

2017 Half Year Results

Serco Group plc

3 August 2017



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Agenda

Overview

Rupert Soames, CEO

Financial Review

Angus Cockburn, CFO

Operational Review

Rupert Soames

Q&A

Ed Casey, COO
Rupert Soames
Angus Cockburn

HY17 Overview

Rupert Soames
Group Chief Executive

HY17 – continued progress

- **Trading performance keeps us on track for full year**
 - Revenue of £1.5bn and Underlying Trading Profit (UTP) of £35m
 - Ugly comparisons to H1 2016, but non-recurring trading items well-flagged 12 months ago
 - Modest improvement on H2 2016 UTP
 - Falling OCP utilisation reflects further progress in reducing run-rate of losses
 - Within Reported EPS is £27m of adverse year-on-year movement in non-cash deferred tax adjustments related to pensions
- **Extremely strong order intake**
 - £2.4bn signed contracts in the period; £4bn in last 12 months; represents largest order intake since 2012 and book-to-bill of around 130%
 - Order book increases by approximately 10% or £0.9bn, now at £10.8bn
 - Pipeline partially reloaded with £1.5bn new prospects; net reduction of £0.5bn to £7.9bn
- **Strong balance sheet**
 - Closing Net Debt of £149m; leverage 1.4x EBITDA, in target range
 - Of £49m increase in Net Debt vs H1 2016, £30m accounted for by receivables financing facility unwind; utilisation now £nil
 - Bulk annuity transaction effectively removes all risk from ~45% of Serco's defined benefit scheme
- **Transformation stage of our Strategy Plan continues apace**
 - Strengthening service propositions, developing leaner organisational structures, driving greater efficiencies, improving IT systems
 - Cumulative savings from shared services and overheads to reach ~£100m by end of this year
- **2017 guidance unchanged**
 - ~£3.0-3.1bn Revenue and £65-70m UTP

HY17 Financial Review

Angus Cockburn

Chief Financial Officer

Income statement – Revenue and Trading Profit

Revenue excludes share of JV&A revenue; Trading Profit measures include share of JV&A PAT

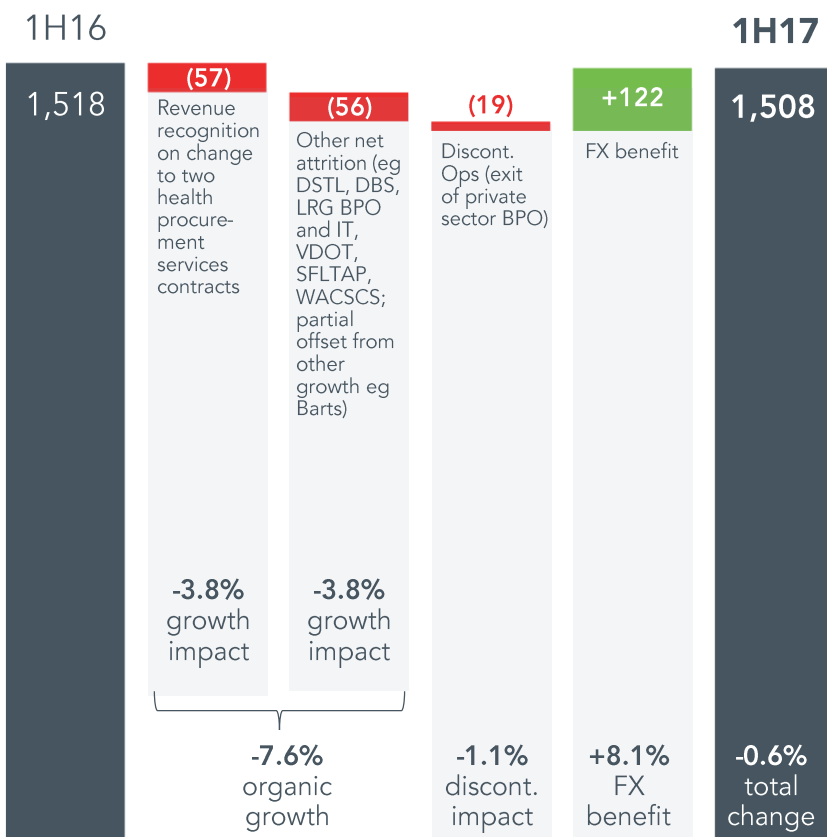
Trading Profit measures include discontinued operations in prior periods; Underlying measure strips out Contract & Balance Sheet Review impacts and one-time items

£m	HY17	HY16	FY16
Revenue	1,508	1,493	3,011
Include: discontinued operations	-	25	37
Revenue including discontinued operations	1,508	1,518	3,048
Trading Profit	35.3	71.3	100.3
Exclude: Contract and Balance Sheet Review release	-	(17.0)	(14.2)
Exclude: one-time profit on contract termination	-	(3.5)	(3.5)
Exclude: Assets held for sale D&A benefit	-	(0.2)	(0.5)
Underlying Trading Profit (UTP)	35.3	50.6	82.1
UTP margin	2.3%	3.3%	2.7%

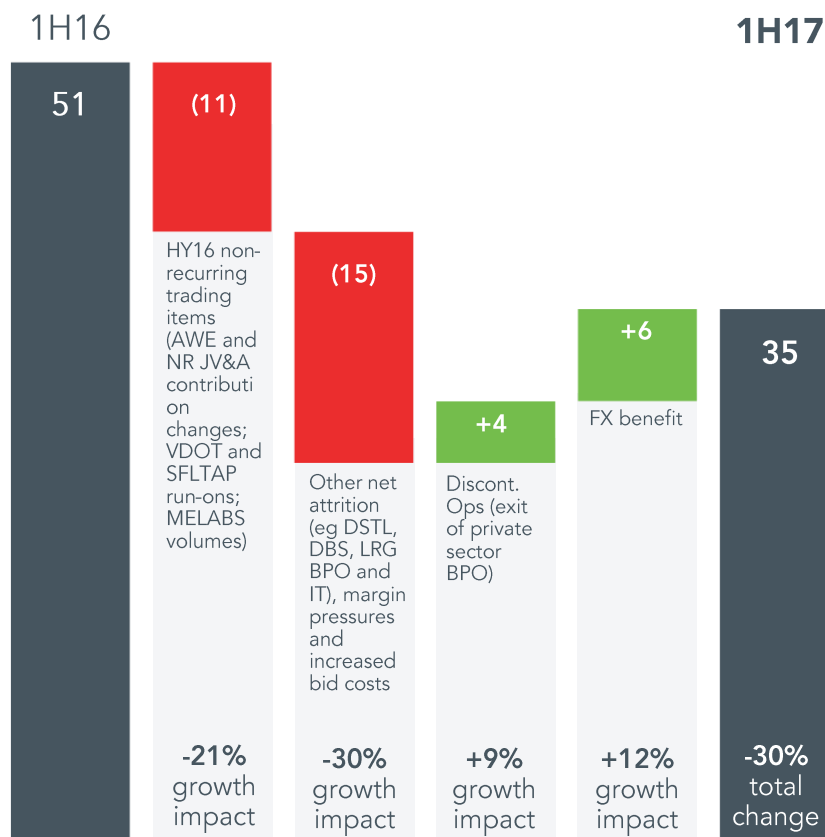
- **Favourable currency impact in HY17: Revenue +£122m; UTP +£6.1m**
- **Translational FX sensitivity:**
 - FY16 £:US\$ av. rate of 1.37; 5c move = ~£40m Revenue, ~£2m UTP (based on Americas + Middle East)
 - FY16 £:Aus\$ av. rate of 1.84; 5c move = ~£16m Revenue, ~£0.6m UTP (based on AsPac)
- **Estimated FY17 favourable currency impact: Revenue ~£135m; UTP ~£7m**
 - Assumes FY17e £:US\$ av. rate of 1.28 and £:Aus\$ av. rate of 1.68, based on 30 June spot rates for H2
- **Margin enhancement of equity accounting**
 - If JV&A revenue of £180m was included and JV&A interest and tax cost of £3.2m was excluded, HY17 Group margin would decrease marginally from 2.34% to 2.28% (FY16: 2.7% to 2.5%)
 - Impact principally UK CG – HY17 margin would decrease from 6.5% to 5.0% (FY16: 7.7% to 5.3%)

Trading performance bridges – 1H16 to 1H17

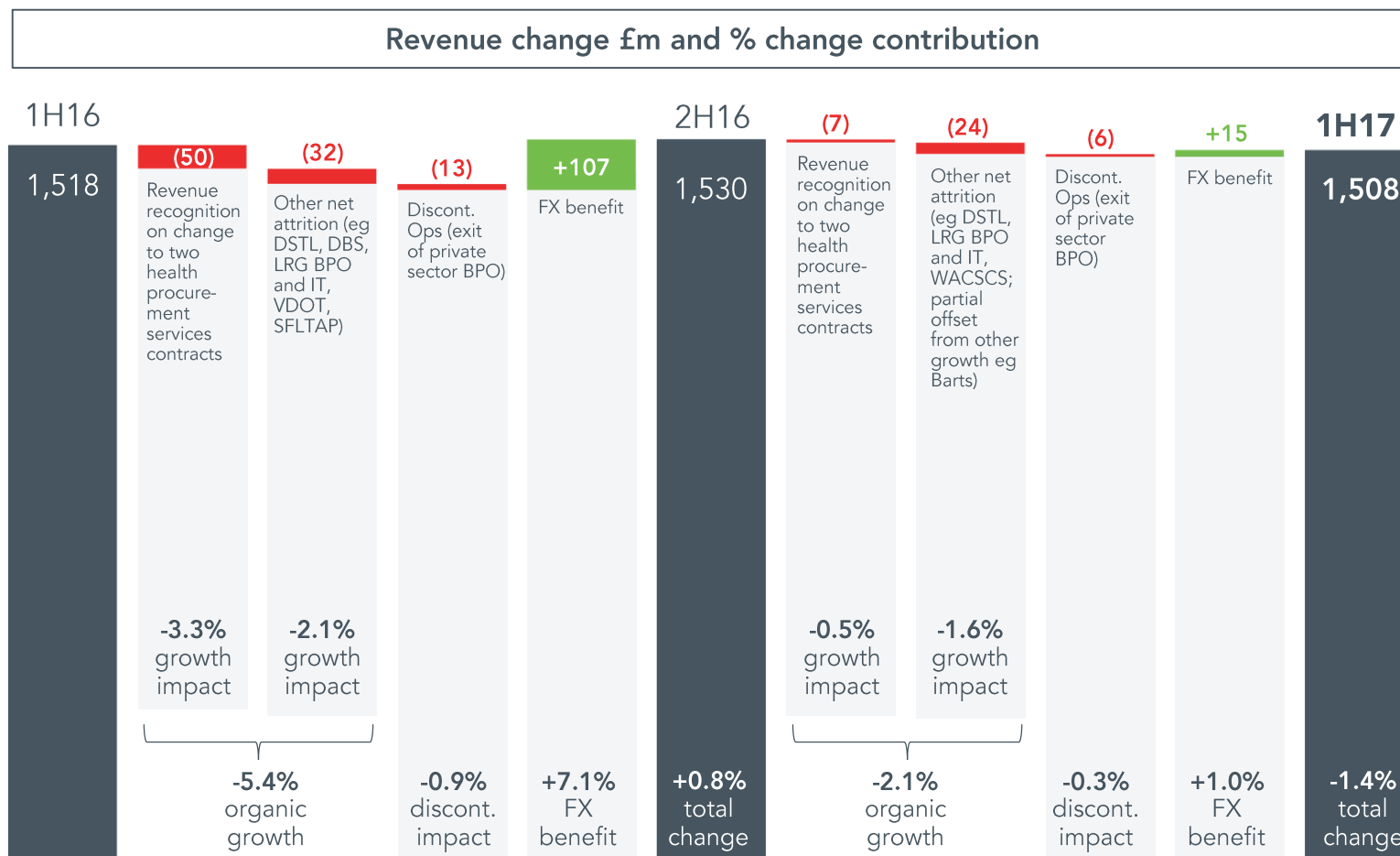
Revenue change £m and % change contribution



