

Bringing service to life



2015 Half Year Results

Serco Group plc

11 August 2015

Disclaimer

Forward looking statements

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Agenda

OVERVIEW

Rupert Soames, CEO

FINANCIAL REVIEW

Angus Cockburn, CFO

OPERATIONAL & STRATEGIC PROGRESS

Rupert Soames

Q&A

Ed Casey, COO

Rupert Soames

Angus Cockburn

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HY 2015 Overview

Rupert Soames
Group Chief Executive

Summary: a respectable start

■ First half a little better than anticipated at the time of the rights issue

- Trading Profit before benefit of one-off items was £46.9m, in line with Trading Update guidance
- Successful completion of rights issue and debt refinancing reduces net debt from £682m to £290m
- Signed contracts valued at £1bn in H1
- Pipeline stable at ~£5bn

■ Strategy implementation well underway

- Reshaping portfolio on core markets
 - ▶ Good progress on exiting unprofitable and non-core contracts
 - ▶ Disposals: progressing. Board assessing a number of options
- Operating costs reduced by >£200m; on track with overhead & other savings

■ Continued caution on outlook

- Maintaining 2015 guidance of Trading Profit of around £90m before one-offs with risks weighted to the upside
- Cautious about 2016; revenues and profit will be under pressure

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HY 2015 Financial Review

Angus Cockburn
Chief Financial Officer

Income statement – Revenue and Trading Profit

Per FY14, Revenue measure now consistent with IFRS which excludes share of JV revenue

1H14 restated for certain financial instruments as detailed in FY14 results

Trading Profit of £46.9m for 1H15 is on a comparable basis to guidance of ~£90m for FY15

£m	1H15	1H14	FY14
Revenue	1,789	2,026	3,955
Exclude: 1H14 financial instrument restatement	-	(8)	-
Revenue prior to 1H14 restatement	1,789	2,018	3,955
Trading Profit	62.7	63.3	(632.1)
Exclude: Contract and Balance Sheet Review adj.	(5.5)	-	745.3
Exclude: Assets held for sale D&A benefit	(10.3)	-	-
Exclude: 1H14 financial instrument restatement	-	(18.2)	-
Trading Profit before Review adjustments, etc	46.9	45.1	113.2

- Currency net benefit within the above of £20m for Revenue and £1.8m for Trading Profit; constant currency equivalents are therefore £1,769m and £45.1m respectively
- Latest rates indicate a reversal to a small net negative currency impact for FY15

Revenue – divisional analysis

Organic decline driven principally by contract attrition (e.g. DLR and NPL in CG; FRTIB, intel and visa processing in Americas) and lower DIBP volume in AsPac

Disposal impact principally GSR in AsPac in May 2015

Revenue - growth composition							FY14
£m	1H14	Organic	(Disposed) /Acquired	FX	Total	1H15	
UK CG	506	(26%)	(2%)	-	(28%)	366	962
UK&E LRG	484	(2%)	(1%)	(1%)	(4%)	464	960
Americas	367	(10%)	-	7%	(3%)	358	708
AsPac	368	(16%)	(4%)	(4%)	(24%)	281	706
Middle East	127	2%	3%	8%	13%	144	260
Global Services	166	2%	-	4%	6%	176	359
Group	2,018	(11%)	(1%)	1%	(11%)	1,789	3,955
1H15 v 1H14		↓£224m	↓£25m	↑£20m	↓£229m		
PY restatement	8					-	
Reported	2,026					1,789	

■ Note: Translational FX sensitivity

- FY14 £:Aus\$ average rate of 1.82; 1% move = ~£7m Revenue (~£0.4m Trading Profit)
- FY14 £:US\$ average rate of 1.65; 1% move = ~£7m Revenue (~£0.4m Trading Profit)

Ending of NPL contract classed as organic decline rather than disposal. See Appendix for further definitions.

Trading Profit – divisional analysis

1H15 Trading Profit of £46.9m vs 1H14 comparable of £45.1m

Profit reduction from contract attrition, volume reductions and disposals

This reduction was offset by OCP utilisation and reducing costs in line with revenue decline

£m	1H15		1H14		TP	FY14	
	TP	Margin	TP	Margin	Change	TP	Margin
UK CG	24.7	6.7%	23.1	4.6%	1.6	58.0	6.0%
UK&E LRG	2.1	0.5%	5.3	1.1%	(3.2)	3.4	0.4%
Americas	25.7	7.2%	23.3	6.3%	2.4	43.2	6.1%
AsPac	7.8	2.8%	13.7	3.7%	(5.9)	35.5	5.0%
Middle East	10.0	6.9%	11.0	8.6%	(1.0)	19.1	7.3%
Global Services	2.1	1.2%	(2.7)	(1.6%)	4.8	6.9	1.9%
Divisions	72.4	4.0%	73.7	3.7%	(1.3)	166.1	4.2%
Corporate	(25.5)	(1.4%)	(28.6)	(1.4%)	3.1	(52.9)	(1.3%)
Group	46.9	2.6%	45.1	2.2%	1.8	113.2	2.9%
Review adjustments	5.5		-			(745.3)	
Assets held for sale D&A	10.3		-			-	
PY restatement	-		18.2			-	
	62.7		63.3			(632.1)	

■ Note: Margin enhancement of equity accounting

- Including JV revenue, 1H15 Group margin decreases from 2.6% to 2.2% (1H14: 2.2% to 1.9%)
- Impact principally UK CG – 1H15 margin decreases from 6.7% to 3.5% (1H14: 4.6% to 2.7%)

Provisions and other Review adjustments

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

Overall adjustment for Review items results in a £5.5m benefit to Trading Profit in 1H15

Further assessment at 31 Dec 2015

Guidance continues to be on the basis of Trading Profit before Review adjustments

- FY14 total operating profit charge of £1,299m, of which £745m within Trading Profit
 - £433m of OCPs were the main item impacting future profits and cash flows (£447m inc. exceptionals)
 - £312m of other charges to Trading Profit largely reflected asset impairments, together with other charges to accruals and provisions
- Net charge/release reflects adjustment to multi-period OCPs
 - Judgments supporting OCPs assessed at least every six months
 - Six contracts required updates to estimates, resulting in a net charge of £7.7m
- OCP utilisation neutralises the in-period loss on onerous contracts
 - £60m in 1H15 within Trading Profit (£69m including exceptional utilisation)
 - Lower than expected at the start of year, but some of this related to timing of expenditure
- Release of other provisions, accruals and allowances for bad debts of £13.2m
- Overall adjustment therefore £5.5m benefit to Trading Profit in 1H15

Income statement

After Review adjustments, treatment of assets held for sale and amortisation of intangibles arising on acquisition, statutory operating profit of £59.8m

Net finance costs modest increase to £18.6m, reflecting reduction in average net debt offset by blended cost and discount unwind on provisions

£m	1H15	1H14	FY14
Trading Profit before Review adjustments, etc	46.9	45.1	113.2
Review adjustments within Trading Profit	5.5	-	(745.3)
Assets held for sale D&A within Trading Profit*	10.3	-	-
Amortisation of intangibles arising on acquisition*	(5.3)	(5.8)	(11.4)
Assets held for sale amortisation acq'n intangibles*	2.4	-	-
Impairment of intangibles arising on acquisition	-	-	(12.3)
1H14 financial instrument restatement	-	18.2	-
Operating (loss)/profit before exceptionals	59.8	57.5	(655.8)
Net finance costs before exceptionals	(18.6)	(17.2)	(36.7)
PBT before exceptionals	41.2	40.3	(692.5)
Tax on (loss)/profit before exceptional items	(15.8)	(6.1)	(11.1)
PAT before exceptionals	25.4	34.2	(703.6)
Exceptional items, net of tax	(117.1)	(25.2)	(643.5)
(Loss)/profit after tax	(91.7)	9.0	(1,347.1)

* Amortisation of intangibles arising on acquisition is reduced to £2.9m after £2.4m benefit of from the treatment of assets held for sale; the combined impact on depreciation and amortisation of this treatment is therefore £12.7m

See Appendix for definitions

Tax

High effective rate of tax reflects charge on overseas profits and no deferred tax credit for UK losses

Cash tax lower than income statement charge

Estimated UK tax losses at 30 June 2015 of £720m with a potential value of £144m at 20% tax rate; only £11m currently being recognised, with balance being a contingent asset

- Tax charge of £15.8m on pre-exceptional PBT of £41.2m equivalent to a 38% effective tax rate, or 46% adjusting back for assets held for sale D&A
 - Tax charge at 30%+ rate on overseas profits (Americas, Australia, India, etc)
 - Absence of deferred tax credit for losses in the UK (UK divisions, corporate expenses and interest costs)
- For FY15, continue to anticipate a rate of ~50-55% adjusting back for assets held for sale D&A (~40-45% if continued treatment of assets held for sale for whole of FY15)
 - FY15 higher than 1H15 reflecting mix of international profits
- Cash tax rate continues to be lower than income statement charge
 - £7.7m paid in 1H15
 - Lower cash tax includes the effect of losses on onerous contracts overseas as well as the UK
- Future years' effective tax rate will continue to be high until UK tax losses can be recognised based on IAS12 technical requirements

Exceptional items

Loss on disposals of £5m, principally GSR

Impairment of £70m to the carrying value of businesses held for sale, reflecting updated offers received in the period, together with the movements since the prior balance sheet date of the assets and liabilities designated as held for sale

Costs of £33m for refinancing and early repayment of debt

£m	1H15	1H14	FY14
(Loss)/profit on disposals	(4.9)	2.2	(5.4)
<i>Other exceptional operating items:</i>			
Impairment and related charges re GSR	-	-	(37.2)
Impairment of goodwill inc. held for sale	(70.1)	-	(466.0)
Impairment of other held for sale net assets	-	-	(39.2)
Restructuring costs	(9.6)	(14.5)	(32.7)
Costs re UK Government review	-	(5.7)	(9.2)
UK frontline clinical health contract provisions	-	(3.9)	(16.1)
Provision for settlement re DLR pension deficit	-	(7.5)	(35.6)
Other provision for legal claims	-	-	(20.1)
Other exceptional operating items	(79.7)	(31.6)	(656.1)
Exceptional operating items	(84.6)	(29.4)	(661.5)
Exceptional net finance costs	(32.8)	-	-
Tax on exceptional items	0.3	4.2	18.0
Total exceptional items, net of tax	(117.1)	(25.2)	(643.5)

