates a ‘sandwich’ ownership structure. In this structure, a company’s direct owner and a direct subsidiary are based in the same country, but another company – the ‘sandwich filling’ – is based in a different country. G4S Nominees Limited, for example, is based in the UK, and owned by the UK-based G4S International 105 (UK) Limited (Figure 3) but one of its subsidiaries, G4S Security Solutions S.à.r.l., is based in Luxembourg, and, in turn owns a UK-based company called Group 4 Limited.¹²⁹

Figure 3 Example of ‘sandwich’ corporate structure through Luxembourg¹³⁰



G4S International Holdings Limited is another example. This company is based in the UK, but has a subsidiary in Ireland, G4S Holdings (Ireland) Limited (Figure 4) which, in turn, has a UK-based subsidiary (G4S Integrated Services Holdings (UK) Limited) which owns another Irish company, G4S Facilities Management (IRE) Limited.

Figure 4 Example of 'sandwich' corporate structure through Ireland¹³¹



Sandwich structures can involve more than two tax haven countries, and are often used for tax avoidance purposes, with profits from one company shifted to another jurisdiction where there are low tax rates or none at all. If one company is owned by another, for example, the first company (the owning company) pays dividends to its shareholders (owners) who are based in a tax haven. The tax on these dividends is much less than if the dividends were transferred to shareholders in a non-tax haven.¹³² More research is required to establish whether some of the 'sandwich structures' in G4S's corporate structure serve tax-related purposes.

Orbis data also reveals corporate activities that do not appear on G4S's website¹³³, such as business activities in Russia.¹³⁴ G4S's extended annual report and Orbis data, show that G4S holds four companies in Russia (LLC PSE G4S Security Services – Sakhalin, LLC G4S Technical Solutions – Sakhalin, G4S Eurasia LLC and Group 4 Securicor LLC).¹³⁵ Sakhalin Island is an area in eastern Russia where extensive oil and gas drilling activities take place. Gazprom and Royal Dutch Shell are among the main investors in the area.¹³⁶ It is unclear which specific services G4S provides, or provided,

in this area and why Russia is not included in its country overview on the website? Responding to a draft version of this report, G4S stated that the companies in Russia are not operational, and the group has not had a business in Russia for a number of years.¹³⁷ G4S claims it is still in the process of closing down its remaining subsidiary companies in Russia and that these companies would have provided security services in Russia before they were acquired by G4S in 2008.¹³⁸

6.2 Tax controversies

G4S states, in its tax strategy, that it manages its tax affairs 'responsibly and transparently' and only undertakes 'tax planning' that aligns with the company's 'commercial and economic activity'.¹³⁹ The company states that it is important 'to increase the public's understanding of tax matters' and that, therefore, it aims to be 'transparent' about its tax affairs.¹⁴⁰ In 2019, G4S became a member of the Responsible Tax Lab, a think tank programme on public tax policies which¹⁴¹ is supported by various accountancy companies (such as PwC, KPMG and EY), other companies, and a small number of civil society organisations.

G4S has, nevertheless, been at the centre of several tax controversies in countries where it operates. In the UK, for example, HRGo, an employment agency used by G4S to recruit staff for its prison contracts, reportedly hired workers through micro-companies that benefited from tax breaks, to avoid paying National Insurance contributions and VAT.¹⁴² Responding to an investigation into this situation by The Guardian (2016), G4S claimed it had not benefitted from such tax arrangements.¹⁴³

In 2016, G4S lost a court appeal against the decision of Her Majesty's Revenue & Customs (HMRC), the UK tax collection department that between 2007 and 2011, the company had wrongly deducted GB£ 580,000 worth of parking fines from its taxable corporate income.¹⁴⁴ If the same question were asked of the company's tax bills for 2005/6 and for the period 2011-2016, it would mean an additional tax bill for the company of over GB£ 1m.¹⁴⁵ The First Tier Tribunal (FTT) agreed with HMRC's view that parking fines incurred as part of the company's cash transporting activities did not count as 'necessary expenses', and therefore could not be deducted from G4S's corporate income.¹⁴⁶

In 2013, the UK's National Audit Office (NAO) noted that G4S had not paid any corporate income tax in the UK for the previous year,¹⁴⁷ despite recording a turnover of GB£ 2b GBP in the UK, of which GB£ 0.9bn was earned through public sector contracts.¹⁴⁸ In its annual accounts, the company did not disclose its UK profits before tax.¹⁴⁹ In response to the report what report?, G4S stated that it did not pay corporate income tax because of exceptional losses incurred that year, including a GB£ 70 m loss on the security contract for the 2012 Olympic Games in London.¹⁵⁰ Other reasons cited were: interest deductions on group borrowings, the availability of statutory tax reliefs for items such as investments in research and development, pension scheme contributions and the utilisation of tax losses.¹⁵¹ The NAO did state that G4S 'has generally been profitable' and that its operating margin on government contracts (including overhead costs) ranged between -8 to 16 per cent.¹⁵²

In Australia, G4S was similarly found to have not paid any corporate taxes in 2016 despite being among the 700 largest companies in the country.¹⁵³ According to data from the Australian Taxation Office (ATO), G4S Australia Holdings Pty Limited earned AU\$ 253m AUD in 2016, yet only

AU\$ 47,000 was classified as ‘taxable income’,¹⁵⁴ with the company not required to pay taxes on anything over that amount. In 2017/8, G4S Australia paid AU\$ 2.2m in taxes on a taxable income of AU\$ 7.4m, compared to total revenues of AU\$ 258m.¹⁵⁵ Further research is required to investigate the company’s actual profits in Australia and any potential tax planning strategies that have contributed to G4S’s near-to-zero tax bill.