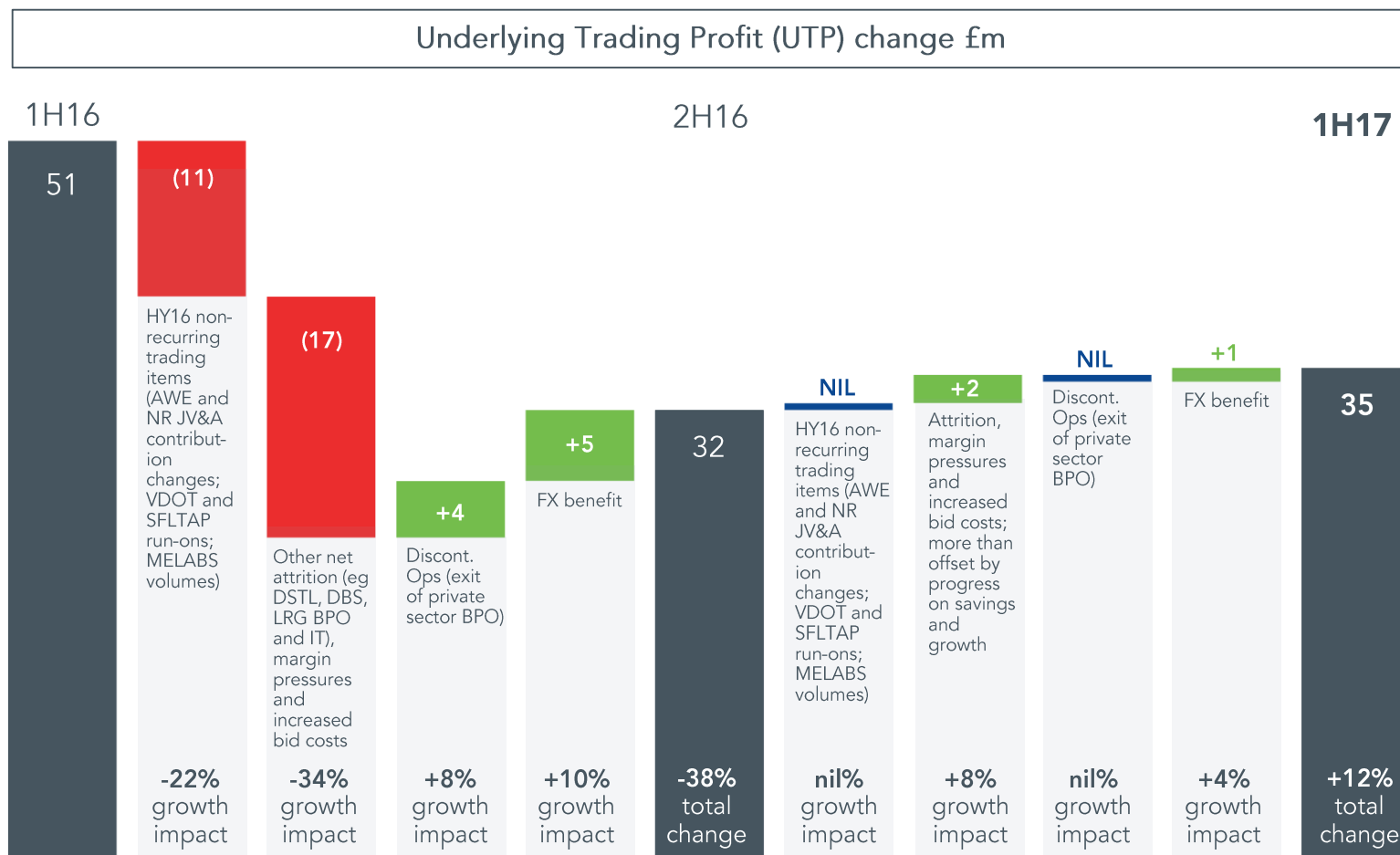
Underlying Trading Profit (UTP) change £m



Revenue bridge – 1H16 to 2H16 to 1H17



UTP bridge – 1H16 to 2H16 to 1H17



Income statement – EPS and DPS

Income statement combines continuing and discontinued operations in prior periods

Net finance costs small increase to £7.6m, driven by higher average net debt and smaller net pension credit

£26.8m adverse year-on-year movement in non-cash deferred tax adjustments related to pension assets

As previously indicated, the Board is not declaring an interim dividend; resumption will continue to depend on appraisal of financial performance and prevailing market outlook

£m	HY17	HY16	FY16
Underlying Trading Profit (UTP)	35.3	50.6	82.1
Net finance costs (NFC) before exceptionals	(7.6)	(6.7)	(12.6)
Underlying PBT	27.7	43.9	69.5
Tax on UTP and NFC before exceptionals	(10.7)	(8.1)	(24.4)
Underlying PAT	17.0	35.8	45.1
Non underlying items	-	20.7	18.2
Amortisation of intangibles arising on acquisition	(2.2)	(2.0)	(5.1)
Tax on non underlying items	(5.7)	4.3	8.5
PAT before exceptionals	9.1	58.8	66.7
Exceptional items, net of tax	(27.3)	(12.4)	(67.8)
Profit/(loss) after tax	(18.2)	46.4	(1.1)
Less: attributable to non-controlling interests	(0.1)	0.1	(0.1)
Attributable to equity owners	(18.3)	46.5	(1.2)
<i>Weighted average share count for basic EPS</i>	<i>1,091.1</i>	<i>1,088.8</i>	<i>1,088.3</i>
Underlying EPS	1.55p	3.30p	4.13p
Impact of non underlying items	(0.73p)	2.10p	1.99p
Statutory EPS before exceptional items	0.82p	5.40p	6.12p
Impact of exceptional items	(2.50p)	(1.13p)	(6.23p)
Statutory EPS	(1.68p)	4.27p	(0.11p)
DPS	0p	0p	0p

Tax

HY17 Underlying Effective Tax Rate of 39%, remaining high due to absence of tax credit on UK losses; continue to expect ~50% for FY17

Cash tax of £7.9m

Estimated unrecognised deferred tax assets of gross £1.0bn (net £0.2bn) potentially available to offset against future taxable profits; only £10m UK tax asset currently recognised, with remainder being a contingent asset

- HY17 underlying tax of £10.7m, which, on UTP (£35.3m) less pre-exceptional net finance costs (£7.6m), is a 39% effective tax rate (ETR)
 - Absence of deferred tax credit for losses in the UK is key driver of high ETR
 - Tax charge on overseas profits blends to 30%+, driven by US and Australia local rates
 - Calculation affected by proportion of JV&A profits which are consolidated within Underlying PBT but on an after tax basis; lower ETR in 2016 due to higher mix of JV&A profits
- FY17 continue to anticipate rate reverting back to ~50%
 - Impact of an adverse change in UK tax legislation can only be taken in H2
 - Assumes continued absence of deferred tax credit in the UK and lower proportion of JV&A profits
- Future years' effective tax rate will be high until UK tax losses can be recognised based on IAS12 technical requirements
- Non-underlying deferred adjustments relating to pension asset movements were a charge of £6.3m vs £4.4m credit in H1 2016; together with the £16.1m exceptional item related to the equivalent impact on the bulk annuity purchase, the aggregate year-on-year impact was £26.8m
- Cash tax rate continues to be low
 - £7.9m paid in HY17; low rate includes the effect of losses on onerous contracts overseas as well as in the UK region, together with sale of losses to JV entities
 - Anticipate cash tax of ~£10m in FY17 (FY16: £5.6m)

Exceptional items

HY17 £13.3m of restructuring costs related to Transformation stage of implementing the strategy: includes redundancy, asset impairments and other incremental costs

Non-cash deferred tax adjustment of £16.1m relates to pension asset movements on bulk annuity purchase

The net cash impact of exceptionals was £19.7m in HY17, which includes the cash timing of exceptional charges taken in prior years such as the payments to the DLR pension scheme