EPS and DPS

Significant increase in share count following rights issue; restatement of prior periods in accordance with IAS32

Statutory EPS before exceptionals of 2.9p would reduce to ~1p before Review adjustments and held for sale D&A treatment

As indicated in March, not recommending an interim dividend

	1H15	1H14	FY14
Weighted average share count for basic EPS	886.2m	632.6m	655.1m
Statutory EPS before exceptional items	2.9p	5.4p	(107.4p)
Impact of exceptional items	(13.2p)	(4.0p)	(98.3p)
Statutory EPS	(10.3p)	1.4p	(205.7p)
DPS	-	3.1p	3.1p

Trading and free cash flow

Free cash flow outflow driven by working capital following further steps to normalise cash management; majority of difference between average and period end balances now unwound

Within provision movements is the cash outflow reflecting cash losses of OCP contracts

£m	1H15	1H14	FY14
Operating (loss)/profit before exceptionals	59.8	57.5	(655.8)
Share of profit of joint ventures	(13.9)	(13.8)	(30.0)
Depreciation, amortisation and impairment	26.9	41.9	141.2
Working capital movement	(71.5)	2.5	17.0
Provision and other non-cash movements	(34.1)	(16.4)	631.0
Tax (paid)/received inc. R&D credit	(8.0)	4.1	0.1
Net cash inflow from operating activities	(40.8)	75.8	103.5
Dividends from joint ventures	15.8	14.7	34.8
Net interest paid	(19.6)	(17.3)	(39.6)
Net expenditure on tangible and intangible assets	(32.9)	(23.5)	(36.5)
Free cash flow	(77.5)	49.7	62.2
Add-back: tax, as above	8.0	(4.1)	(0.1)
Add-back: net interest, as above	19.6	17.3	39.6
Trading cash flow	(49.9)	62.9	101.7
Trading Profit before Review items, etc	46.9	45.1	113.2
Trading cash conversion	n/a	139%	90%

Free cash to movement in net debt

Closing net debt reduced by £392m following rights issue net proceeds of £530m

Cash exceptional items include refinancing costs, DLR pension payment, lease break costs on GSR and restructuring charges

£m	1H15	1H14	FY14
Free cash flow	(77.5)	49.7	62.2
Exceptional items	(72.8)	(16.8)	(40.4)
Net (acquisition)/disposal of subsidiaries	(4.5)	1.5	(4.6)
Placing net proceeds	-	155.8	156.3
Net proceeds/(costs) of rights issue	530.1	-	(4.1)
Purchase of own shares net of option proceeds	4.3	2.3	2.3
Dividends paid	-	(36.4)	(53.1)
Movement in finance leases	(1.0)	(4.5)	(13.7)
Movement in non-recourse loans	24.0	(2.6)	(6.8)
Other movements on investment balances	(0.6)	-	(4.5)
Foreign exchange	(10.1)	15.6	(30.4)
Movement in net debt	391.9	164.6	63.2
Opening net debt	(682.2)	(745.4)	(745.4)
Closing net debt (inc. held for sale)	(290.3)	(580.8)	(682.2)

Net debt and leverage

Impact of Contract and Balance Sheet Review would have resulted in technical breach at FY14

Deferral and change to covenant definition agreed

1H15 leverage of 1.7x within our target range

£m	1H15	1H14	FY14
Net debt (inc. held for sale)	(290.3)	(580.8)	(682.2)
Less: non-recourse net debt	-	21.5	24.0
Recourse net debt	(290.3)	(559.3)	(658.2)
Less: encumbered cash and other items	(2.4)	(25.6)	-
Add: rights issue gross proceeds less underwriting	-	-	543.7
Net borrowings per covenant	(292.7)	(584.9)	(114.5)
Leverage covenant			
EBITDA per covenant	176.3	242.3	192.5
Leverage ratio per covenant (not to exceed 3.5x)	1.66x	2.41x	0.59x
Interest cover per covenant (at least 3.0x)	4.78x	6.51x	5.22x

Balance sheet summary

1H15 and FY14 balance sheets are comparable given both impacted by Contract and Balance Sheet Review and assets held for sale treatment

Loans reduction driven by rights issue proceeds

Receivables increase of £66m driven by unwind of cash push

Held for sale reduction of £38m affects disposals and impairment

£m	1H15	1H14	FY14
Goodwill	530.6	1,261.0	541.5
Other intangible assets	95.5	177.8	118.8
Property, plant and equipment	37.2	169.1	38.4
Trade and other receivables	603.3	896.1	536.9
Inventories	34.4	53.3	31.2
Interest in joint ventures	1.4	7.1	1.6
Invested capital assets (before assets held for sale)	1,302.4	2,564.4	1,268.4
Cash and cash equivalents	157.1	220.8	180.1
Other assets (tax, fin. instruments, ret. benefit assets)	193.5	160.3	210.7
Total assets (before assets held for sale)	1,653.0	2,945.5	1,659.2
Invested capital liabilities (trade & other payables)	(611.4)	(748.7)	(611.6)
Loans	(412.4)	(743.8)	(797.3)
Provisions	(492.5)	(68.3)	(577.9)
Other liabilities (finance leases, tax, financial instruments, ret. benefit liabilities)	(79.8)	(155.7)	(83.4)
Total liabilities (before liabilities held for sale)	(1,596.1)	(1,716.5)	(2,070.2)
Assets held for sale (net)	307.2	-	344.8
Net (liabilities)/assets	364.1	1,229.0	(66.2)

See Appendix for definitions

Provisions

Overall provision movements in line with expectations

Contract and Balance Sheet Review OCPs charged last year of £447m, now reduced to £380m; movement includes utilisation of £69m and £8m of net new charges

Limited movement on all other provisions

£m	Review OCPs – exceptional	Review OCPs – Trading	Review OCPs – Total	Other Contract provisions	Held for sale Adj.	Total contract provisions	Employee, Property and other	Total reported provisions
31 December 2014	(13.7)	(433.4)	(447.1)	(4.8)	21.5	(430.4)	(147.5)	(577.9)
Charge – exceptional	-	-	-	-	-	-	(2.0)	(2.0)
Charge – Trading	-	(14.2)	(14.2)	(0.2)	-	(14.4)	(11.0)	(25.4)
Release – exceptional	-	-	-	0.3	-	0.3	1.0	1.3
Release – Trading	-	6.5	6.5	2.8	-	9.3	7.2	16.5
Utilised	8.7	60.1	68.8	4.6	(4.7)	68.7	8.4	77.1
Transfer from trade payables	-	-	-	(4.6)	4.6	-	-	-
Assets held for sale	-	-	-	-	4.0	4.0	7.1	11.1
Unwinding of discount	-	(2.8)	(2.8)	-	-	(2.8)	(0.1)	(2.9)
Exchange differences	-	9.0	9.0	0.1	(0.2)	8.9	0.8	9.7
30 June 2015	(5.0)	(374.8)	(379.8)	(1.8)	25.2	(356.4)	(136.1)	(492.5)

Return on Invested Capital

Reviews significantly lowered Invested Capital, but the Reviews also result in a Trading Loss for FY14 and rolling 12 months for 1H15

ROIC based on Trading Loss after Reviews is therefore a significant negative return

ROIC based on Trading Profit before review items, etc would be 11.5% for latest rolling 12 months

£m	1H15	FY14
Invested capital assets	1,302.4	1,268.4
Invested capital liabilities	(611.4)	(611.6)
Assets held for sale (net)	307.2	344.8
Invested Capital (IC)	998.2	1,001.6
Average IC (2 point for 1H15, 1 point for FY14)	999.9	1,001.6
Trading Profit/(Loss)	62.7	(632.1)
Trading (Loss) for rolling 12m	(632.7)	n/a
Trading Profit Before Impact of Reviews, etc	46.9	113.2
Trading Profit Before Impact of Reviews, etc rolling 12m	115.0	n/a
Pre-tax ROIC:		
Trading (Loss)/Profit / IC	(63.3%)	(63.1%)
Trading Profit Before Impact of Reviews/IC	11.5%	11.3%

2015 outlook

- Revenue ~£3.5bn (2014: £4.0bn)
 - Contract attrition of ~10%, around half from DLR and NPL
 - Volume reduction impact estimated at ~6-8%, around half from DIBP
 - New/expanded contract growth of ~5%
- Trading Profit ~£90m with risks now weighted to the upside (2014: £113m)
 - Equivalent basis to guidance in March so excludes Contract and Balance Sheet Review adjustments (£5.5m benefit in H1), non-depreciation of assets held for sale (£10.3m benefit in H1) and an early termination one-off profit (~£6m benefit to be booked on transfer completion 2H15 or 1H16)
 - Decline vs 2014 reflects net attrition/volume reductions largely offset by OCP utilisation
- Free Cash Flow outflow ~£150m (2014: £62m inflow)
 - Adverse impact of greater cash outflow from loss-making contracts (neutralised in the P&L by OCP utilisation, but not in the cash flow)
 - Further unwind of historical cash management actions around statutory balance sheet dates
 - Other net attrition/volume reduction impact
- Net Debt of approximately £320-£350m, prior to any further disposals
 - Approximately 2x EBITDA

2015 – other modelling assumptions

- Net finance costs (pre-exceptionals) ~£35m (2014: £37m)
 - Reflects lower average net debt post the rights issue but higher blended coupon
 - Also includes higher movement in discount on provisions
- Tax effective rate of ~50-55% of pre-exceptional PBT
 - Based on result before Review adjustments and treatment of assets held for sale
 - Future years' effective tax rate will continue to be higher to the extent that future UK tax losses are not recognised, together with higher standard rates of corporation tax outside of the UK
 - Cash tax cost of ~£10-15m, lower than P&L charge of ~£30m
- Further exceptional costs could include implementation of additional restructuring
- Weighted average number of shares ~990m
 - Rights issue increased new shares in April 2015
 - Annualises to ~1.1bn from 2016 onwards
- Forecasts reflect constant FX; based on latest rates, marginal benefit in 1H15 would reverse in 2H15 to result in a marginal adverse impact for FY15
- Forecasts would require adjustment for the timing and structure of any further disposals