In Estonia, G4S has been accused of using intra-company loans to shift profits out of the country between 2007 and 2014, to avoid paying dividend taxes in Estonia.¹⁵⁶ Low-interest loans from a subsidiary in Estonia to another in the UK, reportedly enabled the company to shift profits to the UK, and avoid Estonian dividend withholding tax. This tactic allegedly helped G4S avoid paying an estimated € 21.5m in corporate income taxes.¹⁵⁷ G4S have denied the accusations, insisting the loan was a regular intra-company loan, and had an interest rate of 1.582 per cent, higher than G4S would have paid on the market at the time.¹⁵⁸

6.3 Effective tax rate (ETR)

Calculating a multinational company’s effective tax rate (ETR) can indicate whether it engages in tax avoidance.¹⁵⁹ An ETR is the average amount of tax a company pays across the jurisdictions where it owns subsidiaries, as opposed to the amount actually paid in each jurisdiction based on the statutory tax rates which should be applied to the company’s profits in those jurisdictions. As such, it can reveal whether the amount of tax paid by a multinational reflects the statutory tax rates of the jurisdictions in which it operates, or whether the corporation has been able to lower its tax obligations, either through tax avoidance or through preferential deals with tax authorities.

When multinational corporations avoid taxes in one or more of the jurisdictions in which they operate, their overall global tax obligations are also reduced. Therefore, multinationals that aggressively avoid paying taxes on their profits usually also report lower tax payments globally. Using the ETR to calculate what G4S has paid in taxes in relation to its global profits, can indicate whether the company obviously and aggressively avoids taxes.

The effective tax rate can be calculated using the following equation:

$$\text{EFFECTIVE TAX RATE} = \frac{\text{WORLDWIDE TOTAL INCOME TAX EXPENSE}}{\text{WORLDWIDE TOTAL PRE-TAX ACCOUNTING INCOME}}$$

The figures in Table 15 show the profits and corporate income tax expenses of the G4S group between 2014 and 2018, and the resulting effective tax rates. High variance between years – as in 2015 and 2018 – is not uncommon when calculating ETRs, since pre-tax profits can vary due to one-off charges that reduce taxable profit, or the use of tax credits. In addition, G4S often reports exceptional charges due to legal fines, for example, which also lower profit (section 5.3.2).

Table 15 G4S's global effective tax rate¹⁶⁰

	2014	2015	2016	2017	2018
Pre-tax income	148.000	78.000	296.000	386.000	143.000
Income tax expense	42.000	50.000	76.000	109.000	55.000
Effective tax rate	28%	64%	26%	28%	38%

An ETR between 28 and 38 per cent – with an exceptional result in 2015 (64 per cent) – does not appear to be significantly lower than the statutory tax rates applied in many countries where G4S operates.¹⁶¹ And G4S's ETR for the 2003-2018 period is approximately 33 per cent¹⁶², not necessarily a glaring sign of aggressive tax avoidance at the consolidated level.

However, there are at least two factors here that need to be considered. Firstly, ETRs do not reflect or expose the various tax avoidance strategies multinationals use to lower taxable profit as they only indicate an average tax rate that is either above or below statutory corporate rates. Regardless of the global ETR, a multinational company could still be using aggressive tax avoidance tactics at the subsidiary level that are hidden in a high ETR.

Secondly, to properly analyse G4S's average ETR would require an overview of all the jurisdictions where G4S operates, and the profits made in each of these jurisdictions. Once the statutory tax rates of these jurisdictions had been weighed to the profits made there, then it would be possible to calculate an average applicable statutory tax rate which could then be compared to G4S's global ETR. Such analysis would require access to the financial accounts for every G4S subsidiary, in every jurisdiction. As this data is not publicly available, particularly in secrecy jurisdictions, it is not possible to draw any conclusions at this point. If subsidiary-level financial accounts were publicly available, including those in secrecy jurisdictions, and all taxable profit were known, then it would be possible to identify potential tax avoidance strategies.

6.4 Subsidiaries in Corporate Tax Haven Index countries

Another way of identifying tax avoidance, besides ETR, is examining a company's legal presence in tax haven jurisdictions. Despite having small economies and fewer business opportunities, these countries appeal to multinationals because of the tax benefits they provide to foreign multinationals. A good starting point for research into tax avoidance structures is to see whether a company has registered subsidiaries in any tax haven jurisdictions listed in the Tax Justice Network Corporate Tax Haven Index.¹⁶³ This index scores jurisdictions based on the level to which they facilitate tax avoidance through tax policies, laws, and loopholes in legislation, and the scale of corporate investments that flow through these jurisdictions. The Index includes some of the most egregious tax haven jurisdictions in the world – such as the Cayman Islands – as well as some of the largest economies that also facilitate tax avoidance, such as the US.¹⁶⁴ While a tax haven may, on paper, have supposedly substantial tax rates (the corporate income tax rate in the Netherlands in 2020, for example, is 25 per cent), the tax laws, policies and arrangements with tax services in that country may enable companies to pay tax at much lower rates, if at all. For example, in 2017, Royal Dutch

Shell was able to pay no corporate income tax in the Netherlands, despite recording a € 13bn profit in that year,¹⁶⁵ thanks to Dutch tax laws and regulations.

G4S has the greatest number of subsidiaries in the US (139), followed by the UK (113), South Africa (28) and the Netherlands (28),¹⁶⁶ with more than half of the company's estimated 600 subsidiaries registered in one of the top 30 countries listed in the 2019 Corporate Tax Haven Index 2019.¹⁶⁷ In total, G4S holds subsidiaries in 25 of the top 30 countries listed in the Tax Haven Index.¹⁶⁸ Having a subsidiary company in one of these countries is not necessarily a sign of tax avoidance, particularly if the company has employees and business operations. G4S has a presence in the UK and the US, for example, and the company operates businesses in both countries and is of British origin.

However, given that over half of G4S's subsidiaries are registered in tax havens, it does raise potential 'red flags' for the possibility of tax avoidance. The company owns subsidiaries, for example, in the British Virgin Islands (8), the Netherlands (28), Mauritius (6), Jersey (4), Luxembourg (4), Singapore (5) and Hong Kong (17) (Table 16). And when a subsidiary in a tax haven jurisdiction has fewer than five employees, or in some cases no employees, (G4S Finance (Luxembourg) Sarl or G4S (BVI) Holdco (Colombia II) Ltd for example), it does indicate that it has been set up as a financial holding company to avoid paying tax.