£m	HY17	HY16	FY16
Profit/(loss) on disposals inc. discontinued	0.1	(1.2)	0.1
<i>Other exceptional operating items:</i>			
Restructuring costs inc. discontinued	(13.3)	(6.6)	(18.3)
Impairment of goodwill inc. discontinued	-	-	(17.8)
Impairment of other assets and HFS movements	2.2	4.3	(10.5)
Movement in indemnities provided on disposals	-	(7.8)	(13.7)
Defined benefit pension obligation transfer	-	-	(10.7)
UK frontline clinical health contract provisions	-	-	0.6
Aborted transaction costs	-	0.3	(0.1)
Costs re UK Government reviews	(0.4)	(0.9)	(0.1)
Other exceptional operating items	(11.5)	(10.7)	(70.6)
Exceptional operating items	(11.4)	(11.9)	(70.5)
Exceptional net finance costs inc. discontinued	-	(0.4)	(0.4)
Tax on exceptional items	0.2	(0.1)	(3.1)
Exceptional tax – DT on pension movements	(16.1)	-	-
Total exceptional items, net of tax	(27.3)	(12.4)	(67.8)
<i>Memo: cash flow on exceptional items</i>	<i>(19.7)</i>	<i>(32.4)</i>	<i>(40.2)</i>

Free Cash Flow and Trading Cash Flow

Underlying cash profitability offset principally by the cash outflows on OCP contracts as reflected within the provisions movement

Working capital outflow of £15m includes £8m unwind of the receivables financing facility

£nil closing utilisation of the £30m facility at HY17, versus £8m at FY16 and full £30m at HY16

£m	HY17	HY16	FY16
Operating profit before exceptionals	33.1	69.3	95.2
Share of profit of joint ventures and associates	(14.6)	(17.7)	(33.4)
Depreciation, amortisation and impairment	26.5	24.3	52.4
Working capital movement	(15.1)	(14.2)	(23.7)
Provisions movement	(42.1)	(77.8)	(118.4)
Other non-cash movements	6.8	5.4	11.1
Tax paid	(7.9)	(6.6)	(5.6)
Net cash flow from operating activities	(13.3)	(17.3)	(22.4)
Dividends from joint ventures and associates	13.8	19.7	40.0
Net interest paid	(9.2)	(10.5)	(19.0)
Net capital expenditure	(18.1)	(14.4)	(31.6)
Free Cash Flow (FCF)	(26.8)	(22.5)	(33.0)
Add-back: tax, as above	7.9	6.6	5.6
Add-back: non-cash R&D expenditure	-	0.1	0.4
Add-back: net interest, as above	9.2	10.5	19.0
Trading Cash Flow	(9.7)	(5.3)	(8.0)
Underlying Trading Profit	35.3	50.6	82.1
<i>Trading cash conversion</i>	<i>n/a</i>	<i>n/a</i>	<i>n/a</i>

Net debt and leverage

Cash exceptional items driven by timing of restructuring costs and DLR pension payment

Closing net debt of £149m; average net debt of £178m over the period and peak net debt of £243m

Leverage of 1.4x; Continue to expect forecast net debt increase in FY17 that would see leverage on an underlying basis of ~1.4-1.8x at the end of 2017

£m	HY17	HY16	FY16
Free Cash Flow	(26.8)	(22.5)	(33.0)
Exceptional items	(19.7)	(32.4)	(40.2)
Net disposal/(acquisition) of subsidiaries	0.8	11.1	19.2
Purchase of own shares net of option proceeds	-	0.1	-
Movement in finance leases	(1.0)	-	(0.5)
Other movements on investment balances	0.2	0.4	2.9
Cash movements on hedging instruments	(1.6)	24.0	47.0
Foreign exchange movement on net debt	8.5	(17.5)	(41.8)
Movement in net debt	(39.6)	(36.8)	(46.4)
Opening net debt	(109.3)	(62.9)	(62.9)
Closing net debt (inc. held for sale)	(148.9)	(99.7)	(109.3)
Covenant adjustments (see Appendix 7)	(31.2)	(15.9)	(5.5)
Net borrowings per covenant	(180.1)	(115.6)	(114.8)
EBITDA per covenant (see Appendix 7)	129.8	217.7	165.1
EBITDA adjustments (see Appendix 7)	2.8	(63.6)	(17.7)
EBITDA underlying pro forma	132.6	154.1	147.4
Leverage ratio per covenant	1.39x	0.53x	0.70x
Leverage ratio underlying pro forma	1.36x	0.75x	0.78x

Pensions update – very strong funding position further de-risked

- Serco has pension schemes with gross assets of ~£1.4bn; SPLAS is the main DB scheme
- Long term objective of eliminating balance sheet and cash flow risks in a cost effective manner
 - SPLAS has a Liability Driven Investment (LDI) strategy, aimed at reducing volatility by matching assets to liabilities; ~90% of assets historically allocated on this basis to gilts and bonds; strategy has been highly successful in maintaining a strong financial position despite investment market movements
 - Longevity swap previously in place to further de-risk
- 'Buy-in' transaction in June 2017 now eliminates all risk in respect of ~45% of SPLAS members
 - Bulk annuity purchased from an insurance company by SPLAS Trustees via transfer of scheme assets
 - Insurer funds future benefits payments to relevant members
 - Gross liability remains on Serco balance sheet, but now an equal and opposite insurance asset
 - Transaction establishes a perfect hedge – fully removes longevity, investment and accounting risks
- IAS19 accounting surplus reduces by £95m non-cash reserves remeasurement, whereas actuarial deficit improves by £12m to £25m; difference reflects the discount rate applied to liabilities; IAS19 accounting impact also leads to
 - Non-cash one-off exceptional deferred tax adjustment of £16.1m in the period
 - Non-cash credit relating to net interest income on IAS19 pension scheme asset reduces going forward; this credit was £1.6m in 1H 2017 within net finance costs

Key effect of the transaction: major step achieved in our long term objective to effectively remove the pension scheme from Serco's balance sheet and eliminate any future cash payments

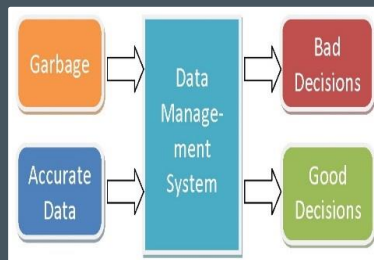
Finance Transformation update – roadmap and status as presented at December 2016 CME

Stabilise



- ✓ Standardise processes
- ✓ Culture of accountability and transparency
- ✓ Balance sheet and cash flow focus
- ✓ New budget and FP&A processes

Cleanse



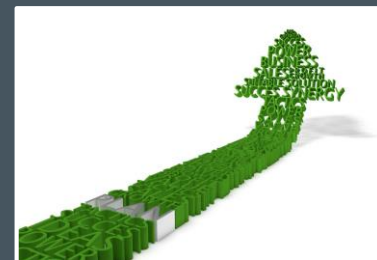
- ✓ Data structures and definitions
- ✓ Consistent global chart of accounts
- ✓ Balance sheet reconciliation and aged item close down

Renew



- ✓ Global reporting packs
- ✓ Global Finance Academies
- ✓ Commercial risk awareness
- ✓ Holistic FP&A focus with integrated P&L / balance sheet / cash flow

Transform



- New UK Target Operating Model (TOM)
- New global FP&A tool
- Processes efficient
- Data robust
- Onshore / off-shore optimised

Excellent progress made to stabilise the function, cleanse and reconcile data, renew Management Information and implement new FP&A tool

Finance Transformation update – current focus on four key initiatives to drive further cost and quality improvements

1

Transitioning to an outsourced Centre of Excellence for reporting, forecasting, planning and analysis

2

Significant onshore headcount reduction with redefined Finance Business Partner roles that provide improved support to contracts and business units

3

Rolling out the new FP&A tool across the business with full 'go live' in place for the 2018 budget cycle

4

Improving further the accuracy, consistency and overall quality of data to support best in class decision-making

Delivered £4m of Finance Function annual cost savings since 2015, and on track for further reductions of ~£3m pa in 2018 and an incremental ~£4m pa in 2019

Outlook and modelling assumptions

- No change to any outlook and modelling assumptions, aside from small FX impact on revenue
- 2017 Revenue of £3.0-3.1bn (2016: £3.0bn)
 - Net contract attrition ~£0.1bn; estimate of favourable FX ~£0.1-0.2bn
- 2017 Underlying Trading Profit of £65-70m (2016: £82m)
 - Reiterate that range of potential outcomes remains wider, given sensitivity to even small percentage changes in revenues or costs, as well as movements in currency
- 2017 Net Finance Costs (pre-exceptional) ~£15m (2016: £13m)
 - Anticipate a rise in average net debt and lower net pension credit
- 2017 Underlying Effective Tax Rate of ~50% (2016: 35%)
 - Rate reflects extent to which UK tax losses not recognised and higher international tax rates
 - Lower proportion of JV&A profits anticipated in 2017, reversing the benefit in the 2016 ETR
 - Cash tax of ~£10m (2016: £6m)
- Impact of higher ETR results in a greater reduction in Underlying EPS than the reduction in Underlying Trading Profit
- Weighted average number of shares unchanged at ~1.1bn
- 2017 closing net debt of ~£150-200m, underlying leverage of ~1.4-1.8x EBITDA
- As previously stated, 2018 trading outlook to come into focus as we progress through the balance of this year, but modest year-on-year margin progress anticipated

HY17 Operational Review

Rupert Soames

Group Chief Executive

HY17 highlights & lowlights

Highlights

- Order intake increased substantially to £2.4bn; LTM £4bn, includes Grafton – largest ever award – and results in a book-to-bill around 130%
- £1.5bn 'reload' of pipeline, so still stands at some £7.9bn TCV of new bid opportunities
- Revenues stabilising; expect to see significantly less ugly comparators in H2
- Big transitions – 1,700 staff across Barts and Southampton
- International Fire Training Centre Queen's Award for Export; positive prison inspections at Kilmarnock, Thameside, Doncaster and Yarl's Wood; SD Tempest performs well at Rosyth; Merseyrail tops National Rail Passenger and Which? surveys
- Cost savings on plan: further ~£20m this year out of shared services and overheads, resulting in ~£100m cumulatively over 3 years
- OCPs on track; utilisation run-rate further lowered
- Strong Balance Sheet: leverage 1.4x; strong pension position now significantly de-risked
- Guidance unchanged