Summary

- Trading in the first half a little better
- Result in line with our guidance at the First Half Trading Update
- Maintain Trading Profit guidance with risks now weighted to the upside
- Revenue and profits will continue to be under pressure in 2016

H1 15 Operational and Strategic Progress

Rupert Soames
Group Chief Executive

H1 2015 highlights and lowlights

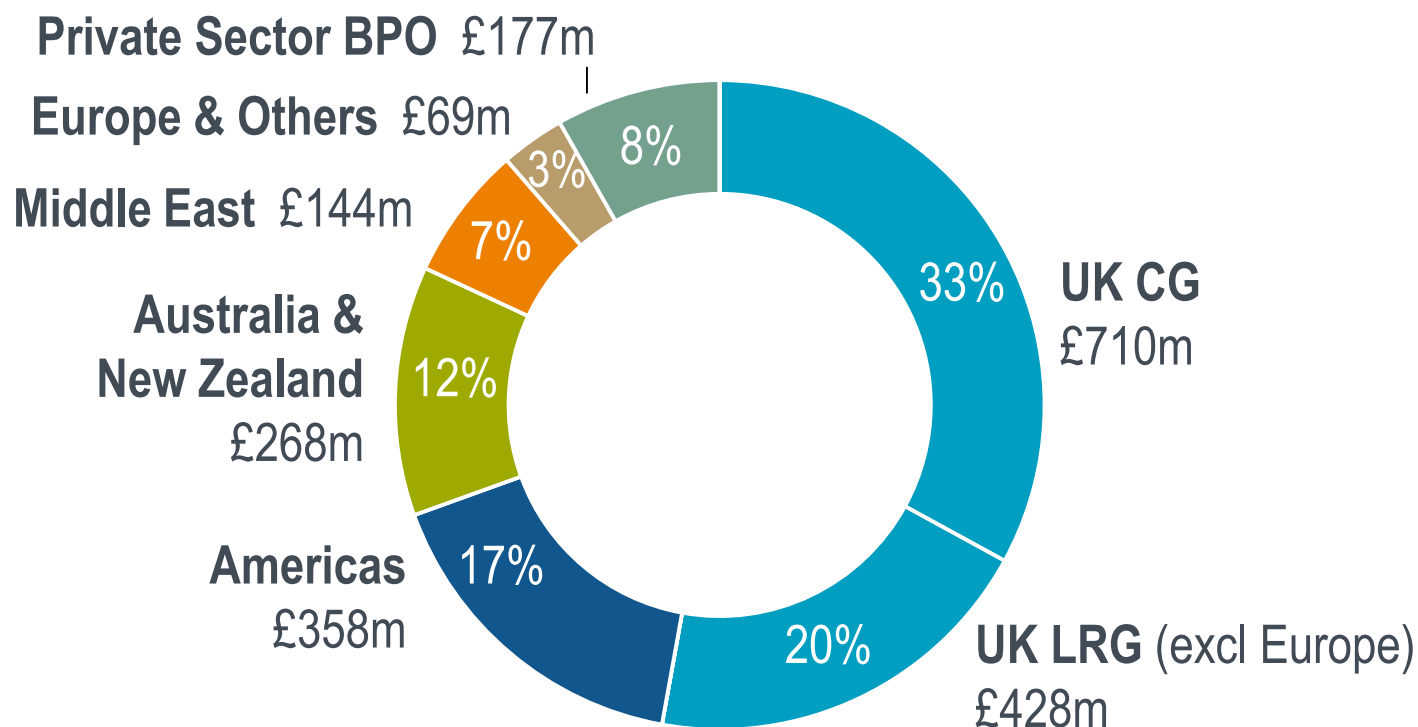
Highlights

- Completion of rights issue and debt refinancing
- £1bn of signed contracts, rebids & extensions (Saudi Rail Company, US Navy ID cards, FAA air traffic control)
- Costs down by >£200m; cost reduction plans on track
- Start-ups and mobilisations (Caledonian Sleepers, Fiona Stanley, Auckland South Correctional Facility)
- OCPs running better than plan, but largely due to timing
- Operational awards (Merseyrail, Forth Valley Hospital, Wandoo Reintegration Facility in Australia, US Veterans)

Lowlights

- Pipeline remains weak, particularly in the UK; limited progress on business development
- Operational challenges (Mt Eden, VDOT, COMPASS, Patrol Boats, Yarl's Wood)
- Contract exits: NPL, Cornwall Out of Hours, part of FRTIB, Thurrock, Colnbrook
- Slow progress on disposals
- Uncertainty around impact of new UK Government spending plans

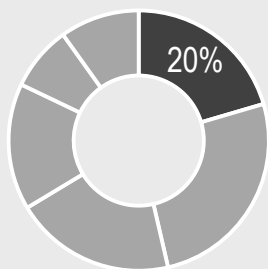
2015 H1 Revenue including JVs by Geography



UK Central Government

2015 H1 Revenue
£366.0m

(£139.5m)
(28%)



Trading Profit*
£24.7m

+£1.6m
+7%

Sectors: Defence, Justice and Transport

Performance summary

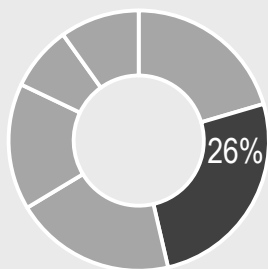
- **Organic revenue decline:** -26%
- **Revenue pressures:** End of NPL, DLR, Colnbrook
- **New Contracts:** Caledonian Sleeper
- **Upcoming Rebids:** 11 major rebids and extensions by end of 2017, ~20% of current annualised revenue. Northern Rail JV profit contribution due to end Q1 2016.
- **Pipeline:** Defence Fire & Risk Management Organisation, Clyde & Hebrides Ferries
- **Operational:** New management having significant impact on operations. COMPASS and PECS performing better against metrics following investment in systems & processes; slow progress on Ashfield and FPMS.

* Before Contract & Balance Sheet Review adjustments

UK & Europe, Local and Regional Government

2015 H1 Revenue
£463.8m

(£19.7m)
(4%)



Trading Profit*
£2.1m

(£3.2m)
(60%)

Sectors: Healthcare, Direct Services, Citizen Services

Performance summary

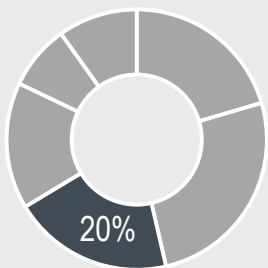
- **Organic revenue decline:** -2%
- **Revenue pressures:** End of Westminster City Council BPO; Suffolk Community Healthcare, National Citizen Service, Thurrock
- **New Contracts:** Lincs CC BPO, Havering environmental services, European Commission, Dumfries & Galloway
- **Upcoming Rebids:** 14 major rebids and extensions by end of 2017, ~30% of current annualised revenue
- **Pipeline:** Non-clinical healthcare, environmental services, Citizen Services
- **Operational:** New management doing well, facing many challenges, including exiting some sensitive contracts. European business performing well.

* Before Contract & Balance Sheet Review adjustments and benefit of not depreciating or amortising assets designated for sale

Americas

2015 H1 Revenue
£357.9m

(£9.4m)
(3%)



Trading Profit*
£25.7m

£2.4m
10%

Sectors: Defence, Transport, Citizen Services

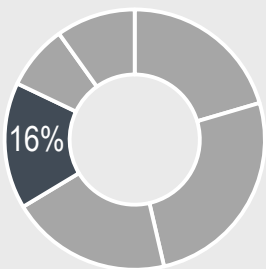
Performance summary

- **Organic revenue decline:** -10%
- **Revenue pressures:** End to part of FRTIB, Veteran Affairs, some US Intel, visa processing
- **Successful recompetes:** Air traffic control, cost analysis support, personnel identification for US Navy
- **Upcoming Rebids:** 7 major rebids and extensions by end of 2017, ~15% of current annualised revenue
- **Pipeline:** DoS Passport Support Services, Transport Operations & Maintenance, Justice & Immigration
- **Operational:** Recently seen a good number of task orders; most contracts performing well; challenges at VDOT

* Before Contract & Balance Sheet Review adjustments; prior year before financial instruments restatement

2015 H1 Revenue
£281.1m

(£86.6m)
(24%)



Trading Profit
£7.8m

(£5.9m)
(43%)

Sectors: Justice, Immigration, Defence,
Healthcare, Citizen Services, Transport

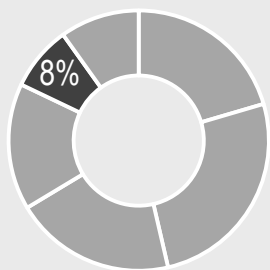
Performance summary

- **Organic revenue decline:** -16%
- **Revenue pressures:** Volume and rate reductions in immigration services
- **Upcoming rebids:** 11 major rebids and extensions by end of 2017, ~30% of current annualised revenue
- **Pipeline:** Offshore immigration detention, marine vessel support, rail
- **Operational:** Good progress reducing costs to reflect lower rates and service users in Immigration; Fiona Stanley running well in non-clinical, under pressure on clinical; ACPB now performing much better operationally; South Auckland successfully into operation; Mt Eden, rated as New Zealand's best-performing prison, sees customer "step-in" after allegations of fighting.