Table 16 Number of subsidiaries of G4S in the top 30 countries of the 2019 Corporate Tax Haven Index¹⁶⁹

# Corporate Tax Haven Index	Country	Total
1	British Virgin Islands	8
2	Bermuda	-
3	Cayman Islands	1
4	Netherlands	28
5	Switzerland	-
6	Luxembourg	4
7	Jersey	3
8	Singapore	5
9	Bahamas	-
10	Hong Kong	17
11	Ireland	12
12	United Arab Emirates	13
13	United Kingdom	113
14	Mauritius	6
15	Guernsey	1
16	Belgium	17
17	Isle of Man	1
18	Cyprus	8
19	China	9
20	Hungary	6
21	Curacao	1
22	France	3
23	Malta	6
24	Germany	6
25	US	139
26	Panama	7
27	Spain	1
28	Gibraltar	-
29	Sweden	1
30	Italy	-
Total		416

The names of several subsidiaries in tax haven jurisdictions, suggest their purpose could solely be to facilitate international intra-company financial flows through shareholdings, thereby avoiding payment of tax. A company with 'holding' in its name, for example, implies that it exists to hold shares in other companies rather than to operate as a business. Orbis data suggests that G4S owns at least 68 holding companies, including 20 registered in the UK, eight in the Netherlands and eight in Thailand (Table 17).¹⁷⁰

An example of a holding company that might exist only to facilitate international intra-company financial flows is 'G4S India Holdings (NL) B.V.'. Based in the Netherlands,¹⁷¹ this company had no employees in 2017¹⁷², but owns shares in eight G4S companies in India.¹⁷³ G4S has also set up a company called 'G4S Holdings India Ltd' in Jersey, although its annual accounts are not publicly available. Responding to a draft version of this report, G4S stated that the Dutch G4S India Holdings (NL) B.V. company exists because Indian law requires companies to have two shareholders,¹⁷⁴ but offered no explanation as to why a similar holding company is registered in Jersey.

Another example is G4S Holding Cyprus Limited, previously 'Wackenhut Security Cyprus Ltd'.¹⁷⁵ There is no evidence that Wackenhut ever operated in Cyprus, and G4S Holding Cyprus Limited mainly operates in the US.^{176/177} Records from the 2018 Cypriot Registrar of Companies show that 45 per cent of the Cyprus based holding company is owned by G4S Secure Solutions International Inc, based in Florida. The remaining 55 per cent of shares are held by G4S International Holdings Limited based in the UK.¹⁷⁸ It is therefore possible that Wackenhut used this Cyprus-based subsidiary solely for financial purposes. Cyprus is ranked 18th in the Corporate Tax Haven Index.¹⁷⁹

Table 17 Examples of G4S subsidiaries in the British Virgin Islands, Cyprus, Jersey, Mauritius, and The Netherlands¹⁸⁰

Country	Name
British Virgin Islands	Armorgroup (Special Clearance Services) Ltd
	Ashino Holdings Ltd
	G4S (BVI) Holdco (Colombia II) Ltd
	G4S Holdings Limited
	G4S Secure Solutions (Asia) Limited
	Hill & Associates Consultants (Middle East) Limited
	Hill & Associates Consultants Limited
	G4S Group Holding (Asia) Limited
Cyprus	G4S Holding Cyprus Limited (formerly known as Wackenhut Security Cyprus Ltd)
Jersey	G4S Holdings India Ltd
	G4S Secure Solutions (Jersey) Ltd
	G4S International Employment Services Ltd
Mauritius	G4S Holdings China Limited
	Hill & Associates (Mauritius) Limited
	Hill Risk Consulting (Mauritius) Limited
	Hill Risk Management Limited
	Crosskeys (Mauritius) Holdings Ltd
	S Gray Management Services Ltd
The Netherlands	G4S Group Holding (Asia) B.V.
	G4S Holding (B) B.V.
	G4S Holdings 102 (NL) B.V.
	G4S Holdings 103 (NL) B.V.
	G4S India Holdings (NL) B.V.
	G4S International (NL) B.V.
	G4S International Holdings 101 (NL) B.V.
	G4S Overseas Holdings B.V.

6.4.1 British Virgin Islands

There are eight G4S subsidiaries registered in the British Virgin Islands (Table 17). Some of these subsidiaries are located in the buildings of trust companies (CITCO¹⁸¹ and Offshore Incorporations¹⁸²), while others are located in places such as Kingston Chambers¹⁸³ and Craigmuir Chambers¹⁸⁴, identified in the ICIJ Offshore Leaks as addresses at which a large number of holding and trustee companies are also registered. Tax haven subsidiaries often exist only on paper, do not employ any personnel, and are administered by a trust firm, like those mentioned above. These firms facilitate the incorporation of subsidiaries and manage all legal requirements for the owner, which, in this case,

would be G4S. Subsidiaries like these are generally called mailbox companies, and their lack of real economic substance indicates that their only use is likely to be tax avoidance.

There is very limited information available regarding the exact activities and ownership structures of these G4S subsidiaries. According to the Orbis database, at least one of the eight subsidiaries located in the British Virgin Islands, owns other G4S subsidiaries abroad: Hill & Associates Consultants Ltd has a 100 per cent interest in the Hong Kong based G4S subsidiary Hill & Associates Limited.¹⁸⁵ This status may indicate tax avoidance related to these jurisdictions, but further research would be needed to clarify this.