Lowlights

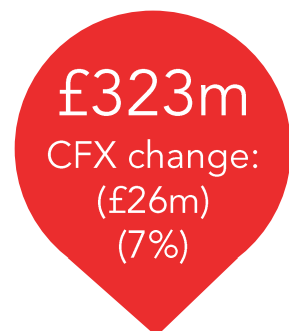
- Pipeline remains very front-loaded; ~£5bn due for adjudication by end of year; full 'reload' remains unlikely
- We expect pipeline growth will be muted in 2018, and we cannot expect to continue with exceptional hit-rate on new opportunities
- Markedly more unpredictable political environment in US, UK and Middle East
 - US: uncertainty around ACA and budget
 - UK: Brexit and weakened government
 - Middle East: Qatar dispute
- Noticeable more testy industrial relations environment in the UK. Barts and Merseyrail particular targets

HY17 highlights & lowlights



UK Central Government

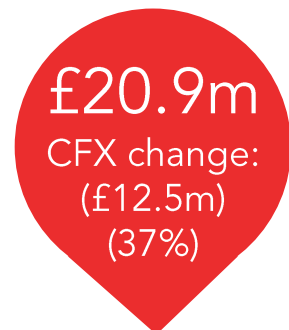
HY17 Revenue



% of Group Revenue



HY17 UTP



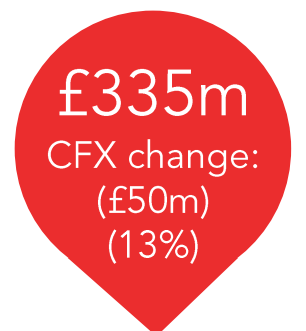
Sectors

Defence, Justice & Immigration, Transport

- **Revenue decline:** -7%. Transfer back of DSTL and DBS; limited new growth to offset attrition.
- **UTP margin down:** to 6.5%, or 5.0% JV&A-adjusted. Non-recurring AWE and Northern Rail contributions in HY16; pressure from other contract attrition and some increased bid costs.
- **OCPs:** £22m utilisation (HY16: £18m); principally offsetting losses on COMPASS, FPMS, Caledonian Sleeper and PECS.
- **Contracts awards:** ~£0.1bn. Smaller rebids and extensions only; no larger decisions in period, but several coming up.
- **FY17 outlook and future rebids:** rate of revenue and profitability decline to moderate, as pressures in HY now largely annualised; 11 major rebids/extensions 2017-20, ~40% of revenue base (incl. Northern Isles ferries, COMPASS and PECS).
- **Pipeline:** immigration escorting; DFRMO; Hades; Gatwick IRC; prisoner escorting services in Scotland.

UK & Europe, Local and Regional Government

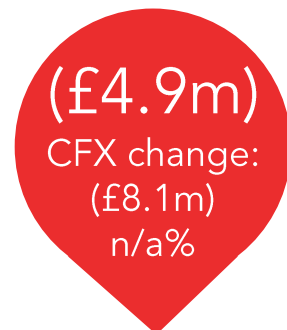
HY17 Revenue



% of Group Revenue



HY17 UTP

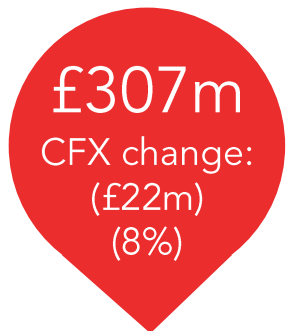


Sectors

Health, Citizen Services including Enviro and Leisure

- **Revenue sharp decline:** -15% organic. Health procurement revenue no longer recognised by far the largest driver. Ending or reducing scale of CMG and various other BPO and IT support services contracts. Partial offset growth inc. Barts, European agencies and Skills Support.
- **UTP margin still negative:** -1.5%. Contract attrition, and impact of other contract reductions or margin pressures.
- **OCPs:** £8m utilisation (HY16: £13m); principally offsetting losses on Lincs CC which have peaked.
- **Contract awards:** ~£0.2bn. New health FM for Southampton NHS, enviro for Rushmoor BC. Other smaller rebids and extensions for Invest Northern Ireland, DoH and Skills Funding Agency.
- **FY17 outlook and future rebids:** rate of revenue decline to significantly moderate. Level of UTP loss to improve as anticipate H2 return to modest profitability. 17 major rebids/extensions 2017-20, ~30% of revenue base (excl. ACCESS).
- **Pipeline:** expect to 'reload' some further Enviro and Health FM bids.

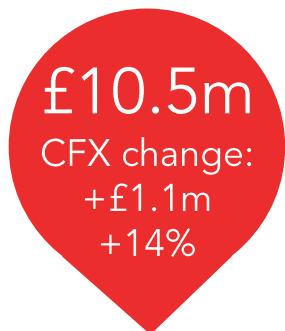
HY17 Revenue



% of Group Revenue



HY17 UTP



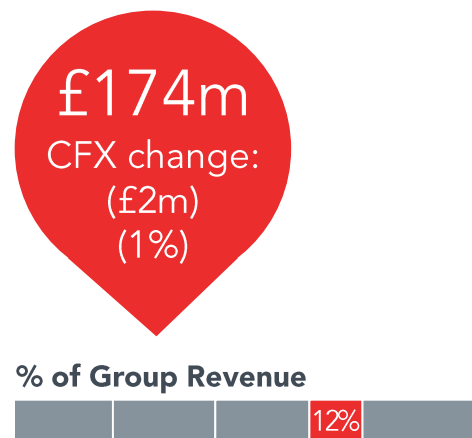
Sectors

Justice, Immigration, Defence, Health, Citizen Services, Transport

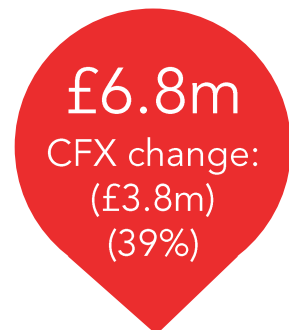
- **Organic revenue growth:** -8% CFX. End of WACSCS, ACPB and Mount Eden, with some other smaller ends or scope reductions and limited growth elsewhere; immigration services broadly flat.
- **UTP margin improves:** to 3.4%. Progress on cost efficiencies offset attrition impact.
- **OCPs:** £7m utilisation (HY16: £8m); principally offsetting losses on ACPB and Mount Eden.
- **Contracts awards:** ~£1.7bn. Grafton prison ~£1.5bn/20yrs, starting from FY20; rebids and extensions included passenger info services in WA and NSW; no other large new or rebids made in the period.
- **FY17 outlook and future rebids:** revenue rate of decline will worsen until WACSCS, ACPB and Mount Eden fully annualise, though less impact on profitability given latter two were OCPs. 10 major rebids/extensions 2017-20, 50%+ of revenue base (incl. DIBP).
- **Pipeline:** some smaller J&I opportunities, as well as some case management, defence and transport support services.

Middle East

HY17 Revenue



HY17 UTP



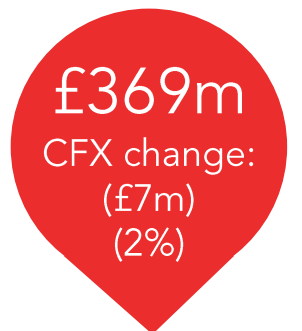
Sectors

Transport, Defence, Health, Citizen Services

- **Revenue broadly flat:** (1%) CFX; some growth from new FM contracts, but offset by scope reduction incl. Dubai Air Navigation Services and Qatar defence training, and lower defence logistics volumes.
- **UTP margin down:** to 3.9%; non-repeat of defence logistics volume benefit; other scope reduction pressures and significant increase in BD/bidding costs.
- **OCPs:** no OCPs.
- **Contracts awards:** ~£0.1bn. Smaller new wins in FM and other Qatar defence training support, extensions to ANS in Bahrain and Iraq.
- **FY17 outlook and future rebids:** modest improvement in revenue profile expected, given some new growth and pressures that annualise. 12 major rebids/extensions 2017-20, >50% of revenue base (incl. Dubai Metro, MELABS and CCAD).
- **Pipeline:** Rail/tram decisions still due within 2017; smaller opportunities in defence support and health FM.

Americas

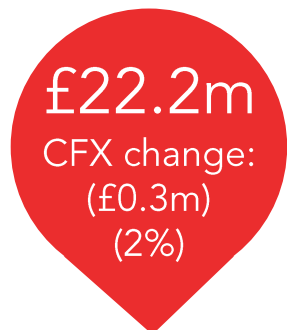
HY17 Revenue



% of Group Revenue



HY17 UTP



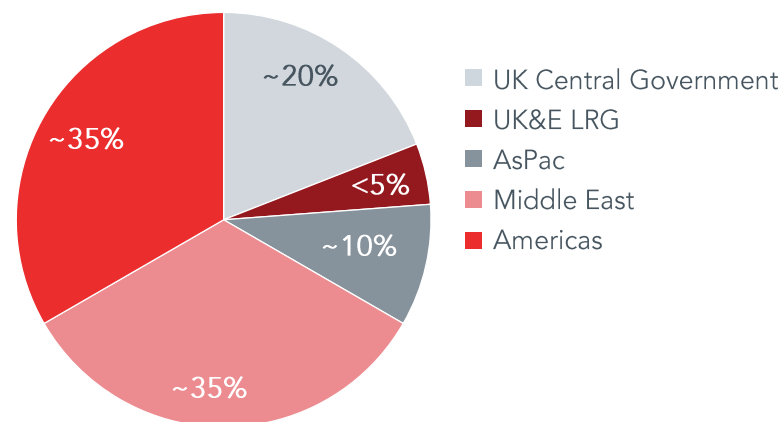
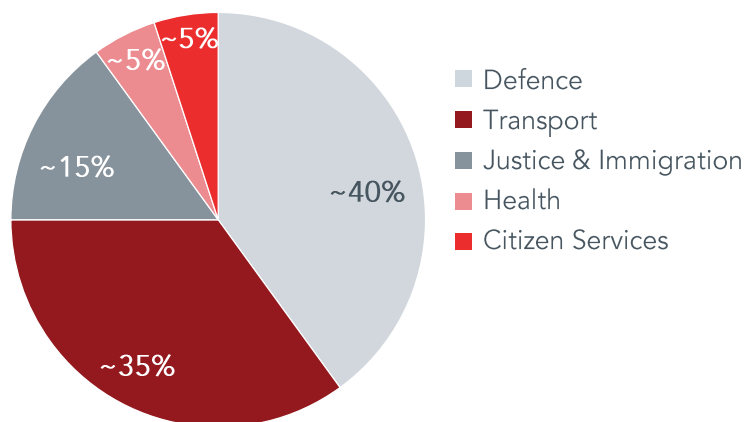
Sectors

Defence, Citizen Services, Transport

- **Revenue slightly down:** -2% CFX. End of VDOT and US Army transition assistance contracts; growth from HEMP Protection of Ballistic Missile Early Warnings Systems upgrade work and some other areas of workload increases.
- **UTP margin flat:** at 6.0%. Attrition impact largely offset by growth elsewhere and cost efficiencies.
- **OCPs:** £3m utilisation (HY16: £5m); offsetting losses on Ontario DES contract.
- **Contract awards:** ~£0.3bn. New work for US Navy supply chain management, along with ship & shore task orders; rebids secured included USPTO processing; no other large new or rebid decisions due in the period.
- **FY17 outlook and future rebids:** growth profile to improve modestly in H2; ACA assumed to continue to be broadly flat. 10 major rebids/extensions 2017-20, ~50% of revenue base (incl. ACA).
- **Pipeline:** now 4 large defence bids, with USN NAWCAD due in coming months; transport operational support opportunity also added; immigration services removed due to delays.