Middle East

2015 H1 Revenue
£143.9m

£16.4m
13%



Trading Profit*
£10.0m

(£1.0m)
(9%)

Sectors: Transport, Defence, Healthcare, Direct Services

Performance summary

- Organic revenue growth: +2%
- Revenue pressures: End of air traffic control in Erbil
- New contracts: Saudi Railway Company, Australian Defence Force regional support, Abu Dhabi Global Market FM, Baghdad air traffic control
- Upcoming rebids: 9 major rebids and extensions by end of 2017, ~30% of current annualised revenue
- Pipeline: Strong in light rail, transport, healthcare and FM
- Operational: Very busy, with many bids; superb performance on Dubai metro; successful outcome from focus on old debt collection; Australian Defence Force FM extended and showing good volumes.

* Before Contract & Balance Sheet Review adjustments

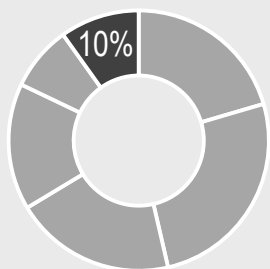
Global Services

2015 H1 Revenue*

£176.6m

£10.4m

6%



Trading Profit*

£2.1m

£4.8m

n/a

Sectors: Private Sector Business Process Outsourcing

Performance summary

- **Organic revenue growth:** +2%
- **Revenue pressures:** Managed exit of loss-making contracts in UK
- **New contracts:** Contact services UK retail, India domestic BPO expansion
- **Upcoming rebids:** 9 major rebids and extensions by end of 2017, ~20% of current annualised revenue
- **Operational:** Performing well on operations despite distraction due to disposal process; strong customer KPIs; expanding capacity in Manila and India.

* Before Contract & Balance Sheet Review adjustments and benefit of not depreciating or amortising assets designated for sale; prior year before financial restatement

To remind: the plan in a nutshell

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 c.5-7%
Industry margins in our sectors c.5-6%
We believe our performance
can match this

Executing the Strategy



Theme: winning good business

- Signed contracts valued at £1.0bn including Saudi Rail Company and Dumfries & Galloway Hospital
- Order book £11.5bn; pipeline of ~£5bn of major new opportunities
- Strengthened bid risk management processes and oversight
- Developing Centres of Excellence and value propositions

Theme: executing brilliantly

- **Cost:** Over £200m operating costs removed. On track to extract £20m in-year savings from specific initiatives focusing on Group and Divisional overheads
- **Information:** Monthly management accounts in place; performance reviews becoming embedded throughout
- **Shared services transformation; ~£16m investment in 2015**
 - **Finance:** transformation underway; investment in data structures and systems
 - **IT:** major upgrades to infrastructure. New IT leadership
 - **Global HR:** restructuring around centres of expertise; investment in systems and processes
 - **Procurement:** investment in people, processes and systems
- **Bid process and approval:** revised role of Investment Committee with lower hurdle rates for referral, improved commercial and risk scrutiny

Theme: a place people are proud to work

- Board: Sir Roy Gardner appointed Chairman
- Significant re-invigoration of management
 - New Business MDs:
 - ▶ Citizen Services, AsPac; Health, UK LRG; Transport, ME; Health & FM, ME
 - New Support Function Leaders:
 - ▶ Chief Information Officers: Group, UK LRG & AsPac
 - ▶ Finance Directors: UK CG, AsPac
 - ▶ Operations Directors: UK LRG & UK CG
 - ▶ Commercial Director: UK CG
 - ▶ General Counsel: UK LRG
- Starting to build confidence in strategy across colleagues, investors and media

Theme: profitable & sustainable

- Half year slightly better than expected; guidance for full year maintained
- Rights issue raised net proceeds of £530m; net debt sharply reduced
- Unwinding “cash push” at period ends
- OCPs performing better, but some of this due to timing
- Managing exit of loss-making contracts effectively

Concluding thoughts

Rupert Soames

Group Chief Executive

Summary & Outlook

- We have a strong core business delivering public services
 - Our challenges are within our power to resolve
 - By resolving those challenges we can deliver growth and increase value
- Trading a little better than anticipated
 - A respectable start
 - Strategy implementation well underway
 - Outlook unchanged, with risks now weighted to the upside
- Long and occasionally bumpy road ahead
 - Multi-year turnaround
 - Revenue and profit pressures in 2016/17
 - ▶ ~10% known revenue attrition and other expected reductions in 2016
 - ▶ ~23% of current business to be re-bid or extended by end of 2017

Questions and Answers

Rupert Soames

Group Chief Executive

Ed Casey

Chief Operating Officer

Angus Cockburn

Chief Financial Officer

Bringing service to life



Appendix

Appendix 1 – Notes and definitions

- Trading Profit is defined as statutory Operating Profit before i) amortisation and impairment costs of intangibles arising on acquisitions, and ii) exceptional items.
- 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 capital expenditure from tangible and intangible purchases less proceeds of tangible and intangible disposals, adding dividends we receive from joint ventures and adjusting to remove tax payments or receipts.
- Free Cash Flow is Trading Cash Flow after adjusting to add interest received, deduct interest paid, deduct tax payments, and add tax received.
- Serco previously reported Adjusted Revenue and Adjusted Operating Profit. Adjusted Revenue included Serco's share of joint venture revenue. Adjusted Operating Profit included Serco's share of joint venture operating profit (ie before interest and tax costs) and was before amortisation and impairment costs of intangibles arising on acquisitions, transaction-related costs and exceptional items. It was also before management's estimate of one-off costs incurred in relation to the UK Government reviews and related activities. For closer alignment with IFRS, adjusted measures are no longer used.
- Change at constant currency is calculated by translating non-Sterling revenue and earnings for the half year to 30 June 2015 into Sterling at the average exchange rate for the half year to 30 June 2014.
- Organic revenue growth is the change at constant currency in Revenue after adjusting to exclude the impact of any acquisitions or disposals.
- Pre-tax ROIC is calculated as Trading Profit divided by the Invested Capital balance. Invested Capital assets are: goodwill and other intangible assets; property, plant and equipment; interests in joint ventures; 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. 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 of new bid decisions over the next two years is the aggregate value of potential new contracts that are anticipated to be bid in the near term, where annual revenue for each is estimated to be in excess of £10m and where the estimated total contract value of each is capped at £1bn.

Appendix 2 – Reportable segment reconciliations

Number of segments reported increased from four to six during 2014 as set out in FY14 results

More straightforward reporting both internally and externally

Closer alignment with IFRS

- **Previously four segments:** three regional frontline services divisions being UK&E (~50% of the Group), Americas and AMEAA and then Global Services containing all BPO services
- **Splitting divisions**
 - Separate UK&E into two more customer-centric divisions: UK Central Government (CG); UK and Europe Local and Regional Government (LRG)
 - Separate AMEAA into two geographical regions for customer proximity and direct reporting into Group: AsPac (principally Australia, New Zealand and Hong Kong); Middle East
- **Transfers**
 - Public sector BPO from Global Services to LRG given common core customer relationships and strategic focus
 - Citizen Services from CG to LRG to have all public sector BPO operations together
 - Transport contracts from LRG to CG to have all transport contracts within a single business unit and UK division
- **Remove intra-Group revenue and profit sharing**, principally AsPac customers with UK CG (eg DIBP) and LRG (eg FSH)

Appendix 2 – Reportable segment reconciliations

£m	UK CG	UK&E LRG	Americas	Asia Pacific	Middle East	Global Services	Corp Costs	Group
Reconciliation 1 – 1H14 revenue								
Adjusted Revenue, old segments	<i>Old UK&E 1,261.5</i>		367.6	<i>Old AMEAA 470.1</i>		334.0	-	2,433.2
Separate UK&E and AMEAA	836.2	425.3	367.6	670.7	268.4	334.0	-	2,433.2
Remove intra-Group contract shares	(36.0)	(25.5)	-	69.0	(5.2)	(2.3)	-	-
Transfer public sector BPO contracts	0.6	164.9	-	-	-	(165.5)	-	-
Transfer of Citizen Services	(62.2)	62.2	-	-	-	-	-	-
Transfer transport contracts	127.7	(127.7)	-	-	-	-	-	-
Exclude share of JV revenue	(360.8)	(15.7)	(0.3)	(38.7)	-	-	-	(415.5)
Revenue prior to restatement	505.5	483.5	367.3	367.7	127.5	166.2	-	2017.7
Restatement	-	-	-	-	-	8.6	-	8.6
Revenue	-	-	-	-	-	174.8	-	2026.3

Appendix 2 – Reportable segment reconciliations

£m	UK CG	UK&E LRG	Americas	Asia Pacific	Middle East	Global Services	Corp Costs	Group
Reconciliation 2 – 1H14 profit								
Adjusted Op Profit, old segments	<i>Old UK&E</i>	<i>37.4</i>	22.9	<i>Old AMEAA</i>	<i>19.7</i>	(2.6)	(26.7)	50.7
Separate UK&E and AMEAA	30.5	6.9	22.9	7.3	12.4	(2.6)	(26.7)	50.7
Remove intra-Group contract shares	(6.5)	(1.9)	0.4	6.7	(1.4)	2.7	-	-
Transfer public sector BPO contracts	-	2.8	-	-	-	(2.8)	-	-
Transfer of Citizen Services	(1.2)	1.2	-	-	-	-	-	-
Transfer transport contracts	3.7	(3.7)	-	-	-	-	-	-
Adjusted Operating Profit	26.5	5.3	23.3	14.0	11.0	(2.7)	(26.7)	50.7
Share of JV interest and tax	(2.6)	-	-	(0.3)	-	-	-	(2.9)
Management estimates Gov. Reviews	(0.8)	-	-	-	-	-	(1.9)	(2.7)
Trading Profit prior to restatement	23.1	5.3	23.3	13.7	11.0	(2.7)	(28.6)	45.1
Restatement	-	-	9.6	-	-	8.6	-	18.2
Trading Profit	23.1	5.3	32.9	13.7	11.0	5.9	(28.6)	63.3

