

Report of the Month

ReportWatch e.com

June 2007

Securitas

Stockholm, Sweden



Report Facts

Company name: Securitas AB
Fiscal year end: December 31, 2006
Report title: Annual Report 2006
Chief Executive Officer: Thomas Berglund
Number of books (Received): 1
Report length: 128 pages
Auditors: PricewaterhouseCoopers AB
Designers: Hallvarsson & Halvarsson
E-mail: info@securitas.com

Report Rating: ★★★★★

(Rating scale overleaf)

Profile-Mission (Excerpts, as from the report)

By means of organic growth and acquisitions over the past 20 years, Securitas has grown to become a world leader in security. The Group is now organized into two specialized guarding divisions, Security Services North America and Security Services Europe, and one specialized division for cash handling services, whose name has been changed to Loomis. (inside front cover)

Total sales: SEK 60,523 million

Operating income: SEK 3,591 million

Net income, all operations: SEK 852 million

Earnings per share: SEK 1.41

Return on capital employed: 8%

Return on equity: 6%

Net debt to equity ratio: 1.01 (multiple)

(Source: annual report 2006 only –figures not found through a report scan are considered NA. All figures for fiscal year 2006)

Report Rating: ★★★★★

Strongest

- > A report that gives the “big picture”. Relations between market and society trends, risks and industry development for the security business are plainly explained; past and future growth drivers are clearly defined.
- > *Comments by the CEO* go beyond the “message as usual”: they are nine pages long, explain how the company has moved and grown, and set the strategy for the future –and the successor, warmly welcomed in the last lines.
- > *Financial control and financial objectives* explained by the CFO (see selected page hereafter). This includes targets, *the internal model for financial reporting*, *stability objectives*, and an analysis of key ratios at aggregate and division levels.
- > Very good business reviews.
- > A 15-year (fifteen!) *Financial overview*.

Good too

- > Significant key ratios are highlighted, for better or worse. They include organic sales growth, real change in operating income, free cash flow...
- > Note 3 defines financial concepts used and explains the calculations of all key ratios.

Buts

- > Return on equity surprisingly not considered as a key ratio and buried at the bottom of p 34.
- > Layout and legibility of the numerous and very informative tables are far from optimized: check e.g. the 15-year *Financial overview*. As a result, finding one’s way is far from easiest. And segment splitting and spinoff made this even worse.
- > *Code of Conduct –ethics in everyday life* (pp 22-23) doesn’t go far and deep enough to make up a corporate responsibility chapter. However, we read that *Securitas does not accept bribes of any kind*. And that *Business decisions should always be based on objective criteria and all employees should avoid conflicts of interest that may arise between their private lives and Securitas’ operations*. What does that mean?

.....

Rating Scale

★★★★★: World-class ★★★★★(★): First-rate ★★★★★: Excellent ★★★(★): Fine ★★*: Average

★★(★): Uneven ★★: Ordinary ★(★): Deficient ★: Unsatisfactory (★): Uncompetitive

The rating is based on ReportWatch internal desk research and does not take into account the independent Rating Panel's judgment.

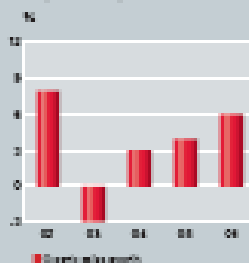
*How does the company report in key areas? What are the main report pluses and minuses?
The **Report Scan** gives an overview of strengths and weaknesses, and scores each item.*

Contact e.com@reportwatch.net

Financial control and financial objectives

Main financial objectives

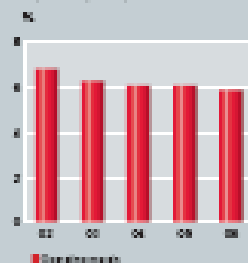
Organic sales growth



Volume-related key ratios
Objective: The objective for organic sales growth is that Securitas should grow more than the market.
Full focus of objectives: In 2006 the Group grew organically by 8%, which is more than the market's growth in 2005.

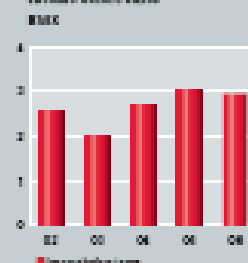
¹ EBIT and EBITA adjusted for non-recurring items.
² EBITA includes optional financial instruments, Finance Options and Finance Swap programs.

Operating margin



Efficiency-related key ratios
Objective: The objective is to improve operating margin continuously. Income growth should be achieved through profitability and leverage.
Full focus of objectives: In 2006 the Group's operating margin fell from 8.0% to 6.8% in 2006. The change was due primarily to the lower operating margin in the new business in Europe.

Income before taxes¹



Income before taxes measured in EBIT, EBIT and was further adjusted by income affecting non-recurring items. EBIT, EBITA, adjusted for items affecting comparability, aimed for maintaining a neutral financing in connection with the distribution of Systems and Direct and the effects of realizations of financial instruments. The real change in income before taxes was a fall of 0% compared to 2005.

Efficiency-related factors

Efficiency-related factors provide managers with instruments to monitor service efficiency and costs. Accordingly, the fourth and fifth key factors in Six Figures are:

- Gross margin, defined as total sales less direct expenses as a percentage of total sales.
- Indirect expenses, which focus on the organizational structure and include administrative expenses, that is, the costs of branch, area and regional/country offices.

Gross income less indirect expenses equals operating income before amortization of acquisition-related intangible fixed assets. When this is expressed as a percentage of total sales, it indicates the Group's operating margin, which in Securitas' financial model is shown before acquisition-related items.

Capital-usage-related factors

In general Securitas' operations are not capital-intensive, although there are differences between the divisions. Security Services has the lowest capital requirements and Locomis has the highest. Most of the capital is tied up in accounts receivable, so that the sixth key factor is:

- Days of sales outstanding (DSO), payment terms and effective collection procedures are decisive in determining how much capital is tied up in accounts receivable. These factors are continuously monitored at all levels in the organization.

One measure of capital usage is operating capital employed as a percentage of total sales. Operating capital employed is calculated as operating non-interest-bearing assets less operating non-interest-bearing liabilities.

Monitoring of strategies with the aid of financial key ratios

The key factors in Six Figures are clearly linked to the volume-related key ratios used to monitor Securitas' strategies. The prime focus is on growth, operating margin and return on capital employed, which provide information about how Securitas' primary strategy of profitable growth is progressing.

Main financial objectives

The volume-related factors – new sales, net change in customer contract portfolio and total sales – together square with total sales and organic sales growth.

Acquisitions are not reported as organic sales growth during the first year after acquisition. Organic sales growth is also adjusted for divestitures and changes in exchange rates to reflect real change.

The objective is to grow faster than the market.

The efficiency-related factors – gross income and indirect expenses – define operating income before amortization and operating margin.

Operating income less amortization of goodwill and financial items gives the Group's income before taxes.

The objective is to improve the operating margin continuously, and thus avoid growth without profitability and leverage.

The capital-usage-related factors – as regards capital employed, operating capital employed as a percentage of total sales is monitored all the way up to the Group level. Capital employed is defined as operating capital employed plus goodwill, acquisition-related intangible fixed assets and shares in associated companies.

Return on capital employed is defined as operating income before amortization of goodwill divided by capital employed excluding shares in associated companies. The objective is a return on capital employed exceeding 10 percent.