Pipeline summary

- Definition: New bids only (not rebids or extensions); larger opportunities only (>£10m ACV), with individual TCV capped at £1bn; bidding at a significantly advanced stage on our internal 'gate' process, and where expect adjudication in next 24 months; excludes IDIQ frameworks
- Nadir of £5bn at start of 2015; growing to £6.5bn at start of 2016 and £8.4bn at start of 2017
- HY17: £7.9bn; ~£2.0bn came out, predominantly wins such as Grafton and Southampton; some removals due to delays, such as US immigration
- Partial reload with ~£1.5bn added; includes USAF radar, Canadian LRT, Scottish PECS
- Front-loaded profile – potentially ~£5bn adjudicated in next 6 months
- Largest opportunities are ME rail bids, UK HO escorting, DFRMO, 3x USN S&S modernisation



Summary & Outlook

- Trading performance keeps us on track for full year
- Extremely strong order intake
- Strong balance sheet
- Transformation stage of our Strategy Plan continues apace
- 2017 guidance unchanged

We continue to track to our strategy plan and make good progress

Capital Markets Event

- Feature sectors: J&I and Defence
 - Senior management presentations covering each major region for each of these sectors
 - Operational case studies of key contracts
- Further progress updates on key actions of the Strategy implementation



13 Dec
2017

Questions and Answers

Rupert Soames

Group Chief Executive

Ed Casey

Chief Operating Officer

Angus Cockburn

Chief Financial Officer

Appendix 1 – Notes and definitions

- Revenue is as defined under IFRS, which excludes Serco's share of revenue of its joint ventures and associates. Revenue including that from discontinued operations is shown for consistency with previous disclosures.
- Organic revenue growth is the change at constant currency in Revenue after adjusting to exclude the impact of acquisitions or disposals.
- Trading Profit is defined as IFRS Operating Profit adjusted for (i) amortisation and impairment of intangibles arising on acquisition and (ii) exceptional items. Consistent with IFRS, it includes Serco's share of profit after interest and tax of its joint ventures and associates. Underlying Trading Profit excludes Contract and Balance Sheet Review adjustments (principally Onerous Contract Provision (OCP) releases or charges), as well as the beneficial treatment of depreciation and amortisation of assets held for sale during 2016, and other material one-time items such as the pension scheme settlement in the first half of 2016 related to the profit on early exit from a UK local authority contract that occurred in the second half 2015. Trading Profit measures include discontinued operations for consistency with previous guidance.
- Change at constant currency for Revenue and Underlying Trading Profit is calculated by translating non-Sterling values for the six months ended 30 June 2017 into Sterling at the average exchange rate for the six months ended 30 June 2016.
- Underlying EPS reflects the Underlying Trading Profit measure after deducting pre-exceptional net finance costs and related tax effects.
- Trading Cash Flow is the net cash flow from operating activities before exceptional items as shown on the face of the Group's Consolidated Cash Flow Statement and is stated after net capital expenditure on tangible and intangible asset purchases, adding dividends we receive from joint ventures and associates, and adjusting to remove net tax paid.
- Free Cash Flow is Trading Cash Flow after adjusting to deduct net interest paid and net tax paid.
- Pre-tax ROIC is calculated as Trading Profit divided by the Invested Capital balance on a two-point average basis. Invested Capital assets are: goodwill and other intangible assets; property, plant and equipment; interests in joint ventures and associates; trade and other receivables; and inventories. All other assets are excluded from Invested Capital, being: retirement benefit assets; tax assets; derivative financial instruments; and cash and cash equivalents. Of the total liabilities on the balance sheet, Invested Capital liabilities are trade and other payables. All other liabilities are excluded from Invested Capital being: retirement benefit obligations; tax liabilities; provisions; obligations under finance leases; derivative financial instruments; and loans. Assets and liabilities classified as held for sale are also included in Invested Capital.
- The order book reflects the estimated value of future revenue based on all existing signed contracts, excluding Serco's share of joint ventures and associates. It excludes contracts at the preferred bidder stage and excludes the award of new Indefinite Delivery, Indefinite Quantity (IDIQ) contract vehicles and Multiple Award Contracts (MACs) where Serco are one of a number of companies able to bid for specific task orders issued under the IDIQ or MAC. The value of any task order is recognised within the order book when subsequently won.
- The pipeline is defined as new bid opportunities with estimated Annual Contract Value (ACV) of at least £10m, and which are expected to be bid and adjudicated within a rolling 24-month timeframe. The TCV of individual opportunities is capped at £1bn. The definition does not include rebids and extension opportunities. For IDIQs or MACs, only the potential value of any individual task order is included.

Appendix 2 – Revenue divisional analysis

Organic decline driven by change to health procurement contracts in LRG, and attrition in CG from DSTL, in AsPac from WACSCS and in Americas from VDOT and SFLTAP

Organic decline to improve in H2 as these pressures now largely annualised

Discontinued impact also now complete

Revenue - growth composition

£m	HY16					HY17		FY16
	Reported Currency	Organic	Disposed /Discont.	FX	TOTAL	Reported Currency	Constant Currency	Reported Currency
UK CG	349	(7%)	-	-	(7%)	323	323	679
UK&E LRG	377	(15%)	+2%	+2%	(11%)	335	327	696
AsPac	285	(8%)	-	+16%	+8%	307	262	620
Middle East	154	(1%)	-	+14%	+13%	174	152	325
Americas	329	(2%)	-	+14%	+12%	369	322	691
Continuing	1,493	(7.6%)	+0.4%	+8.2%	+1.0%	1,508	1,386	3,011
Global Services	25	-	(100%)	-	(100%)	-	-	37
Total	1,518	(7.6%)	(1.1%)	+8.1%	(0.6%)	1,508	1,386	3,048
HY17 v HY16		(£113m)	(£19m)	+£122m	(£10m)			

Appendix 3 – Underlying Trading Profit (UTP) divisional analysis

UTP decline of £15m, largely driven by the first half of 2016 having benefitted from a number of non-recurring trading items (JV&A contributions, VDOT and SFLTAP contract run-ons and ME defence logistics volumes)

Partial offset from £6m FX benefit and £4m improvement from Global Services exit

Underlying Trading Profit and margin

£m	HY17 UTP			HY16 UTP		Change		FY16 UTP	
	Reported Currency	Constant Currency	Reported Margin	Reported Currency	Reported Margin	Reported Currency	Constant Currency	Reported Currency	Reported Margin
UK CG	20.9	20.9	6.5%	33.4	9.6%	(12.5)	(12.5)	52.2	7.7%
UK&E LRG	(4.9)	(5.4)	(1.5%)	2.7	0.7%	(7.6)	(8.1)	(6.5)	(0.9%)
AsPac	10.5	8.7	3.4%	7.6	2.7%	2.9	1.1	24.9	4.0%
Middle East	6.8	5.9	3.9%	9.7	6.3%	(2.9)	(3.8)	16.6	5.1%
Americas	22.2	19.3	6.0%	19.6	6.0%	2.6	(0.3)	43.0	6.2%
Divisions	55.5	49.4	3.7%	73.0	4.9%	(17.5)	(23.6)	130.2	4.3%
Corporate costs	(20.2)	(20.2)	(1.3%)	(18.2)	(1.2%)	(2.0)	(2.0)	(43.5)	(1.4%)
Total continuing	35.3	29.2	2.3%	54.8	3.7%	(19.5)	(25.6)	86.7	2.9%
Global Services	-	-	-	(4.2)	(17.0%)	4.2	4.2	(4.6)	(12.5%)
Underlying	35.3	29.2	2.3%	50.6	3.3%	(15.3)	(21.4)	82.1	2.7%

- **Note: Margin enhancement of equity accounting**

- If JV&A revenue of £180m was included and JV&A interest and tax cost of £3.2m was excluded, HY17 Group margin would decrease marginally from 2.34% to 2.28% (FY16: 2.7% to 2.5%)
- Impact principally UK CG – HY17 margin would decrease from 6.5% to 5.0% (FY16: 7.7% to 5.3%)

Appendix 4 – costs analysis

£m	FY14	FY15	Change	% Ch.	FY16	Change	% Ch.	HY17*	Change*	% Ch.
Revenue	3,955	3,515	(440)	(11%)	3,048	(467)	(13%)	1,386	(132)	(9%)
Underlying Trading Profit (UTP)	113	96			82			29		
Exclude: share of profit from JV&As	(30)	(37)			(33)			(15)		
Underlying Trading Profit ex. JV&As	83	59	(24)	(29%)	49	(10)	(17%)	14	(19)	(39%)
Implied total costs	(3,872)	(3,456)	(416)	(11%)	(2,999)	(457)	(13%)	(1,372)	(113)	(8%)
Include: costs offset by OCP util'n**	(41)	(125)	84		(84)	(41)		(40)	(7)	
Total costs	(3,913)	(3,581)	(332)	(8%)	(3,083)	(498)	(14%)	(1,412)	(120)	(8%)

- Cost challenge: to match revenue reduction with an equivalent reduction in total costs
- Within the Underlying Trading Profit performance, the total cost base has also reduced cumulatively by £950m since 2014, driven by
 - Ensuring direct costs volume-adjust for contract attrition and disposal impacts
 - Targeting shared service and overhead costs to also volume-adjust or scale-adjusting them through our programme of specific cost actions, delivering ~£100m reduction over FY15-17

* Given the material currency movements in HY17, these are stated at constant currency to HY16. This reduces HY17 Reported Revenue of £1,508m by £122m, UTP of £35m by £6m to £29m, and implied total costs of £1,488m by £116m,

** FY14 reflects £2m OCP utilisation of previously established provisions together with £27m of in-year costs on the ACPB contract that were written off as part of the Contract and Balance Sheet Review and £12m of loss recognised within exceptionals for UK clinical health; FY15 reflects total OCP utilisation on both Trading (£114m) and exceptional (£11m) to reflect the total cost base.