Appendix 2 – Reportable segment reconciliations

£m	UK CG	UK&E LRG	Americas	Asia Pacific	Middle East	Global Services	Corp Costs	Group
Reconciliation 1 – FY14 revenue								
Adjusted Revenue, old segments	<i>Old UK&E</i> 2,402.8		708.7	<i>Old AMEAA</i> 938.9		702.9	-	4,753.3
Separate UK&E and AMEAA	1,545.0	857.8	708.7	670.7	268.4	702.9	-	4,753.3
Remove intra-Group contract shares	(33.9)	(61.7)	-	105.9	(8.0)	(2.3)	-	-
Transfer public sector BPO contracts	-	341.3	-	-	-	(341.3)	-	-
Transfer of Citizen Services	(106.7)	106.7	-	-	-	-	-	-
Transfer transport contracts	251.9	(251.9)	-	-	-	-	-	-
Exclude share of JV revenue	(694.9)	(32.4)	(0.6)	(70.4)	-	-	-	(798.3)
Revenue	961.4	959.8	708.1	706.0	260.4	359.3	-	3,955.0

Appendix 2 – Reportable segment reconciliations

£m	UK CG	UK&E LRG	Americas	Asia Pacific	Middle East	Global Services	Corp Costs	Group
Reconciliation 2 – FY14 profit								
Adjusted Op Profit, old segments	<i>Old UK&E</i>	<i>84.3</i>	43.2	<i>Old AMEAA</i>	<i>51.1</i>	8.3	(49.3)	137.6
Separate UK&E and AMEAA	61.9	22.4	43.2	28.1	23.0	4.3	(49.3)	137.6
Remove intra-Group contract shares	(7.2)	(0.4)	-	8.5	(3.9)	3.0	-	-
Transfer public sector BPO contracts	-	4.4	-	-	-	(4.4)	-	-
Transfer of Citizen Services	(2.0)	2.0	-	-	-	-	-	-
Transfer transport contracts	14.7	(14.7)	-	-	-	-	-	-
Adjusted Operating Profit	67.4	13.7	43.2	36.6	19.1	6.9	(49.3)	137.6
Share of JV interest and tax	(6.7)	(0.1)	-	(1.1)	-	-	-	(7.9)
Transaction-related costs	-	-	-	-	-	-	(0.9)	(0.9)
Management estimates Gov. Reviews	(2.7)	(10.2)	-	-	-	-	(2.7)	(15.6)
Trading Profit before review items	58.0	3.4	43.2	35.5	19.1	6.9	(52.9)	113.2
Review items	(300.8)	(93.8)	(26.7)	(237.1)	(19.3)	(30.3)	(37.3)	(745.3)
Trading Profit	(242.8)	(90.4)	16.5	(201.6)	(0.2)	(23.4)	(90.2)	(632.1)

Appendix 3 – cash flow breakdown 1 & breakdown 2

£m	1H15	1H14	FY14
Breakdown 1 – depreciation, amortisation and impairment			
Depreciation	10.8	22.8	41.8
Amortisation (non-acquisition)	11.6	13.3	27.3
Depreciation and amortisation	22.4	36.1	69.1
Impairment of PPE	1.6	-	22.1
Impairment of intangibles	-	-	26.3
Amortisation of intangibles arising on acquisition	2.9	5.8	11.4
Impairment of intangibles arising on acquisition	-	-	12.3
Total depreciation, amortisation and impairment before exceptional items	26.9	41.9	141.2
Breakdown 2 – non-cash movements			
Increase/(decrease) in provisions	(53.3)	0.2	472.6
Impairment of working capital items	-	-	148.8
Share-based payment expense	4.1	3.1	5.4
Loss on disposal of PPE and intangible assets	0.8	(0.1)	0.2
Increase in deferred consideration	-	-	4.0
FX impact other non-cash movements	14.3	(19.6)	-
Non-cash provision and other movements	(34.1)	(16.4)	631.0

Appendix 3 – cash flow breakdown 3

£m	1H15	1H14	FY14
Breakdown 3 – exceptional costs			
Finance costs re refinancing and early repayment	(31.3)	-	-
Restructuring and costs related to reviews and claims	(20.0)	(10.7)	(20.9)
Lease break costs on termination of GSR lease	(12.9)	-	-
UK frontline clinical health	(8.7)	(7.2)	(13.5)
Costs re DLR pension deficit settlement	(8.3)	-	(2.0)
Rights issue costs moved to reserves on completion	8.4	-	-
VAT relating to UK Central Government settlement	-	5.8	5.8
Costs associated with UK Government reviews	-	(4.7)	(9.8)
Exceptional items cash costs	(72.8)	(16.8)	(40.4)

Appendix 4 – leverage covenant calculation

£m	1H15	1H14	FY14
Trading Profit Before Impact of Contract and Balance Sheet Review	107.1	163.2	113.2
Exclude: share of joint venture post-tax profits	(30.1)	(37.9)	(30.0)
Include: dividends from joint ventures	35.9	41.7	34.8
Add-back: depreciation and amortisation (excluding acquisition intangibles)	57.0	75.2	69.1
Add-back: share-based payments charge	6.4	0.1	5.4
Other adjustments (eg pro forma for transactions)	-	-	-
EBITDA per covenant	176.3	242.3	192.5
Recourse net debt (closing), inc. assets held for sale	(290.3)	(559.3)	(658.2)
Less: encumbered cash and other items	(2.4)	(25.6)	-
Add: rights issue gross proceeds less underwriting	-	-	543.7
Net borrowings per covenant	(292.7)	(584.9)	(114.5)
Leverage ratio per covenant (not to exceed 3.5x)	1.66x	2.41x	0.59x

Appendix 5 – interest cover covenant calculation

£m	1H15	1H14	FY14
Statutory net finance costs	(38.1)	(35.4)	(36.7)
Exclude: net interest receivable on retirement benefit obligations	(4.1)	(2.6)	(3.1)
Exclude: movement in discount on other debtors	-	(0.5)	-
Add-back: interest payable on non-recourse loans	0.4	0.7	0.8
Add-back: movement in discount on provisions and deferred consideration	2.8	0.6	-
Add-back: costs related to refinancing	2.1	-	2.1
Net finance costs for covenant calculation	(36.9)	(37.2)	(36.9)
EBITDA per covenant (Appendix 4)	176.3	242.3	192.5
Interest cover per covenant (at least 3.0x)	4.78x	6.51x	5.22x

Appendix 6 – FY14 balance sheet movements

£m	FY13	Reviews	Held/Sale	Other	FY14
Goodwill	1,271	(466)	(279)	16	542
Other intangible assets	186	(45)	(5)	(17)	119
Property, plant and equipment	177	(23)	(94)	(21)	38
Trade and other receivables	842	(164)	(146)	4	537
Inventories	49	(17)	(3)	1	31
Interest in joint ventures	8	-	-	(6)	2
Invested capital assets	2,533	(715)	(527)	(23)	1,269
Cash and cash equivalents	125	-	(23)	78	180
Other assets (tax, fin. instruments, ret. benefit assets)	151	-	(15)	75	210
Total assets	2,809	(715)	(565)	130	1,659
Invested capital liabilities (trade & other payables)	(678)	(58)	104	21	(612)
Loans	(808)	-	25	(14)	(797)
Provisions	(61)	(526)	30	(20)	(578)
Other Liabilities (finance leases, tax, financial instruments, ret. benefit liabilities)	(166)	-	61	20	(83)
Total liabilities	(1,713)	(584)	220	7	(2,070)
Assets held for sale (net)	-	-	345	-	345
Net (liabilities)/assets	1,096	(1,299)	-	137	(66)

Appendix 7 – 1H14 restatement (background)

- Two prior year adjustments have been made to reflect the restatement of certain financial instruments. These resulted a net credit to profit before tax for the six months to 30 June 2014 of £18.2m. These amounts had previously been taken directly to reserves, and as a consequence there was no adjustment required to restate the net assets of the group as at 30 June 2014 or prior years.
- The first adjustment relates to derivatives held by Intelenet at the time of Serco's acquisition of that company in 2011. Under IFRS 3, in order to achieve hedge accounting at a Group level, these derivatives should have been designated at Serco Group level at that time. Because the Group designation was not made at that time, they do not qualify for hedge accounting and so the fair value movement on these instruments since 2011, together with the associated tax, has been reclassified to either retained earnings or the income statement.
- The second adjustment relates to net investment hedges that should have been designated in 2011. Because the designations were not made at that time, they do not qualify for hedge accounting and so the fair value movement on these instruments since 2011 has been reclassified to either retained earnings or the income statement.

Appendix 8 – Pensions

- Serco sponsor a number of defined benefit pension schemes
 - Non contract specific – not related to specific contracts or franchises, largest of which is main Group scheme (SPLAS)
 - Contract specific – related to specific contract or franchise where the deficit expected to pass back to the customer or next contractor. Intangible asset is recognised at the start of the contract and amortised over the contract life
- Total net balance sheet asset (after tax) across defined benefit schemes as at 30 June 2015 of £95m (31 Dec 2014: £101m) on asset base of £1.4bn
- Over £1.2bn of £1.4bn assets allocated to conservative liability driven investments (LDIs)
- Main Group scheme (SPLAS) has a balance sheet accounting surplus as at 30 June 2015 of £134m (31 Dec 2014: £144m) and an estimated actuarial deficit using prudent assumptions of approximately £9m (31 Dec 2014: £5m)
- Most recent triennial full actuarial valuation of SPLAS was a deficit of £24m as at 5 April 2012 (6 April 2009: deficit of £141m); no further one-off contributions were required. Valuation as at 5 April 2015 now underway.

