

Stock Exchange Announcement

12 March 2015

Serco Group plc – 2014 results

Year ended 31 December	2014	2013
Revenue (note 1)	£3,955m	£4,284m
Trading (Loss)/Profit (note 2)	(£632m)	£257m
Operating (Loss)/Profit Before Exceptional Items	(£656m)	£236m
Operating (Loss)/Profit	(£1,317m)	£146m
EPS Before Exceptional Items (basic)	(135.0p)	32.7p
EPS (basic)	(258.4p)	20.1p
Dividend Per Share	3.10p	10.55p
Free Cash Flow	£62m	£63m
Net Debt (including that for assets and liabilities held for sale)	£682m	£745m

Note 1: Revenue is as defined under IFRS. Adjustments are no longer made to include Serco's share of revenue from its joint ventures.

Note 2: Trading Profit is defined as IFRS Operating Profit adjusted for (i) amortisation and impairment of intangibles arising on acquisition and (ii) exceptional items. Adjustments are no longer made to exclude Serco's share of joint venture tax and interest, management estimation of charges related to UK Government reviews or transaction-related costs. A reconciliation to former non-GAAP measures is included in the Finance Review.

- Revenue and profitability in line with revised expectations as set out on 10 November 2014; guidance for 2015 maintained
- Overall financial result reflects £1.3bn of onerous contract provisions, asset impairments and other charges, broadly in line with the November estimate; Trading Loss of £632m includes £745m of such charges; Operating loss of £1,317m includes £661m of exceptional items, driven by impairment of goodwill and other balance sheet charges together totalling £541m
- As outlined in November, a proposed equity rights issue of approximately £555m, fully underwritten, is being launched today, with details provided in a separate announcement and the accompanying Prospectus
- Agreements reached with lending banks and US private placement noteholders, subject to successful completion of the rights issue announced today, to refinance existing facilities including the reduction of gross indebtedness by up to £450m
- Strategy Review complete: Serco's future to be as an international Business-to-Government (B2G) business, specialising in public service provision
- Corporate Renewal Programme established and a substantially new management team put in place

Rupert Soames, Serco Group Chief Executive Officer, said: "2014 has been an extremely difficult year for Serco, and the magnitude of the provisions, impairments and other charges reflects the scale of the challenges we have had to face. However, there is a real sense that, having confessed our sins and in taking the punishment, we are now ready to start on the path to recovery. We have all we need: a good plan, strong management to execute it, and, following the successful completion of our proposed rights issue and refinancing, a balance sheet that is an appropriate foundation on which to implement our new strategy.

"We are convinced that our strategy will deliver over time value to our shareholders, customers and colleagues alike. We will focus on providing public services to government and other bodies across five core sectors – Justice & Immigration, Defence, Transport, Citizen Services and Healthcare – and do so across some of the largest public services markets in the world. By concentrating on these markets, we are playing to our strengths.

"Asking shareholders for financial support, and lenders to adjust terms on their facilities, is not a position any management would want to be in. But we are determined to repay the confidence and support shown to us, to the benefit of all."

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Presentation

A presentation for institutional investors and analysts will be held today at JPMorgan, 60 Victoria Embankment, London EC4Y 0JP, starting 9.00am and expected to finish by midday. The presentation will be webcast live on www.serco.com and subsequently available on demand. A dial-in facility is also available on +44 (0) 20 3427 1905 (USA: +1646 254 3364) with participant pin code 5666885.

Chief Executive's review

The financial results for 2014 were in line with management's revised expectations. Even so, this meant that Serco experienced its first revenue decline in 25 years as a listed company, and profitability reduced significantly. The challenges have been numerous: we have had to increase costs to improve service delivery on some already poorly-performing contracts; other contracts with higher-than-average margins saw reduced volumes or were lost on re-bid; and we have won less new work. We have also had to take into account large impairments and onerous contract provisions established to cover future years of losses on certain contracts, and as a consequence the overall reported result for the year is a very large loss. Whilst taking these charges is bitter medicine, it is right that we face our challenges now, so that we can establish a really solid foundation on which to build Serco's future.

Establishing that foundation requires us to reduce the Group's indebtedness: a strong balance sheet with a prudent level of financial gearing is an absolute necessity if we are to retain customers' confidence and be able to execute a strategy that will allow Serco to deliver attractive levels of growth and returns in the future. To that end, we have launched today a fully underwritten equity rights issue to raise approximately £555m, the net proceeds of which will be used primarily to reduce the Group's indebtedness.