Responding to a draft version of this report, G4S stated that the companies in the British Virgin Islands were inherited as a result of previous mergers and acquisitions, and that all but two are dormant. While one of the non-dormant companies does have funds 'flowing through' it, its tax residence is in the UK so the income is subject to UK corporation tax.¹⁸⁶ The other non-dormant company also has financial flows passing through it, but G4S claims these flows are 'minimal'. Without access to the subsidiary's unpublished annual accounts, SOMO cannot verify this, but it should be noted that a subsidiary in the British Virgin Islands serving as a conduit for financial flows is an indication of potential tax avoidance. G4S stated that all royalty earnings from its subsidiaries in other countries flow back to the UK (rather than through tax haven jurisdictions) but could not explain why these subsidiaries in the British Virgin Islands were originally set up.¹⁸⁷

6.4.2 Cayman Islands

The Cayman Islands are ranked third in the Corporate Haven Tax Index, and G4S has one registered subsidiary there – Service Masters Ltd.¹⁸⁸ According to Orbis, this subsidiary appears to be owned directly by G4S Plc and has no stake in other G4S subsidiaries.¹⁸⁹ However, given that no locally filed administration about the company is available, it is impossible to confirm just where this subsidiary really sits in the G4s corporate structure. Service Masters Ltd is located at the same address as the trust company, Sterling Trust (Cayman) Limited.¹⁹⁰ Responding to an early draft of this report, G4S stated that the subsidiary is dormant and serves only to hold another dormant company in Nigeria. SOMO could not establish why the Cayman Islands were chosen for the location of this dormant holding company.

6.4.3 Mauritius

Mauritius ranks fourteenth in the Corporate Tax Haven Index and G4S holds six companies there.¹⁹¹ However, according to the list of countries on the G4S website and the company's 2018 Annual Report, G4S has no security business in Mauritius.¹⁹² Among the Mauritius-based companies are G4S Holdings China Ltd, and three subsidiaries of Hill & Associates (Hill & Associates (Mauritius) Limited, Hill Risk Consulting (Mauritius) Limited, and Hill Risk Management Limited). Hill & Associates is a G4S security and risk management subsidiary which works in eight Asian countries, though it does not appear to have any actual business operations in Mauritius.¹⁹³ These four companies are all registered at the address of the trust firm Multiconsult Limited.¹⁹⁴ Another G4S subsidiary, S Gray

Management Services Limited, is registered at the address of Intercontinental Trust Limited¹⁹⁵, a company specialising in international tax planning.¹⁹⁶ The G4S subsidiary Crosskeys (Mauritius) Holdings Ltd is registered at the address of Mauritrust Consulting and Management Limited.¹⁹⁷

The website of the Corporate and Business Registration Department of Mauritius shows that all these six subsidiaries are eligible for the highly 'tax-friendly' regimes available in Mauritius that enables companies to lower their tax bills. Four of the six companies are registered in 'Global Business Category 1' (G4S Holdings China Limited, Hill & Associates (Mauritius) Limited, Hill Risk Consulting (Mauritius) Limited, Crosskeys (Mauritius) Holdings Limited)¹⁹⁸, while the other two subsidiaries (Hill Risk Management Limited and S Gray Management Services Limited) are registered in 'Global Business Category 2'. These tax categories are designed to specifically benefit international companies. By registering a company in Mauritius, multinationals can substantially reduce their corporate tax obligations by up to 80 per cent, or even receive a full exemption from corporate income tax.¹⁹⁹ As such, these regimes provide multinationals with incentives to shift profits to Mauritius from their operational subsidiaries elsewhere, thus facilitating tax avoidance.

Responding to a draft version of this report, G4S stated that its subsidiaries in Mauritius are all 'dormant' companies, for which the company actually incurs net losses,²⁰⁰ and that none of these companies were set up by G4S itself. The Hill & Associates subsidiary, it says, was 'inherited' when G4S first acquired Hill & Associates and was used to hold companies in India and Pakistan. Although this acquisition was finalised in 2009²⁰¹, G4S states that it is still working on closing the Hill & Associates subsidiary in Pakistan and has been unable to close the subsidiary in Mauritius because of the time and effort it takes to do this.²⁰² G4S also stated that G4S Holdings China was set up as part of an investment in ATM services in China, and that this business is no longer in operation.²⁰³ G4S said they could not explain why the companies in Mauritius were set up as that action predated the current management team.

7 Corporate strategy

7.1 Growth model: increase revenue

G4S's business model includes two main ways of increasing profits and profit margins: increasing revenues and raising prices; reducing costs. Having sold most of its cash activities, G4S aims to deliver more value by focusing solely on its security activities.²⁰⁴ The company expects global demand for security to grow annually by 4 - 6 per cent from 2017 to 2027, and therefore forecasts similar growth figures for its own business.²⁰⁵ The company has identified a range of areas that it believes will drive demand in what it terms 'a structural growth market', including asset protection, investigations, terrorism, workplace violence, cyber security, global security operations management, technology management, and secure employee and executive travel.²⁰⁶

In 2018, 'conventional' or 'basic' security services, such as deploying security officers on-site or through 'remote monitoring and response' services, comprised 55 per cent of the company's security activities. Although G4S has increased revenues and profits in recent years, and expects the market for security services to grow significantly in the near future, it has indicated that competition for conventional security contracts has been fierce. The price at which some contracts have been awarded have, according to the CEO, dropped to 'unsustainable' levels.²⁰⁷ And as barriers to enter the 'basic' manned security market are relatively low, G4S says it experiences 'intense competition' in some countries where it operates.²⁰⁸ To increase its revenues and profits therefore, the company aims to focus on providing services with higher profit margins.

The most important source for G4S of both revenue and margin growth, and cost reduction, is 'technology enabled' service provision.²⁰⁹ 'Technology-enabled' means that G4S will supplement its manned security activities with security technology, software and/or by using global security operations centres.²¹⁰ Examples of such technology, according to the company, include the use of artificial intelligence, big data and social media analysis, and monitoring.²¹¹ Technology-enabled services include risk consulting, providing 'premium on-site, mobile and remote security professionals', conducting investigations, constructing and operating integrated security systems, 'monitoring and response security operations', data analytics, and 'pre-emptive' and 'predictive' security operations.²¹²

In 2018, 45 per cent of G4S's security revenues were 'technology-enabled' (2017: 42 per cent) and the company now offers such services in 70 of the 90 countries where it operates.²¹³ G4S does not develop most of the technology it uses, but offers 'integrated solutions', combining the use of its security officers and risk consultants, with technology sourced from suppliers (see section 6.3), and data analysis. G4S says it intends to grow its business by upselling more expensive service contracts that integrate new technologies, since profit margins for these smart services are higher than for conventional manned security services.