Appendix 9 – Currency rates

	Average rates			Closing rates		
	HY15	FY14	HY14	30 Jun 2015	31 Dec 2014	30 Jun 2014
£:US\$	1.53	1.65	1.67	1.57	1.56	1.71
£:Aus\$	1.95	1.82	1.82	2.04	1.91	1.81
£:Eur	1.35	1.24	1.21	1.41	1.29	1.25
£:INR	95.57	100.44	101.24	99.97	98.42	102.84

Appendix 10 – FY14 Contract and Balance Sheet Review

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

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

Unrelated and non-material prior year restatement set out in Appendix

- 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 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, more than offset by lower non-cash impairment of goodwill

Appendix 10 – FY14 Review items

Total impact of Contract & Balance Sheet Review broadly in line with November 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 10 – FY14 OCPs and related charges

£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 10 – FY14 background to OCPs 1/2

- £447m of OCPs charged in 2014 reflecting estimate of anticipated future losses from 2015 to the end of each individual contractual obligation
- Assumed aggregate losses of £139m in 2015 on a revenue base of ~£600m reflects a (23%) contract loss margin, improving in 2016
- The equivalent aggregate loss that these contracts made in 2014 was £95m. Only £54m of this was within 2014's £113m Trading Profit before review items, as
 - £27m of loss was charged as write-down of in-year accrued income (ACPB)
 - £12m of loss was recognised within exceptionals (UK clinical health)
 - £2m of loss was offset by utilisation of provisions established prior to 2014

Appendix 10 – FY14 background to OCPs 2/2

- Estimated utilisation phasing of the £447m charge (which, together with a discount unwind of £21m, is a proxy for future cash outflow) is as follows:

£bn	2015f	2016e	2017 onwards	Total
Utilisation	139	83	225	447

- 2015 higher than initial phasing estimates following detailed work on COMPASS volume and cost assumptions and ACPB work schedules
- 2016 reduction includes end of loss-making contracts such as Suffolk Community Health and NCS
- Further phasing reductions each year as the rate of loss improves on certain contracts and/or contracts roll-off
- The income statement will reflect the aggregate of
 - Profitable contracts ie ~£90m in 2015
 - Loss-making contracts ie ~£139m in 2015, neutralised by OCP utilisation of ~£139m
- Cash flow will be lower than 2014 given OCP utilisation
- Commitment to report transparently the impact of OCPs

Appendix 11 – Background to capital structure strategy

- Capital structure medium term leverage target of 1-2x net debt to EBITDA (based on covenant definition) to ensure strength and flexibility to delivery turnaround
- Increased need for a strong balance sheet given
 - Clear message from our customers that they are looking for Serco to emerge with a very strong funding position
 - Greater outflow and risks related to OCP contracts (£139m projected outflow in 2015)
- Starting point: net debt per covenant definition of £658m at 31 December 2014, but
 - Greater cash outflow now anticipated for 2015, driven by OCP'd contracts and further unwind of year-end net debt versus average net debt; net cash outflow pre rights issue and any disposals of £150-200m
- 2015 assessment therefore based on £800m+ average net debt
- EBITDA per covenant definition of ~£160m forecast for 2015
- Proposed rights issue net proceeds of £530m necessary to appropriately reduce leverage to around 2x target
- Proceeds from planned disposals, together with medium term recovery in profitability and cash conversion, expected to further reduce leverage to the lower end of target range
- Strong capital structure from which to build Serco's future

Appendix 11 – Refinancing completed in March 2015

- Negotiations with private placement noteholders and lending banks completed in March 2015
 - Maintained 100% support
 - Extended RCF maturity from 2017 to 2019 + 1 year extension option
 - Maintained private placement maturity profile out to 2024
 - Make whole payments, arrangement fees and other costs of ~£30m
 - Debt agreement contingent was on successful completion of the rights issue
 - December 2014 covenant test on a rights issue pro forma basis, excluding review items
- Limited increase in pricing
 - Blended note coupon ~5% (from ~4%)
 - RCF all-in drawn rate: ~2.6% (from ~2.5%)
- Two key financial covenants unchanged and with increased flexibility
 - Net debt/EBITDA <3.5 times
 - EBITDA/Interest cover >3 times
 - EBITDA continues to follow statutory profit definition, ie includes the credit to the income statement from OCP utilisation; net borrowings will though reflect the cash outflow on OCP-related contracts
 - Flexibility increase includes any future OCP has charge spread aligned with cash profile

Appendix 11 – Financing facilities

- Bank facilities include £200m of committed bonding lines
- Cash generated from disposals will be offered 1/3 : 2/3 between banks and US private placement noteholders, without incurring further makewhole payments

£m	Banks	PP	Total
Committed facilities as at 31 December 2014	730	585	1,315
Impact of rights issue (excluding makewhole)	(225)	(225)	(450)
	505	360	865
Cancellation of undrawn facilities	(25)	-	(25)
New Committed facilities (post rights issue)	480	360	840

Appendix 11 – rights issue completed in April 2015

■ Size

- Gross proceeds of approximately £555m, net proceeds of £530m
- Fully underwritten

■ Structure

- Shareholders granted transferable subscription entitlements (“Rights”)
- Applications made to the UKLA and to the LSE for the New Ordinary Shares (nil and fully paid) to be admitted to the premium listing segment of the Official List and to trading on the LSE main market for listed securities respectively

■ Terms

- 1 for 1 issue of new shares at 101p per share
- Discount to Theoretical Ex-Rights Price (“TERP”) of 34.3% based on closing price of 206p of Serco’s Ordinary Shares on the LSE at 11 March 2015
- Shareholder general meeting approval of 99.93%

Appendix 12

Selected slides from March 2015 Strategy Review update

Our strategy: be a focused B2G business

- 1 Be a superb provider of public services by becoming the best managed company in the sector
- 2 Focus on 5 pillars across 4 geographies: Defence, Justice & Immigration, Transport, Health and Citizen Services, delivered in UK & Europe, North America, Middle East, Australia and New Zealand
- 3 Exit non-core businesses

The Elevator Speech

“We are a leading provider of public services. Our customers are governments or others operating in the public sector. We gain scale, expertise and diversification by operating internationally across five sectors.

We will succeed and be differentiated by being the best managed business in the sector.”

Our strategy: be a focused B2G business

① Be a superb provider of public services by becoming the best managed company in the sector

- Improve cost competitiveness
- Strengthen BD and risk management
- Drive operational excellence: management information systems and continuous improvement
- People: build talent and capabilities

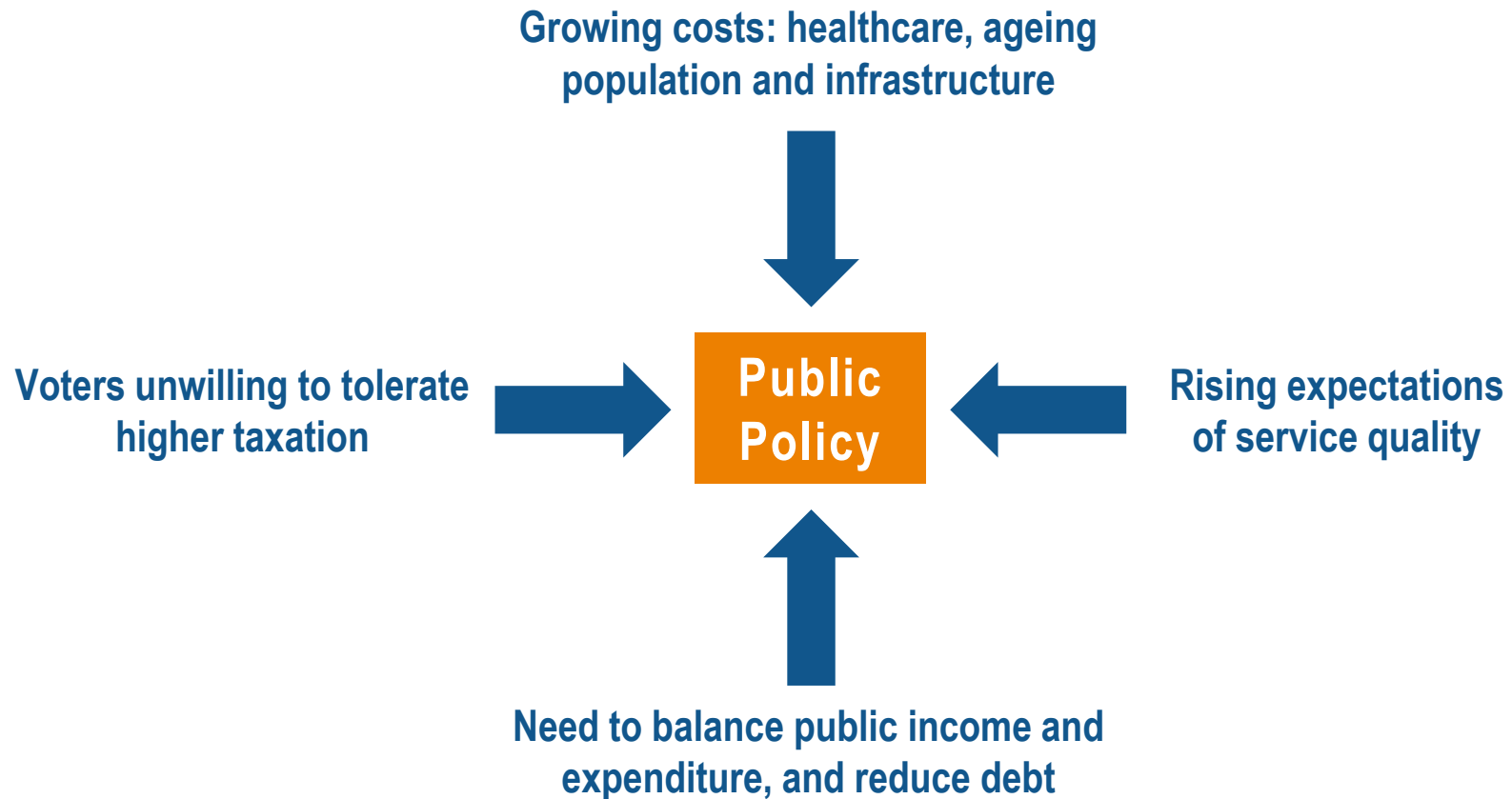
② Focus on five pillars in four regions

- Defence, Justice & Immigration, Transport, Health and Citizen Services; delivered in UK & Europe, North America, Middle East, Australia and New Zealand
- Structural drivers of growth
- Strong existing positions
- Reduced volatility through segment and regional diversification
- Ability to build international scale

③ Exit non-core businesses

- Private Sector BPO
- Leisure and Environmental Services in the UK
- Great Southern Rail in Australia

“Four Forces” creating long term structural growth in the market



Fierce pressure on governments to deliver more, and better, for less

We will focus on five pillars across four regions

Sector	UK & Europe	Americas	Middle East	Australia & New Zealand
Justice & Immigration	Strong	Exploring		Strong
Defence	Strong	Strong	Foundation	Strong
Transport	Strong	Foundation	Strong	Exploring
Citizen Services	Strong	Strong	Foundation	Foundation
Healthcare	Strong	Exploring	Foundation	Foundation

Accounting for 84% of our 2014 revenue (inc. JVs) of £4.8bn

Sector	UK & Europe	Americas	Middle East	Australia & New Zealand	Other	
Justice & Immigration	£297m			£405m		£702m
Defence	£803m	£342m	£33m	£142m		£1,321m
Transport	£555m	£99m	£159m		£31m	£845m
Citizen Services	£588m	£267m	£2m	£43m		£899m
Healthcare	£191m		£12m	£54m		£256m
Other	£352m	£19m	£60m	£107m	£192m	£730m
Total	£2,786m	£726m	£267m	£751m	£223m	£4,753m

Note: Revenue numbers extracted from management information and have not been audited and include Serco's share of joint ventures. Of the total of £4,753m revenue (including joint ventures), £3,955m is the revenue as defined under IFRS (i.e. excluding joint ventures) and shown in the Group's 2014 Financial Statements, and the remaining £798m reflects revenue from Serco's share in joint ventures.