Appendix 5 – cash flow breakdown 1 & breakdown 2

£m	HY17	HY16	FY16
Breakdown 1 – depreciation, amortisation and impairment			
Depreciation	13.1	12.2	24.8
Amortisation (non-acquisition)	11.2	9.8	21.8
Depreciation and amortisation	24.3	22.0	46.6
Impairment of PPE	-	0.3	0.7
Impairment of intangibles	-	-	-
Amortisation of intangibles arising on acquisition	2.2	2.0	4.4
Impairment of intangibles arising on acquisition	-	-	0.7
Total depreciation, amortisation and impairment before exceptional items	26.5	24.3	52.4
Breakdown 2 – other non-cash movements			
Share-based payment expense	6.9	4.9	9.7
Loss on disposal of PPE and intangible assets	0.1	0.4	1.2
Other non-cash movements	(0.2)	0.1	0.2
Other non-cash movements	6.8	5.4	11.1

Appendix 6 – cash flow breakdown 3

£m	HY17	HY16	<i>FY16</i>
Breakdown 3 – exceptional items cash costs			
Finance costs related to refinancing and early repayment	-	(0.3)	(0.3)
Restructuring and costs related to Strategy Review	(10.1)	(8.3)	(16.5)
Break and exit costs re residual UK private sector BPO operations	(0.8)	(14.5)	(15.2)
UK frontline clinical health exit costs	-	(0.1)	-
Costs re DLR pension deficit settlement	(8.3)	(8.3)	(8.3)
Aborted transaction costs	-	(0.1)	(0.1)
Costs associated with UK Government reviews	(0.5)	(0.8)	0.2
Exceptional items cash costs	(19.7)	(32.4)	(40.2)

Appendix 7 – leverage covenant calculation

£m	HY17	HY16	FY16
Trading Profit	64.3	147.3	100.3
Exclude: share of joint venture and associate post-tax profits	(30.3)	(40.8)	(33.4)
Exclude: Foreign exchange credit on investing and financing arrangements	0.7	(0.7)	1.2
Include: dividends from joint ventures and associates	34.1	36.4	40.0
Add-back: DA including impairment (excluding acquisition intangibles)	49.3	64.9	47.3
Add-back: share-based payments charge	11.7	10.6	9.7
EBITDA per covenant	129.8	217.7	165.1
Less: adjustment for EBITDA of FY15 BPO disposal	-	(18.7)	-
Less: adjustment for non-underlying items	2.8	(44.9)	(17.7)
EBITDA underlying pro forma	132.6	154.1	147.4
Net debt (closing), including assets held for sale	(148.9)	(99.7)	(109.3)
Less: disposal vendor loan note, encumbered cash and other adjustments	(27.5)	(36.0)	(28.5)
Covenant adjustment for average FX rates	(3.7)	20.1	23.0
Net borrowings per covenant	(180.1)	(115.6)	(114.8)
Leverage ratio per covenant (not to exceed 3.5x)	1.39x	0.53x	0.70x
Leverage ratio on underlying pro forma basis	1.36x	0.75x	0.78x

Appendix 8 – interest cover covenant calculation

£m	HY17	HY16	<i>FY16</i>
Net finance costs before exceptional items	(13.5)	(21.2)	(12.6)
Exclude: Foreign exchange credit on investing and financing arrangements	(0.7)	0.7	(1.2)
Exclude: net interest receivable on retirement benefit obligations	(4.0)	(4.7)	(4.7)
Exclude: movement in discount on other debtors	(1.1)	(0.6)	(1.0)
Add-back: movement in discount on provisions and deferred consideration	3.2	3.6	2.4
Net finance costs for covenant calculation	(16.1)	(22.2)	(17.1)
EBITDA per covenant (Appendix 7)	129.8	217.7	165.1
Interest cover per covenant (to be at least 3.0x)	8.1x	9.8x	9.7x

Appendix 9 – Balance sheet summary

Principal driver of net asset reduction in HY17 is the £132m decrease in retirement benefit assets; this follows the bulk annuity purchase which reduces the pension scheme surplus under IFRS accounting, but reduced the deficit that is actuarially assessed for funding purposes

£m	HY17	HY16	FY16
Goodwill	564.4	545.2	577.9
Other intangible assets	75.5	88.5	83.6
Property, plant and equipment	66.6	70.7	69.3
Trade and other receivables	614.1	608.1	587.9
Inventories	16.6	27.6	22.4
Interest in joint ventures and associates	16.0	12.6	14.4
Invested capital assets (before assets held for sale)	1,353.2	1,352.7	1,355.5
Cash and cash equivalents	117.7	166.2	177.8
Other assets (tax, fin. instruments, ret. benefit assets)	102.6	230.1	231.3
Total assets (before assets held for sale)	1,573.5	1,749.0	1,764.6
Invested capital liabilities (trade & other payables)	(538.4)	(569.2)	(541.3)
Loans	(281.7)	(273.5)	(299.9)
Provisions	(376.6)	(426.5)	(421.7)
Other liabilities (finance leases, tax, financial instruments, ret. benefit liabilities)	(104.3)	(93.5)	(102.9)
Total liabilities (before liabilities held for sale)	(1,301.0)	(1,362.7)	(1,365.8)
Assets held for sale (net)	-	14.1	-
Net assets	272.5	400.4	398.8

Appendix 10 – Return on Invested Capital

ROIC has reduced in HY17 as anticipated, reflecting that the first half of 2016 had benefitted from a number of non-recurring trading items

ROIC is expected to improve in future years; this is anticipated to be driven principally by the actions to increase the Group's trading margin, as we start to benefit from completing the 'Transformation' phase and move to the 'Grow' stage of the strategy

£m	HY17	HY16	FY16
Invested capital assets	1,353.2	1,352.7	1,355.5
Invested capital liabilities	(538.4)	(569.2)	(541.3)
Assets held for sale (net)	-	14.1	-
Invested Capital (IC)	814.8	797.6	814.2
Average IC (two-point)	806.2	897.9	768.7
Trading Profit	35.3	71.3	100.3
Trading Profit for rolling 12 months	64.3	147.3	n/a
Underlying Trading Profit	35.3	50.6	82.1
Underlying Trading for rolling 12 months	66.8	100.8	n/a
Pre-tax ROIC:			
Trading Profit / Average IC	8.0%	16.4%	13.0%
Underlying Trading Profit / Average IC	8.3%	11.2%	10.7%

Appendix 11 – FY14 Contract and Balance Sheet Review

(Note: slide as presented in March 2015)

Total impact of Contract & Balance Sheet Review broadly in line with November 2014 expectations

All charges represent necessary revisions to accounting estimates rather than errors arising from prior years

- Review undertaken in H2 2014 with support of EY
- Risk-based review of contracts and balance sheets across Serco
 - 19 full scope reviews
 - 114 specific scope reviews
- Outcome broadly in line with November 2014 guidance of 'around £1.5bn'
- Onerous contract Provisions (OCPs), impairments and other balance sheet charges total £1.3bn of review items
 - Separate exceptional items for DLR pension settlement and GSR impairments and charges; these total £0.1bn and were included within our previous guidance
- Key line item within the review items are the OCPs due to their future cash flow impact
 - Additional ~£100m identified since November 2014, more than offset by lower non-cash impairment of goodwill

Appendix 12 – FY14 Review items (Note: slide as presented in March 2015)

Total impact of Contract & Balance Sheet Review broadly in line with November 2014 expectations

OCPs represent the estimated cumulative future losses for 2015 to end of contract, and are the major element of the charge with a future cash flow impact

Cash flow impact ~£100m higher than originally expected

£m	Onerous contract losses and related impairments	Other impairments and charges	Total charge to operating profit
Items charged to Trading Loss:			
OCPs for future year contract losses	(433)	-	(433)
Intangible fixed asset impairments and write-downs	(9)	(18)	(26)
Property, plant and equipment impairments	(19)	(3)	(22)
Impairment of receivables and other assets	(87)	(62)	(149)
Other provisions and accruals	(10)	(105)	(115)
Total items charged to Trading Loss	(558)	(188)	(745)
Impairment of intangibles arising on acquisition	(6)	(6)	(12)
Total items charged to loss before exceptionals	(564)	(194)	(758)
Exceptional items:			
UK clinical health OCP	(14)	-	(14)
UK clinical health other charges	(2)	-	(2)
Other provision for legal claims	-	(20)	(20)
Impairment of Global Services re held for sale	-	(39)	(39)
Impairment of goodwill	-	(466)	(466)
Total items charged to exceptionals	(16)	(525)	(541)
Total charge to operating loss	(580)	(719)	(1,299)

Appendix 13 – FY14 OCPs and related charges (Note: slide as presented in March 2015)

£447m Onerous Contract Provisions (OCPs) represent the estimated cumulative future losses for 2015 to end of contract, and have a future cash flow impact

£133m of related impairments and charges, non-cash

£m	Onerous contract provisions for future year contract losses	Related impairments and charges	Total charge to operating profit
Items charged to Trading Loss:			
ACPB	(136)	(60)	(196)
COMPASS	(112)	(3)	(115)
FPMS	(50)	(15)	(65)
PECS	(14)	(13)	(27)
Ashfield	(15)	(4)	(19)
Five largest	(327)	(95)	(422)
Other	(106)	(29)	(135)
Total items charged to Trading Loss	(433)	(124)	(558)
ACPB - Impairment of intangibles arising on acquisition	-	(6)	(6)
Total onerous contracts charged to operating loss before exceptional items	(433)	(130)	(564)
UK clinical health exceptional charges	(14)	(2)	(16)
Total onerous contract charges to operating loss	(447)	(133)	(580)