The company has also said it intends to cut costs through what it calls 'substitution opportunities,' or replacing human staff with technology and equipment.²¹⁴

In a statement made by the G4S CEO in August 2019 at the presentation of the company's half-year results, G4S said it would no longer focus on developing its care and justice activities. The CEO told investors that "the focus of our investment, our growth capital and business development effort must be on security solutions" and that the company therefore "will not be prioritising investment and business development in our care and justice services as a whole".²¹⁵

Nevertheless, a month later, when the British government announced its intention to expand the capacity of its prison system, G4S stated its aim was to focus on running prisons in England and Wales [after terminating its asylum seeker accommodation activities] and that it was keen to win more contracts.^{216 217} Responding to a draft version of this report, G4S stated that it aims to extend current prison contracts, rather than bidding for new contracts, for reasons of risk and efficiency.²¹⁸

7.2 Growth model: reduce costs

G4S says it intends to grow by cutting costs, including labour costs. In 2018, the company reported that staff costs of GB£ 5.3bn (wages, social security costs, employee benefits, etc.) accounted for 70 per cent of the company's total turnover²¹⁹. G4S has said that there is continuous tension between rising wages, and the prices the company can charge its customers for services and staff costs, and that because it is often hard to charge clients for increased wage costs in ongoing contracts, (especially in the US), this directly affects its profit margins.²²⁰ It is more common, in the UK and Europe, to include an indexation clause in contracts, which means that companies can increase their fees to compensate for wage indexation.

G4S reports that, in 2018, its average staff costs increased as a result of tight labour markets in Europe and the US.²²¹ As well as wages, the company says, these costs include recruitment, screening, training, and unbilled overtime as staff turnover increases in tight labour markets. To remain competitive and reduce these labour costs, the company says it is considering reducing the amount of training it provides to employees. The training programmes it provides to its employees in the US can, according to the G4S CEO, be more than twice as long as those of some of its competitors. He did however state that the current training programme would continue while the company evaluated its training costs.²²²

Figures provided by G4S in its 2018 Annual Report suggested that the global average pay of a G4S employee – including social security costs and employment benefits – was GB£ 9,390,²²³ lower than the average pay of an employee of Securitas (GB£ 22,931)²²⁴ or Prosegur (GB£ 14,295)²²⁵, (although this comparison does not take into account differences between countries of operation, hours worked and other factors). In 2018, the G4S CEO, Ashley Almanza, earned GB£ 2.9m, including wages, benefits, bonuses and pension benefits (2017: GB£ 3.7m),²²⁶ approximately 312 times as much as the average G4S employee.

7.3 Growth model: acquisition

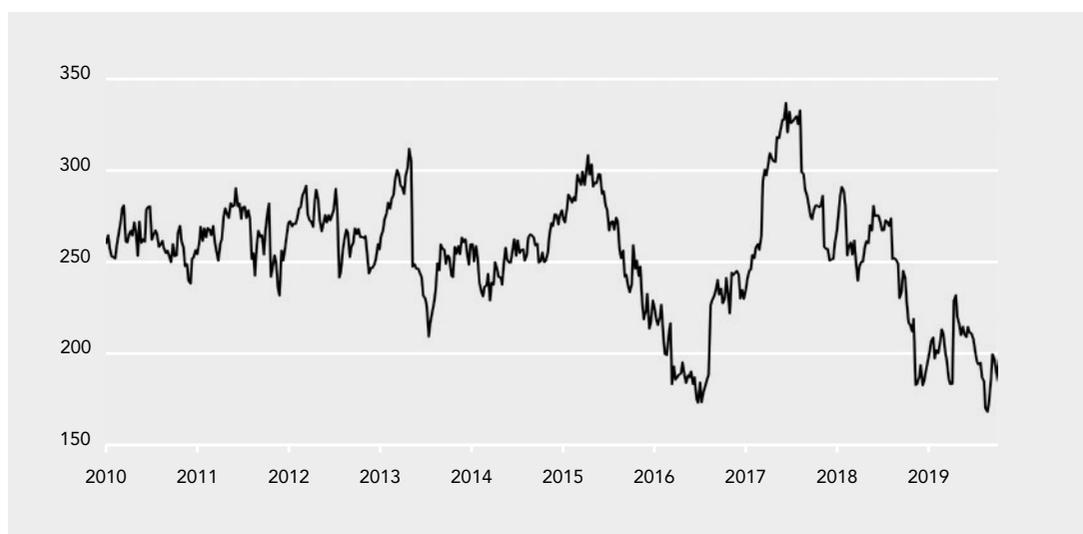
Another way for companies to grow is by acquiring, or merging with, other companies. G4S itself is the product of a 2004 merger between Group 4 Falck and Securicor.²²⁷ From 2004 to 2012, under the leadership of CEO Nick Buckles, G4S conducted an aggressive acquisition strategy, acquiring a range of companies in different sectors and countries around the world. In 2011, a planned acquisition of the cleaning and catering company ISS, which would have turned G4S into the second largest employer in the world after Walmart, was cancelled at the last minute following fierce opposition from shareholders.²²⁸

Following this debacle, and a change of leadership in 2013, when Almanza took over as CEO, the company focused on restructuring and selling subsidiaries, and does not appear to have acquired any other companies between 2012 and 2018. In April 2019, however, Netherlands-based G4S Cash Solutions B.V. acquired SecurCash B.V. (a subsidiary of Diebold Nixdorf Inc) for € 3m²²⁹, after SecurCash went bankrupt in January 2019.²³⁰ This acquisition gave G4S a near-monopoly in the Dutch cash handling market.²³¹ In February 2020, G4S announced the sale of a large part of its Cash Solutions division to The Brink's Company for GB£ 727m.²³²