Encouraging number of development opportunities across the portfolio

Sector	UK & Europe	Americas	Middle East	Australia & New Zealand	Other	
						 Significant development opportunities
Justice & Immigration	£297m			£405m		£702m
Defence	£803m	£342m	£33m	£142m		£1,321m
Transport	£555m	£99m	£159m		£31m	£845m
Citizen Services	£588m	£267m	£2m	£43m		£899m
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Sector overview	What we do	Example contracts
<p>2014 Revenues £702m</p> <p>Justice & Immigration 15%</p> <p>ASPAC £405m 58%</p> <p>UK £297m 42%</p> <p>Justice & Immigration</p>	<p>Custodial Services Prison operations and rehabilitation programmes</p>	<ul style="list-style-type: none"> Thameside (UK) Auckland (NZ) Dovegate (UK) Acacia (W. Australia) Wandoo Youth Reintegration (W Australia) Doncaster (UK)
	<p>Immigration Detention & Services Detention centre management and support services for immigrants and asylum seekers</p>	<ul style="list-style-type: none"> COMPASS asylum seeker accommodation (UK) Yarl's Wood immigration removal centre (UK) DIBP immigration detention centres (Australia)
	<p>Detainee transport and monitoring Tagging, monitoring and escorting services for prisoners, immigrants and asylum seekers</p>	<ul style="list-style-type: none"> Western Australia Custodial Services Prisoner Escorting & Custody Services (UK)

Note: Revenue numbers extracted from management information, have not been audited and include Serco's share of joint ventures.






Market overview	Market dynamics ²	Competitive differentiators
<p>Market growth¹ %</p> <p>2-5%</p> <p>% of Government spend outsourced:</p> <p>Low</p> <p>Market position</p> <ul style="list-style-type: none"> ■ Strong in UK & Aus ■ Competitors include: G4S, Sodexo, Mitie GEO 	<p>Large and growing global prison population</p> <ul style="list-style-type: none"> ■ 25-30% growth in 15 years ■ Prisoners exceed capacity in 114 countries ■ Australian prisoner growth 10% in 12 months to 10 year high <p>Private sector operates <20% prisons in UK, Aus, NZ</p> <p>Immigration growing around the world</p> <ul style="list-style-type: none"> ■ 5 year migration up >20% in a decade ■ UK cost of illegal immigration estimated at £3.7bn pa <p>Global trend to find alternatives to prison</p>	<ul style="list-style-type: none"> ■ Operational and commercial innovation <ul style="list-style-type: none"> – Payment by results/responsible prisoner – Strong community & voluntary partnerships; effective youth re-integration model (Wandoo) – New systems for tracking and reporting in Escorting and Monitoring ■ Expertise and experience <ul style="list-style-type: none"> – New build PFI/PPP (Thameside, Wiri) – Different models: detention in Australia, community-based in UK – Managing challenging operational and political environments and rapid change in requirements (DIBP) – Escorting and Monitoring in urban (London) and remote (W Australia) environments

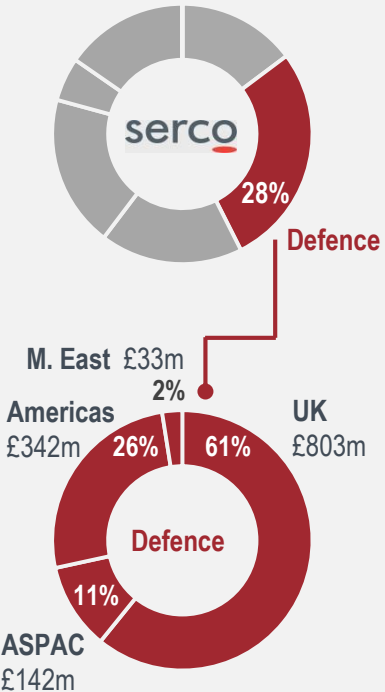
1 Addressable market, according to the Directors' current estimates of market growth rates. The Directors expect these rates to vary materially from year-to-year and to be subject to the vagaries of macro-economic and political conditions.

2 World Prison Population List, International Centre for Prison Studies, Penal Reform International, Australian Bureau of Statistics, Wittgenstein Centre, Global Migration Data Sheet 2005-10



UK & EUROPE Strong 	ASPAC Strong 	AMERICAS Exploring 
<ul style="list-style-type: none">■ Retain a leading position■ Build innovative solutions in core markets and surrounding services■ Build case for higher levels of private sector involvement in custodial estate■ Improve underperforming contracts	<ul style="list-style-type: none">■ Grow through new Justice opportunities (QL, NSW, WA), and transport and monitoring■ Explore BPO adjacencies (case management, visa processing, community integration)	<ul style="list-style-type: none">■ Monitor and explore opportunities to leverage Group expertise in immigration



Sector overview	What we do	Example contracts
<p>2014 Revenues £1,321m inc JV</p> 	<p>Base and Operational Support Full service life cycle support to military bases, operations, acquisitions and programmes</p>	<ul style="list-style-type: none"> ■ Defence Academy Campus Integrator (UK) ■ RAF Valley (UK) ■ Army Career and Alumni Program (US) ■ Price fighter (US) ■ Defence Business Services (UK)
	<p>Engineering and Information Services Engineering, installation and maintenance of complex systems and networks</p>	<ul style="list-style-type: none"> ■ Brize Norton (UK) ■ Skynet 5 (UK) ■ Sea Enterprise (US) ■ Consolidated Afloat Networks and Enterprise Services (US)
	<p>Maritime Services Operations and maintenance support to military vessels in UK & Australia</p>	<ul style="list-style-type: none"> ■ Future Provision of Marine Services (UK) ■ Armidale Class Patrol Boats (Aus)






Market overview	Market dynamics ²	Competitive differentiators
<p>Market growth¹ %</p> <p>4-6%</p> <p>% of Government spend outsourced:</p> <p>Medium</p> <p>Market position</p> <ul style="list-style-type: none"> ■ Strong in UK, North America and Australia ■ Competitors include: Babcock, BAE, QinetiQ 	<p>Pressure on defence spending to reduce costs</p> <ul style="list-style-type: none"> ■ UK MoD spending expected to decline in real terms from about £41 billion in 2010/11 to about £34 billion in 2015/16 ■ US defence spending expected to decline to 4.6% of GDP by 2015 from 5.7% in 2011 <p>Shift in procurement dynamics</p> <ul style="list-style-type: none"> ■ Lowest cost technically acceptable and small business set aside in US ■ Shift to horizontals and trade groups in UK <p>Large and liquid market</p> <p>Highly competitive</p>	<ul style="list-style-type: none"> ■ Expertise and experience <ul style="list-style-type: none"> — Strong track record of reference contracts — Experience of high security programmes — Ability to deliver high levels of regulatory compliance — Large, experienced field technician workforce — Deep knowledge and understanding of customer mission — End-to-end programme management from design through to operate-and-maintain ■ Ability to provide breadth and integration <ul style="list-style-type: none"> — Broad portfolio of support services available with subject matter expertise — Capability to integrate across multiple service lines — Platform & technology agnostic ■ Competitive cost structure in US

¹ Addressable market, according to the Directors' current estimates of market growth rates. The Directors expect these rates to vary materially from year-to-year and to be subject to the vagaries of macro-economic and political conditions.

² Public Expenditure Statistical Analysis 2014 HMT, USGovernmentspending.com



UK & EUROPE Strong 	AMERICAS Strong 	MIDDLE EAST Foundation	AUSTRALIA Strong 
<ul style="list-style-type: none">■ Build pipeline of major opportunities■ Strengthen engineering proposition■ Improve underperforming contracts	<ul style="list-style-type: none">■ Grow in existing framework contracts and similar opportunities■ Target expansion in Army welfare and Naval systems	<ul style="list-style-type: none">■ Build on early success in training and base logistics support■ Look to export UK and US capabilities to Middle East	<ul style="list-style-type: none">■ Improve performance on ACPB■ Look to export UK and US capabilities to Australia & New Zealand

Transport: What we do



Sector Overview	What we do	Example Contracts
<p>2014 Revenues £845m</p> <p>Transport 18%</p> <p>Other £31m 4%</p> <p>M. East £159m 19%</p> <p>UK £555m 66%</p> <p>Americas £99m 12%</p> <p>Transport</p>	<p>Rail and Ferries Full service management of light and heavy rail systems</p>	<ul style="list-style-type: none"> ■ Dubai Metro ■ Northern Rail (UK) ■ Mersey Rail (UK) ■ Caledonian Sleeper (UK) ■ Northern Isles Ferries (UK)
	<p>Road Traffic Management Delivery of traffic and transport management services</p>	<ul style="list-style-type: none"> ■ Virginia DoT (US) ■ Georgia DoT (US) ■ Hong Kong transport operations
	<p>Air Traffic Control Full service delivery of aircraft navigation services</p>	<ul style="list-style-type: none"> ■ Dubai (DXB and DWC) ■ Sharjah ■ Baghdad ■ FAA Towers (US) ■ Scatsca (UK)

Note: Revenue numbers extracted from management information, have not been audited and include Serco's share of joint ventures.