Appendix 14 – FY16 provisions movement (Note: slide as presented in February 2017)

Overall provision movements were in line with expectations for FY16

Contract and Balance Sheet Review OCPs originally charged in FY14 of £447m; OCPs liability reduced to £220m by end of FY16; movement included utilisation of £84.2m and £9.6m net release

£m	Total OCPs	Other contract provisions	Held for sale Adj.	Total contract provisions	Employee, Property and other	Total reported provisions
31 December 2015	(299.9)	(13.2)	11.0	(302.1)	(179.6)	(481.7)
Charge – Trading	(56.1)	(0.5)	-	(56.6)	(53.7)	(110.3)
Charge – exceptional	(0.6)	-	0.6	-	(23.1)	(23.1)
Release – Trading	65.7	7.6	(8.4)	64.9	22.8	87.7
Release – exceptional	0.6	-	-	0.6	0.2	0.8
Utilised	84.2	0.9	(3.1)	82.0	41.4	123.4
Unwinding of discount	(2.4)	-	-	(2.4)	(0.1)	(2.5)
Arising on acquisition	(14.0)	-	-	(14.0)	(0.6)	(14.6)
Eliminated on disposal	-	-	-	-	1.7	1.7
FX	(11.6)	0.3	(0.1)	(11.4)	(13.5)	(24.9)
Transfer re working cap.	11.5	-	-	11.5	8.3	19.8
Transfer re held for sale	-	-	-	-	(3.3)	(3.3)
Reclassifications	2.4	4.9	-	7.3	(2.0)	5.3
31 December 2016	(220.2)	-	-	(220.2)	(201.5)	(421.7)

Appendix 15 – HY17 provisions movement and future profile

Overall provision movements in line with expectations

Contract and Balance Sheet Review OCPs originally charged in FY14 of £447m; OCPs liability now reduced to £180m

HY17 movement included utilisation of £40.4m and £nil charge/release

£m	Total OCPs	Other contract provisions	Held for sale Adj.	Total contract provisions	Employee, Property and other	Total reported provisions
31 December 2016	(220.2)	-	-	(220.2)	(201.5)	(421.7)
Charge – Trading	-	-	-	-	(11.9)	(11.9)
Charge – exceptional	-	-	-	-	(2.4)	(2.4)
Release – Trading	-	-	-	-	7.3	7.3
Release – exceptional	-	-	-	-	0.3	0.3
Utilised	40.4	-	-	40.4	9.1	49.5
Unwinding of discount	(1.7)	-	-	(1.7)	-	(1.7)
Arising on acquisition	-	-	-	-	-	-
Eliminated on disposal	-	-	-	-	-	-
FX	1.2	-	-	1.2	2.8	4.0
Transfer re working cap.	-	-	-	-	-	-
Transfer re held for sale	-	-	-	-	-	-
Reclassifications	-	-	-	-	-	-
30 June 2017	(180.3)	-	-	(180.3)	(196.3)	(376.6)

- Closing balance at 30 June 2017 of largest OCPs: COMPASS £49m; DES £29m; FPMS £28m; ACPB £17m; PECS £13m; Hong Kong £13m; Lincolnshire £12m; all others <£10m and in aggregate ~£20m, or ~10% of total
- Utilisation phasing: 2017 ~£80m, 2018 ~£55m, 2019 ~£50m, 2020 ~£15m, 2020+ ~£20m
- Revenue base: 2017 ~£410m, 2018 ~£370m, 2019 ~£300m, 2020 ~£170m

Appendix 16 – HY17 summary re OCPs and other Review adjustments

Commitment to report transparently the effect on profits and cash flows of 2014 Contract & Balance Sheet Review

No adjustment to OCPs or any other Review items in HY17 (£14m net benefit to Trading Profit in FY16)

Guidance continues to be on the basis of Underlying Trading Profit (ie before any OCP adjustments, and other one-time items)

- FY14 total operating profit charge of £1,299m, of which £745m within Trading Profit
 - £433m of OCPs were the main items which impact future profits and cash flows (£447m inc. exceptionals)
 - £312m of other charges to Trading Profit, mainly contract-related, reflecting asset impairments, together with other charges to accruals and provisions
- HY17 no adjustment to OCPs or any other Review items, therefore no difference between Underlying Trading Profit and Trading Profit
- FY16 overall adjustment a net £14m benefit to Trading Profit
 - Continued progress reducing the OCP liabilities; largest releases related to COMPASS (£34m), ACPB, HMP Ashfield, FPMS and YJB
 - Increase on Ontario DES (£29m) re IT and PECS (£7m) re assumption of 1 of 3 possible extension years
- HY17 OCP utilisation of £40m (HY16: £47m); expect ~£80m for FY17 (FY16: £84m; FY15: £125m)
- OCP liability stands at £180m at 30 June 2017, vs £447m end of FY14
- Detailed table of provision movements and future OCP profile included at Appendix 15

Appendix 17 – Pension ‘buy-in’ impact

The premium paid for the bulk annuity was £12m less than the valuation of the transferred liabilities under the actuarial approach (equivalent to gilts +40bps)

IAS19 surplus reduces (non-cash reserves movement) as liabilities discounted at equivalent of gilts +90bps

Actuarial estimated deficit improves as liabilities discounted at equivalent of gilts +25bps

£m	Actuarial valuation - SPLAS only	IAS19 accounting valuation - SPLAS only	IAS19 accounting valuation - all other schemes	IAS19 accounting valuation - total schemes
Balance at 31 December 2016	(43)	150.4	(17.7)	132.7
Impact of SPLAS ‘buy-in’ / bulk annuity purchase	12	(95.0)	-	(95.0)
Other movements in the period	6	(37.1)	0.2	(36.9)
Balance at 30 June 2017	(25)	18.3	(17.5)	0.8

Appendix 18 – Pension assets mix and latest IAS 19 valuation

~90% of SPLAS assets historically allocated to LDIs

June 2017 'buy-in': assets transferred to purchase a bulk annuity policy covering ~45% of SPLAS members

Insurer funds future payments to members; gross liability remains, but an equal and opposite insurance asset recorded

Transaction establishes a perfect hedge for the insured liabilities – fully removes longevity, investment and accounting risks

£m	SPLAS and other non-contract specific pension schemes	Contract specific pension schemes	Total value 30 June 2017
<i>Scheme assets at fair value:</i>			
Liability driven investments (LDI)	761.5	-	761.5
Bonds except LDI	20.4	2.8	23.2
Equities	44.8	8.7	53.5
Cash, property and other	3.3	4.3	7.6
Annuity policies	572.2	-	572.2
Fair value of scheme assets	1,402.2	15.8	1,418.0
Present value of scheme liabilities	(1,400.8)	(22.9)	(1,423.7)
Net amount recognised	1.4	(7.1)	(5.7)
Franchise adjustment and members' share of deficit	-	6.5	6.5
Net retirement benefit asset (before tax) as per consolidated Group balance sheet	1.4	(0.6)	0.8

Appendix 19 – Currency rates

	Average rates					Spot rates	Closing rates			
	FY17e	HY17	FY16	HY16	FY15	21 Feb 2017	30 Jun 2017	31 Dec 2016	30 Jun 2016	31 Dec 2015
£:US\$	1.28	1.26	1.37	1.44	1.53	1.25	1.30	1.23	1.35	1.47
£:Aus\$	1.68	1.68	1.84	1.96	2.04	1.63	1.69	1.70	1.81	2.02
£:Eur	1.15	1.17	1.23	1.30	1.38	1.17	1.14	1.17	1.21	1.36

- **Favourable currency impact in HY17: Revenue +£122m; UTP +£6.1m**
- **Translational FX sensitivity:**
 - FY16 £:US\$ av. rate of 1.37; 5c move = ~£40m Revenue, ~£2m UTP (based on Americas + Middle East)
 - FY16 £:Aus\$ av. rate of 1.84; 5c move = ~£16m Revenue, ~£0.6m UTP (based on AsPac)
- **Estimated FY17 favourable currency impact: Revenue ~£135m; UTP ~£7m**
 - Assumes FY17e £:US\$ av. rate of 1.28 and £:Aus\$ av. rate of 1.68, based on 30 June spot rates for H2
 - Previous estimate at 21 February 2017 was Revenue ~£170m and UTP ~£8m, reflecting the spot rate at that time, with Sterling having subsequently strengthened

Appendix 20 – The Strategy phases presented in March 2015, with update at the December 2016 CME

Our Ambition

To be a superb provider of public services by being the best managed business in our sector

2014 **Stabilise**

- Hire new management
- Develop strategy and plan
- Identify issues
- Undertake Contract and Balance Sheet Review
- Stabilise morale
- Roll out corporate renewal

2015-17 **Transform**

- Rationalise portfolio
- Strengthen balance sheet
- Mitigate loss-making contracts
- Re-build business development
- Strengthen sector propositions
- Improve risk management
- Rebuild confidence and trust
- Build differentiated capability
- Improve execution

2018-20 **Grow**

- Build out geographical footprint
- Move into new sub-segments
- Leverage scale and capability
- Harvest benefits of transformation
- Continuously review portfolio