7.4 Investor interests

G4S shares have performed weakly on the stock market, with the share price declining by 25 – 30 per cent between January 2015 and August 2019 (Figure 5).²³³ Some analysts have criticised the company's strategy aimed at improving its reputation and profits, and have called for the CEO to be replaced.²³⁴ In both 2018 and 2019, the company's financial results failed to meet investor expectations,²³⁵ but analysts do consider G4S shares to be undervalued and expect them to increase in value once the company's cash division has been separated.²³⁶ In fact, investors have, for several years, been calling for the company to be restructured, and the company's stock price spiked²³⁷ following the announcement that the cash division would be demerged in August 2019. Another substantial, though short-lived, share price peak occurred after the Canadian security company, GardaWorld, announced, in April 2019, that it was considering a cash bid for G4S. One month later, however, GardaWorld stated that it would not be making such a bid.²³⁸ In February 2020, G4S announced the sale of a large part of its Cash Solutions division to The Brink's Company for GB£ 727m.²³⁹

Figure 5 Share price of G4S Plc (GFS.L) on the London Stock Exchange, January 2010 - September 2019, in pence (GBP; pence)²⁴⁰



It appears from a quick scan of presentations to, and transcripts of, public investor meetings held by G4S following publication of its half-year results in 2019 and 2018 and financial year 2018 results that the future of the Cash Solutions division has been the main focus of G4S's shareholders. Investors expect divisions to be more profitable when they are separate, focused companies and are therefore eager for G4S to demerge or sell the cash division, and profit from the sale.

Moreover, some investors consider the company's cash-related activities to be a risk, as they anticipate that cash will be used less in the future. Questions from investors at these meetings focused on the performance, and future sale or demerger of the Cash Solutions division, financial issues, and managing staff costs and turnover. Shareholders appear to be keen to keep wage increases and resulting profit margin decreases as low as possible.

The presentations and transcripts of these public investor meetings held in 2018 and 2019 show no interest among investors in the company's human rights record or responsible business conduct performance.²⁴¹

All resolutions put forward to G4S shareholders at the company's annual general meeting were passed with more than 90 per cent of votes in favour, with almost all benefiting from support rates of 95 per cent or higher.²⁴² Such voting results are common at the annual general meetings of most companies.

7.5 Divestments

In a rare instance, G4S investors did directly address responsible business conduct issues when in 2008, the Norwegian municipal pension fund KLP decided to divest from G4S because of concerns about the company's ethical standards.²⁴³ This divestment, in conjunction with a campaign against the company, and a complaint against G4S filed at Norway's National Contact Point for the OECD Guidelines on Multinational Enterprises, led the company to sign a Global Framework Agreement with UNI Global Union. Following this, KLP once again included G4S in its 2010 portfolio, claiming that G4S had "demonstrated substantial improvements in its global management of employee relations and labour rights".²⁴⁴ As of July 2019, KLP Forsikring still held shares in G4S.²⁴⁵

Although it does not appear to have been addressed by investors at recent meetings, the company's ethical and human rights performance has been of concern to²⁴⁶a growing number of institutional investors who decided to divest from G4S and other private prison companies due to their poor human rights records since 2015.

In November 2019, Norway's sovereign wealth fund (Government Pension Fund Global; managed by the Norges Bank Investment Management (NBIM)) announced that it had fully divested from G4S due to the unacceptable risk of human rights violations posed by the company's labour force.²⁴⁷ The fund based its decision on a report by its own Council of Ethics, the result of a three year investigation and engagement with G4S, examining the treatment of migrant workers employed by G4S in Qatar and the UAE. Following publication of the report, NBIM also added G4S to its exclusion list which prompted the Norwegian pension fund KLP (again)²⁴⁸, and the Danish pension funds MP Pension and PKA to divest from G4S and add the company to their exclusion lists.²⁴⁹

In 2015, Columbia University became the first university to announce that it would be selling its shares in G4S, following protests by its students against investments in security companies associated with human rights abuses.²⁵⁰ In the US, several pension funds decided to divest from companies in the prison sector; these included the Philadelphia Board of Pensions and Retirement,²⁵¹ and the City of New York Pension Fund (both announced their divestments in 2017)²⁵², and the UK pension funds of Lothian, South Yorkshire and Staffordshire.²⁵³ In 2016, the Kuwait national pension fund, The Public Institution for Social Security (PIFSS), decided to divest from G4S, following a campaign by the Boycott, Divest, Sanctions (BDS) movement that drew attention to G4S's activities in Israel.²⁵⁴

Data from Reuters Eikon shows that, between January 2014 and October 2019, 21 pension funds divested from G4S, while only four pension funds started investing in the company (Table 18).²⁵⁵

Table 18 Pension funds that divested from G4S, January 2014 - October 2019²⁵⁶

Name	Country	Value of shareholding (USD)
APG Asset Management N.V.	Netherlands	31,516,277
State of Wisconsin Investment Board	United States	16,441,813
Första AP-Fonden	Sweden	11,688,358
BP Investment Management Limited	United Kingdom	9,313,356
Ilmarinen Mutual Pension Insurance Company	Finland	5,913,600
Tredje AP Fonden	Sweden	5,829,443
Verizon Investment Management Corporation	United States	5,415,825
PensionDanmark A/S	Denmark	5,207,959
Ontario Teachers' Pension Plan Board	Canada	4,453,564
Lægernes Pensjonskasse	Denmark	4,004,261
Derbyshire County Council Pension Fund	United Kingdom	3,392,960
West Midlands Pension Fund	United Kingdom	3,101,061
Reed Elsevier Pension Investment Management Ltd.	United Kingdom	2,800,774
South Yorkshire Pensions Authority	United Kingdom	2,685,157
South Yorkshire Pensions Authority	United Kingdom	2,685,156
MP Investment Management	Denmark	2,337,109
British Columbia Investment Management Corp.	Canada	2,094,300
Nottinghamshire County Council Pension Fund	United Kingdom	1,759,280
Public School Employees' Retirement System	United States	1,357,206
Lincolnshire County Council Pension Fund	United Kingdom	1,137,749
New York State Common Retirement Fund	United States	722,373