Market Overview	Market dynamics ²	Competitive differentiators
<p>Market growth¹ %</p> <p>6-8%</p> <p>% of Government spend outsourced:</p> <p>Low - Medium</p> <p>Market position</p> <ul style="list-style-type: none"> ■ Strong in Rail & ATC, especially in Middle East; first mover advantage in US ■ Competitors include: First Group, Go Ahead/Keolis, DB Arriva, URS 	<p>Population growth and urbanisation driving growth in global rail, road congestion and air passenger traffic</p> <p>Rail new build growing primarily in Middle East, ASPAC and Americas</p> <ul style="list-style-type: none"> ■ Global rail travel projected to double by 2050 <p>Highly competitive market in rail with downward pressure on margins</p> <p>Emerging market for road traffic management in US</p> <ul style="list-style-type: none"> ■ Pipeline of 50 transit systems under consideration <p>Little competition in air traffic control, low penetration and low growth</p>	<ul style="list-style-type: none"> ■ Experience and expertise <ul style="list-style-type: none"> – Outstanding operational track record – Strong capabilities in large scale staff recruitment and mobilisation – Expertise in early rail operator involvement – Strong pool of subject matter experts – Experience of knowledge transfer and training ■ Breadth of operational proposition <ul style="list-style-type: none"> – Only major operator combining road and IT management – Solution provider independent of OEMs – Proprietary solutions and automated service delivery – Ability to draw on wider global capability ■ Experience in various performance-based commercial models

1 Addressable market, according to the Directors' current estimates of market growth rates. The Directors expect these rates to vary materially from year-to-year and to be subject to the vagaries of macro-economic and political conditions.

2 US Dept. of Transport Federal Transit Administration Capital Investment Program project profiles



UK Strong 	AMERICAS Foundation 	MIDDLE EAST Strong	AUSTRALIA Exploring 
<ul style="list-style-type: none">■ Maintain position in existing sectors through operational performance■ Focus on continuous improvement and best practice in UK to support overseas growth	<ul style="list-style-type: none">■ Build and grow from strong early-mover position in Intelligent Traffic Systems■ Build pipeline in ITS and urban rail	<ul style="list-style-type: none">■ Consolidate regional leadership in ATC and rail through rebids■ Target new build rail opportunities	<ul style="list-style-type: none">■ Identify and win entry project, based on global experience

Citizen Services: What we do



Sector overview	What we do	Example Contracts
<p>2014 Revenues £899m</p> <p>Citizen Services 19%</p> <p>UK & Europe £588m 65%</p> <p>Americas £267m 30%</p> <p>ASPAC £43m 5%</p> <p>M. East £2m 1%</p>	<p>Citizen Contact Front & middle office case management services for Government programmes</p>	<ul style="list-style-type: none"> Centers for Medicare and Medicaid Services (US) Hertfordshire Council (UK) UCAS contact centre (UK) Driver Evaluation Services (Canada)
	<p>Middle & Back Office Services Internal process management of records, data and employee service</p>	<ul style="list-style-type: none"> Glasgow Access (UK) Australian Tax Office Service Center Operations Support Services II (US) Patent Application Support (PG-PUBS) (US) Federal Retirement Thrift Investment Board (US)
	<p>Employment and Skills Services Providing better outcomes for jobseekers and apprentices</p>	<ul style="list-style-type: none"> Work Programme (UK) National Citizen Services (UK)

Note: Revenue numbers extracted from management information, have not been audited and include Serco's share of joint ventures.




Citizens' Services: Market positioning



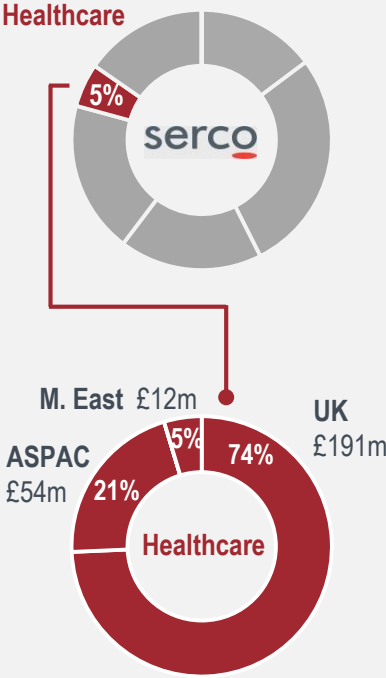
Market Overview	Market dynamics	Competitive differentiators
<p>Market growth¹ %</p> <p>5-7%</p> <p>% of Government spend outsourced:</p> <p>Low</p> <p>Market position</p> <ul style="list-style-type: none"> ■ Strong in UK Local Government, building presence in UK Central Government ■ Competitors include: Capita, BT, CGI 	<p>Increasing demand for high quality integrated citizen services</p> <p>Local Government expenditure reductions leading to a wider range of services considered for private sector</p> <p>Ageing population and new programmes (Care Bill, Affordable Care Act) add pressure</p> <p>Demand for joined up services from citizens</p> <p>Drive to service needs via digital channels</p>	<ul style="list-style-type: none"> ■ Expertise and experience <ul style="list-style-type: none"> – User centric design processes supported by subject matter experts – Ability to recruit and mobilise large numbers of staff – Record of performance for critical customers (CMS, DHS, DOJ in US) – Subject matter experts in policy delivery (Health, Immigration, etc.) ■ Breadth of operational proposition <ul style="list-style-type: none"> – Able to provide multi-channel customer contact – Ability to integrate various services behind a single point of contact – Strong relationships and experience of working with SMEs and voluntary sector partners – Experience of outcome based contract models ■ Cost competitive pricing structure

¹ Addressable market, according to the Directors' current estimates of market growth rates. The Directors expect these rates to vary materially from year-to-year and to be subject to the vagaries of macro-economic and political conditions.



UK Strong 	AMERICAS Strong 	ASPAC Foundation 
<ul style="list-style-type: none">■ Build position in local authorities■ Widen offer■ Focus on Work Programme and building strong complex case-management pipeline	<ul style="list-style-type: none">■ Build on success of contracts such as Affordable Care Act, Patents Office and DES to build wider eligibility, case management and contact centre opportunities	<ul style="list-style-type: none">■ Codify best practice from UK and US■ Monitor welfare programmes in Australia



Sector overview	What we do	Example contracts
<p>2014 Revenues £256m</p>  <p>Healthcare</p> <p>5%</p> <p>serco</p> <p>M. East £12m</p> <p>UK £191m</p> <p>ASPAC £54m</p> <p>21%</p> <p>Healthcare</p> <p>74%</p>	<p>Non-Clinical Support Services Full service offering covering all non-clinical aspects of support to acute hospitals</p>	<ul style="list-style-type: none"> ■ Norfolk & Norwich hospital (UK) ■ Fiona Stanley hospital (Australia) ■ Forth Valley hospital (UK) ■ East Kent Hospitals (UK) ■ Dr. Sulaiman Al Habib Hospitals (Saudi Arabia)
	<p>Clinical Support Clinical solutions in community health and pathology</p>	<ul style="list-style-type: none"> ■ Suffolk Community Healthcare (UK) ■ Guys & St. Thomas' Pathology JV (UK)
	<p>Patient Contact and Administration Management of patient journey and experience alongside BPO in Healthcare environment</p>	<ul style="list-style-type: none"> ■ No current contracts – emerging market

Note: Revenue numbers extracted from management information, have not been audited and include Serco's share of joint ventures.







Market overview	Market dynamics ²	Competitive differentiators
<p>Market growth¹ %</p> <p>6-8%</p> <p>% of Government spend outsourced:</p> <p>Medium (US)</p> <p>Low (elsewhere)</p> <p>Market position</p> <ul style="list-style-type: none"> ■ Leading operator of PFI projects in UK and Australia ■ Competitors include: Sodexo, Carillion, ISS 	<p>Hospitals running under severe budgetary pressure</p> <ul style="list-style-type: none"> ■ UK NHS expected to face funding gap of up to £30 billion by 2021/22 ■ 80% of UK acute trusts in deficit in 2014-15 ■ Administrative costs ~25% of total US hospital expenditure <p>Middle East demand for hospitals increasing</p> <ul style="list-style-type: none"> ■ Fast growing population, growing demand for high quality healthcare <p>Mature and competitive market for single service FM</p> <p>Few players able to provide integrated, full service support</p> <p>Emerging market for full service support to new build hospitals</p>	<ul style="list-style-type: none"> ■ Expertise and experience of new build PFI/PPP (UK, ASPAC) ■ Approach based on improving patient journey and experience ■ Market leading example of full service delivery (Fiona Stanley Hospital, Perth) ■ Ability to bring wide range of services from logistics through healthcare to BPO ■ Combination of process reengineering with healthcare expertise ■ BPO support and contact centre experience

1 Addressable market, according to the Directors' current estimates of market growth rates. The Directors expect these rates to vary materially from year-to-year and to be subject to the vagaries of macro-economic and political conditions.

2 Monitor, "Closing the NHS Health Funding Gap", Monitor quarterly report June 2014



UK Strong 	AMERICAS Exploring 	MIDDLE EAST Foundation 	AUSTRALIA Foundation 
<ul style="list-style-type: none">■ Improve underperforming contracts■ Exit poor performing clinical segment■ Focus on building innovative and efficient non-clinical services	<ul style="list-style-type: none">■ Explore market entry opportunities for non-clinical	<ul style="list-style-type: none">■ Target new hospital market■ Develop non-clinical support proposition■ Build pipeline	<ul style="list-style-type: none">■ Build off success of Fiona Stanley to generate pipeline