Planned Outcome

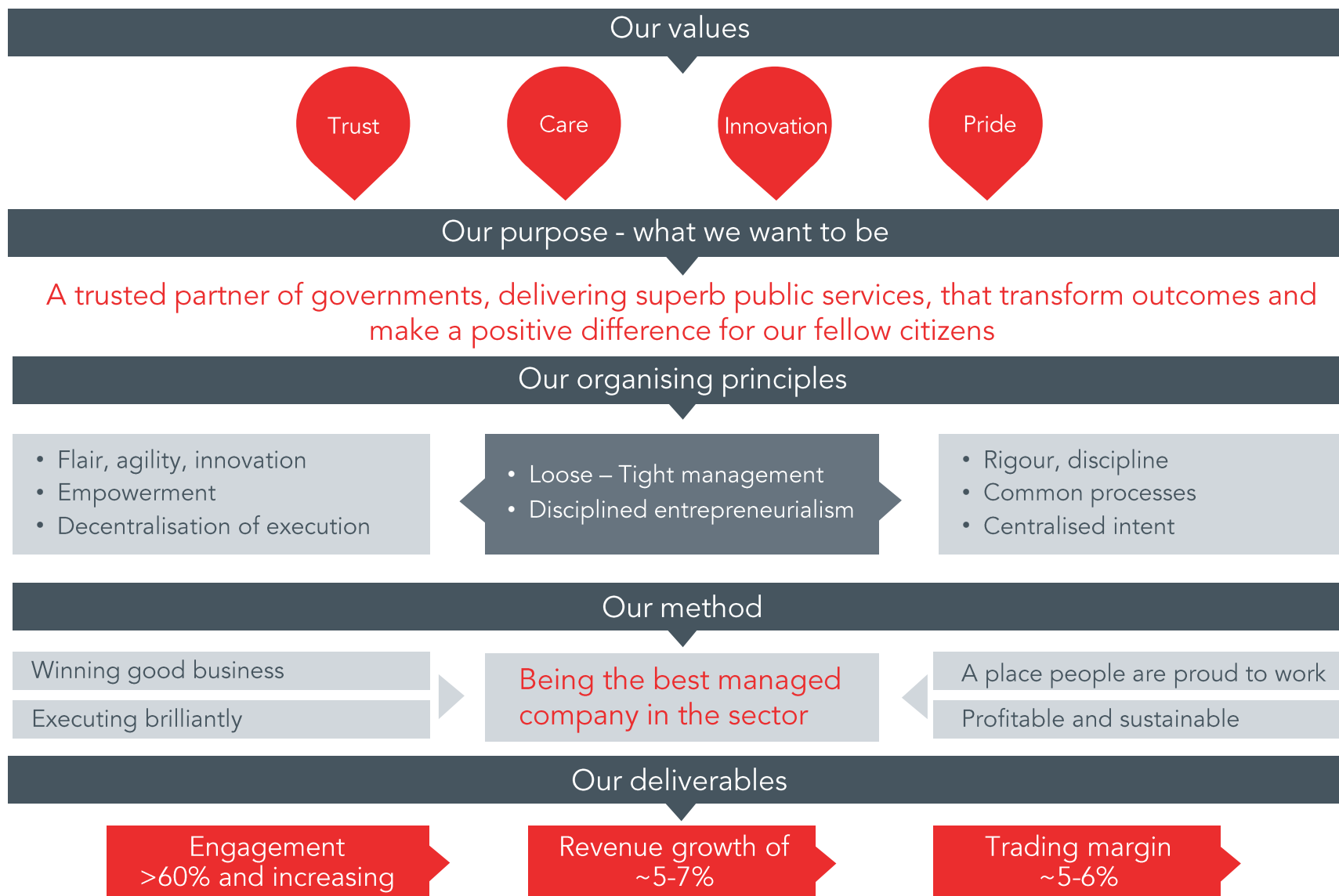
Chosen sectors will grow at ~5-7%

Industry margins in our sectors ~5-6%

Update December 2016

We reconfirm our view that in the long term we can build a business that can grow at ~5-7% and achieve margins of ~5-6%. How quickly we achieve those ambitions will, naturally, depend on market conditions, the actions of our competitors, and of course our own efforts, but we expect that between 2018 and 2020 we will make good progress towards them.

Appendix 21 – Our performance framework



Appendix 22 – Focus on five sectors across four regions: FY16 mix

FY16 revenue from continuing activities, including share of JV&As

£m	Sector	UK & Europe	Americas	Middle East	Asia Pacific		
	Defence	632	327	40	113	£1,112m	32%
	Justice & Immigration	253	-	-	316	£569m	16%
	Transport	290	86	194	36	£606m	17%
	Health	229	-	34	91	£355m	10%
	Citizen Services	445	278	57	71	£850m	25%
	Total	£1,849m	£691m	£325m	£627m	£3,492m	
		53%	20%	9%	18%		

Note: Revenue reflects £3,011m for Continuing Operations only (therefore excluding the discontinued £37m Global Services division, consisting of private sector BPO operations that are in final stages of exit) and adjusted to include Serco's share of joint ventures and associates revenue of £481m.

Appendix 23 – Focus on five sectors across four regions: HY17 mix

HY17 revenue from continuing activities, including share of JV&As

£m	Sector	UK & Europe	Americas	Middle East	Asia Pacific		
	Defence	267	171	19	52	£509m	30%
	Justice & Immigration	128	-	-	160	£288m	17%
	Transport	117	41	103	18	£279m	17%
	Health	102	-	18	45	£165m	10%
	Citizen Services	216	156	34	36	£442m	26%
	Total	£830m 49%	£368m 22%	£174m 10%	£311m 19%	£1,683m	

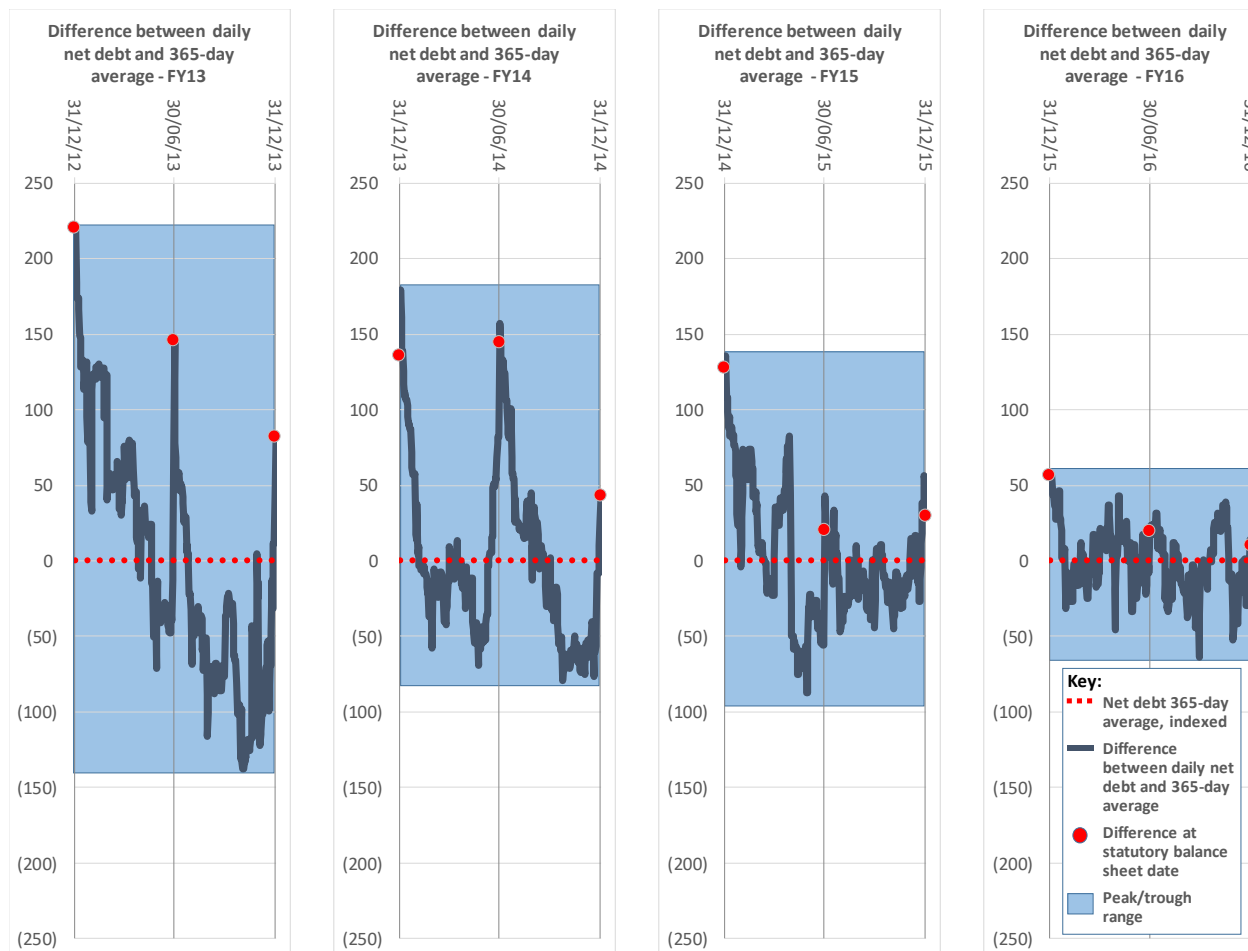
Note: Revenue reflects £1,503m of Organic Revenue (being £1,508m of Reported Revenue less £5m of revenue from the residual private sector BPO operations the final exit of which was completed by way of a disposal shortly after the period end) and adjusted to include Serco's share of joint ventures and associates revenue of £180m.

Appendix 24 – Cash management normalisation

Previous cash management now largely unwound, removing optical benefit at the open/mid/closing statutory dates and narrowing the in-year cash cycle swings

For FY13, the 3-point statutory average net debt was £149m better than the 365-day average

By not repeating previous actions this had reduced to £108m for FY14, £59m for FY15 and £29m for FY16



The impact of net proceeds from the May 2014 Placing, the April 2015 Rights Issue and refinancing, and the December 2015 BPO disposal are all removed from the net debt average used in the above charts. FY13-15 chart as previously presented, not restated for the change in accounting policy to include within net debt the hedging effect of derivative financial instruments.

Appendix 25 – American Depositary Receipt (ADR) program

Serco Group has a sponsored Level 1 ADR program, for which Deutsche Bank act as the depositary bank and custodian

Ticker: SCGPY

Exchange: OTC

CUSIP: 81748L209

ISIN: US81748L2097

Ratio: 1 ADR : 1 Ordinary Share

ADR key benefits

- Convenient means of trading/holding foreign shares
- USD-denominated security – reducing custody costs
- Trade, clear and settle like other US securities
- Dividends (if declared by the Board) paid in USD
- Purchased or sold through US brokers

For assistance with converting Ordinary Shares into ADRs (or vice versa), please contact Deutsche Bank's ADR broker helpline:

New York: +1 212 250 9100

London: +44 207 547 6500

Hong Kong: +852 2203 7854

e-mail: adr@db.com

ADR website: www.adr.db.com