The divestment trend among institutional shareholders appears to be expanding to the company's debt holders, such as banks. By August 2019, eight major banks in the US market had committed to excluding the private prison industry from future financing relationships, most notably with private prison companies CoreCivic and GEO Group.²⁵⁷ Although G4S has not been explicitly mentioned in these announcements, five of these banks currently finance the company (Wells Fargo, Bank of America, BNP Paribas, Barclays) or have done so in the past (PNC) by providing loans and credits (see Table 8 in section 4.2). As such, these announcements present a significant challenge to G4S's ability to secure funding in the future.

At the time of writing, Standard & Poor's maintained its credit rating of G4S at BBB.²⁵⁸, an indication that while the credit rating agency views the company as having 'adequate protection parameters' to meet its financial obligations, it also believes that 'adverse economic conditions' or 'changing circumstances' could weaken the company's capacity to do so.²⁵⁹ The credit ratings of the company's two main peers, Securitas and Prosegur, are slightly higher, BBB.²⁶⁰ A possible explanation for this difference is G4S's substantially higher debt-to-equity ratio (section 4.2).

In 2014, Cascade Investment L.L.C., which manages assets exclusively for the Bill & Melinda Gates Foundation Trust, announced that it had sold all its shares in G4S following a series of scandals including the company's activities in Israeli prisons, its failure to provide enough security guards for the 2012 London Olympics, and the electronic tagging fraud in the UK.²⁶¹ However, data from Reuters Eikon shows that Cascade Investment, L.L.C. still held 1.76 per cent of G4S's outstanding shares in August 2019²⁶² and that, following its divestment announcement in 2014, Cascade Investment only reduced its stake in G4S to 1.70 per cent (from 3.22 per cent).²⁶³

7.6 Employees

G4S is one of the ten largest privately-owned employers in the world. In 2018 G4S employed approximately 546,000 people worldwide.²⁶⁴ Of its staff, 94 per cent (514,000 people) work in the Secure Solutions division. In terms of location, about a third of the G4S workforce is employed in Asia (175,000 employees), followed by the Americas and Africa (approximately 117,000 employees each), and Europe & the Middle East (100,000 employees).²⁶⁵ Employee numbers peaked in 2010 at 657,000, but then gradually decreased at an average rate of 1.8 per cent a year.²⁶⁶ In 2018, 85 per cent of G4S's employees were male.²⁶⁷

G4S reported that, in 2018, it recruited 200,000 new members of staff for its security division (equal to 38.9 per cent of the division's total staff), while also claiming that 'voluntary staff turnover' in the entire company was only 24.7 per cent for the same year.²⁶⁸ As the security division has the largest number of employees within the company, the difference between the two figures cited by G4S would mean the company had an estimated involuntary staff turnover rate (termination of contracts or dismissals, for example) of 14 per cent.²⁶⁹ While this is plausible and staff turnover rates vary per sector, a total staff turnover rate of over 35 per cent and an 'involuntary' staff turnover rate of 14 per cent does appear to be relatively high.

G4S reports that, in 2018, 24 of its staff lost their lives in work-related accidents and attacks, such as road accidents and armed attacks on its cash transport vehicles. This figure is down from 25 in 2017 and 47 in 2016.²⁷⁰

7.7 Political spending

Each year, G4S shareholders pass a resolution at the company's annual general meeting, allowing the company to incur political expenses and make political donations of up to GB£ 150,000.²⁷¹ The company states that it has not used this budget and has a policy of not making financial contributions to political parties anywhere in the world.²⁷² However, according to data from the Center of Responsive Politics, G4S has a Political Action Committee (PAC) in the US called 'G4S SECURE SOLUTIONS (USA) PAC'²⁷³ which has made regular donations to US political candidates. During the electoral cycle of 2016, for example, the G4S Secure Solutions PAC donated a total of US\$ 17,700 to two Democratic candidates and one Republican candidate for the House of Representatives,²⁷⁴ and in 2012, total contributions amounted to US\$ 64,000.²⁷⁵

Annex A

Largest shareholders of G4S in the US, United Kingdom, Canada, France, Switzerland, Germany and Japan²⁷⁶

Table A1 Top 10 shareholders of G4S from the US²⁷⁷

#	Investor Name	% Outstanding	Value (\$)
2	Harris Associates L.P.	7.67%	343,989,201
4	BlackRock Institutional Trust Company, N.A.	5.40%	226,557,021
7	Brandes Investment Partners, L.P.	4.12%	168,940,036
9	The Vanguard Group, Inc.	3.71%	152,157,613
10	Tweedy, Browne Company LLC	3.47%	151,653,081
17	Cascade Investment, L.L.C.	1.76%	77,015,680
18	Dimensional Fund Advisors, L.P.	1.54%	67,349,376
22	Franklin Mutual Advisers, LLC	0.90%	37,394,412
28	State Street Global Advisors (US)	0.59%	16,465,329
38	Geode Capital Management, L.L.C.	0.39%	16,389,564

Table A2 Top 10 shareholders of G4S from the United Kingdom²⁷⁸

#	Investor Name	% Outstanding	Value (\$)
1	INVESCO Asset Management Limited	10.00%	419,520,630
3	Schroder Investment Management Ltd. (SIM)	5.44%	244,190,824
5	Mondrian Investment Partners Ltd.	5.07%	207,829,266
6	Marathon Asset Management LLP	4.54%	186,270,941
8	Woodford Investment Management Ltd.	3.99%	174,443,328
13	St. James's Place Wealth Management Plc	2.87%	117,724,291
14	State Street Global Advisors (UK) Ltd.	2.79%	114,390,310
15	Legal & General Investment Management Ltd.	2.57%	105,594,766
20	Russell Investments Limited	1.20%	49,765,861
21	Aberdeen Asset Investments Limited	1.12%	49,061,843

Table A3 Top 10 shareholders of G4S from Canada²⁷⁹

#	Investor Name	% Outstanding	Value (\$)
34	Jarislowsky Fraser, Ltd.	0.40%	15,583,120.46
46	Addenda Capital, Inc.	0.24%	9,545,655.83
59	Caisse de Depot et Placement du Quebec	0.15%	5,685,355.86
89	BMO Asset Management Inc.	0.06%	2,172,905.48
102	PSP Investments	0.04%	1,525,459.35
103	BlackRock Asset Management Canada Limited	0.04%	1,500,997.65
122	TD Asset Management Inc.	0.02%	947,476.31
125	Manulife Asset Management Limited	0.02%	923,059.84
153	State Street Global Advisors Ltd. (Canada)	0.01%	603,613.98
175	CIBC Asset Management Inc.	0.01%	258,058.30

Table A4 Top 10 shareholders of G4S from France²⁸⁰

#	Investor Name	% Outstanding	Value (\$)
12	Oddo BHF Asset Management S.A.S	2.96%	118,645,834
34	Clartan Associés	0.43%	17,110,113
47	CPR Asset Management	0.28%	11,189,462
84	Delubac Asset Management	0.06%	2,675,983
110	TOBAM	0.03%	1,367,816
113	METROPOLE Gestion	0.03%	1,290,656
119	La Banque Postale Asset Management	0.03%	917,976
124	Lyxor Asset Management	0.02%	979,571
129	Amundi Asset Management	0.02%	971,112
149	La Banque Postale Structured Asset Management	0.02%	659,729

Table A5 Top 10 shareholders of G4S from Switzerland²⁸¹

#	Investor Name	% Outstanding	Value (\$)
19	UBS Asset Management (Switzerland)	1.44%	59,149,737
39	Schweizerische Nationalbank	0.37%	13,390,374
44	Credit Suisse Asset Management	0.34%	12,414,902
109	PKB Privat Bank AG	0.03%	1,366,921
133	Banque Internationale à Luxembourg (Suisse) SA	0.02%	993,010
138	Zürcher Kantonalbank (Asset Management)	0.02%	728,326
187	Finreon AG	0.01%	252,082
196	Valiant Bank AG	0.00%	154,993
203	UBS Switzerland AG	0.00%	116,654
216	Swisscanto Fondsleitung AG	0.00%	67,972

Table A6 Top 10 shareholders of G4S from Germany²⁸²

#	Investor Name	% Outstanding	Value (\$)
59	BlackRock Asset Management Deutschland AG	0.18%	4,988,549
74	Universal-Investment-Gesellschaft mbH	0.09%	3,738,333
102	Assenagon Asset Management S.A.	0.05%	1,897,889
105	Kreissparkasse Köln	0.04%	1,519,166
150	LBBW Asset Management Investmentgesellschaft mbH	0.02%	659,699
168	Allianz Global Investors GmbH	0.01%	378,381
183	Deka Investment GmbH	0.01%	268,881
198	FRAM Capital GmbH	0.00%	132,007
200	Siemens Fonds Invest GmbH	0.00%	115,582
238	Warburg Invest AG	0.00%	13,106

Table A7 Top 10 shareholders of G4S from Japan²⁸³

#	Investor Name	% Outstanding	Value (\$)
43	State Street Global Advisors (Japan) Co., Ltd.	0.34%	9,609,569
68	Mizuho Trust & Banking Co., Ltd.	0.11%	3,029,657
86	BlackRock Japan Co., Ltd.	0.06%	1,752,389
136	Sumitomo Mitsui DS Asset Management Company, Limited	0.02%	867,562
170	Nomura Asset Management Co., Ltd.	0.01%	303,250
205	Nikko Asset Management Co., Ltd.	0.00%	88,611
208	Daiwa Asset Management Co., Ltd.	0.00%	93,482
220	Mitsubishi UFJ Kokusai Asset Management Co., Ltd.	0.00%	53,844
225	INVESCO Asset Management (Japan) Ltd.	0.00%	38,817
235	Asset Management One Co., Ltd.	0.00%	17,128

Endnotes

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- 2 G4S website, 2019, "Our History", <<https://www.g4s.com/who-we-are/our-history>> (3 October 2019).
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- 5 Reuters Eikon, "G4S Income Statement" (29 July 2019).
- 6 G4S Plc, 2019, "Integrated Report and Accounts 2018", <<https://www.g4s.com/-/media/g4s/global/files/annual-reports/integrated-report-extracts-2018/g4s-full-integrated-report-2018.ashx>> (25 July 2019), p. 7.
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- 16 G4S Plc, 2019, "Integrated Report and Accounts 2018", <<https://www.g4s.com/-/media/g4s/global/files/annual-reports/integrated-report-extracts-2018/g4s-full-integrated-report-2018.ashx>> (25 July 2019), p. 106.
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- 29 Reuters Eikon, "G4S Shareholder report" (11 March 2020).
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- 35 Reuters Eikon, "G4S Fund shareholders report" (11 March 2020).
- 36 G4S Plc, 2019, "Integrated Report and Accounts 2018", <<https://www.g4s.com/-/media/g4s/global/files/annual-reports/integrated-report-extracts-2018/g4s-full-integrated-report-2018.ashx>> (25 July 2019), p. 180. The net value of bank loans and loan notes on the company's balance sheet is 1.8 billion GBP.
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- 64 G4S Global, 2019, "G4S Secure Solutions", Youtube video, 18 March 2019, <<https://www.youtube.com/watch?v=iy3CU-kESJk>> (16 September 2019).
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G4S – Company scan



This report investigates, on behalf of the Private Security Network, a number of financial aspects concerning the G4S group, such as ownership, debt, financial results, corporate structure, tax practices and business model.