Over the last nine months we have, as promised, developed a new strategy, which is to focus on the public sector market and be a leading public service provider. Specifically, we intend to focus on five 'pillars', or market sectors: Justice & Immigration, Defence, Transport, Citizen Services and Healthcare; and across four geographies: UK & Europe, North America, Middle East and Australia/New Zealand. The strategy builds upon Serco's long track record and expertise in the transformation and management of complex public services, and of supporting critical and sensitive activities central to nations' interests. We believe our chosen markets have compelling long-term structural growth drivers and that Serco can play a central role in helping governments respond to the challenge of improving the quality and reducing the cost of public services, whilst earning for our shareholders sustainable and attractive risk-adjusted returns.

The establishment of the Corporate Renewal Programme in 2014 and the strengthening of processes and of the management team are important first steps on our journey. There remains much to do and the many improvements still necessary will take time – not least rebuilding our pipeline of bid opportunities and making our own internal operations more efficient and effective. Given the challenges that remain, we are cautious in our outlook for 2015, but appropriately so, as we continue to work hard on the next stage of our journey.

Serco is embarking on a programme of change to restore its health. We will get somewhat smaller and more focused on businesses we are really good at, where we can deliver outstanding service and where our skills, experience and international reach can differentiate us. While it will be a tough two or three years of transition, this is necessary to become the successful, profitable and growing company that Serco rightly aspires to be.

Summary of financial performance

Revenue for 2014 was £3,955m. This excludes Serco's share of revenue from its joint ventures (£798m); the non-GAAP measure of Adjusted Revenue, used in previous years, would have been £4,753m. At constant currency and adjusting for disposals and acquisitions, the organic revenue decline was 2.5%.

The Trading Loss for the year was £632m. This included some £745m of charges for onerous contract provisions, asset impairments and other charges (the non-GAAP measure of Adjusted Operating Profit, used in previous years, would have excluded £24m of costs from the calculation of profit). The principal drivers of the underlying decline in profitability included: changes in contract volumes (e.g. Australian Immigration Services); contracts that we have lost (e.g. Electronic Monitoring); new contracts at lower margins (e.g. support to the US Affordable Care Act); fewer new contracts won; contract re-pricing (e.g. AWE and Northern Rail); and increased costs on contracts to address operational under-performance (e.g. COMPASS and PECS). Within the £745m of charges, onerous contract provisions and contract-related asset impairments totalling some £558m reflect the scale of anticipated potential future losses in the light of recent operational developments and their deteriorating financial performance; the charge taken in 2014 represents anticipated future losses for 2015 through to 2024, with the five largest loss-making contracts representing approximately three-quarters of the total onerous contract provisions taken.

The Group also incurred a £661m net exceptional charge in 2014. Impairment of goodwill represented £466m of this, driven by the reduced carrying value of the Global Services private sector BPO division. Other exceptional

impairments and provisions, together with costs associated with the various reviews and restructuring charges, totalled £196m.

The total of onerous contract provisions, asset impairments and other charges was £1.3bn, being the combination of those charged within the Trading Loss for the year and those that were exceptional items. This was broadly in line with the November estimate of £1.5bn. This earlier estimate included the estimated provision for settlement relating to the DLR pension deficit funding dispute and the estimated impairment and related charges for the Great Southern Rail business; these charges, totalling £73m, have been recognised as separate exceptional items and are therefore not part of the £1.3bn. Goodwill and other intangible asset impairments is around £0.2bn lower than the original estimate, whereas onerous contract provisions are approximately £0.1bn higher.

The equity placing conducted in May 2014 increased the weighted average number of shares for EPS purposes, and the Group's Effective Tax Rate increased reflecting the geographic mix of taxable profits. After these effects, EPS before exceptional items was a loss of 135.0p per share and statutory EPS including the impact of exceptional items was a loss of 258.4p.

Free Cash Flow was £62m (2013: £63m), with the impact of the reduced level of underlying profitability largely offset by less adverse working capital flows than the prior year. Net debt, including that for assets and liabilities held for sale, was £682m at the end of the year (2013: £745m), with the reduction supported by the May 2014 equity placing.

The Revenue and Trading Profit performance are further described in the Divisional Reviews. Reconciliations to the statutory income statement and detailed analysis of earnings, cash flow, financing and related matters are described further in the Finance Review.

Contract awards, pipeline, order book and revenue visibility

The Group signed contracts valued at £3.1bn in 2014 (£3.6bn including the Group's share of joint venture contract awards) compared to £3.5bn in 2013 (also £3.5bn including joint ventures). This includes notable new awards such as the Caledonian Sleeper rail franchise, as well as the retention of a number of important existing operations such as Australian Immigration Services and an expanded second year for our contract to provide processing support services for the US Affordable Care Act. The value of new awards has however been lower than previously experienced – of our pipeline of around 40 major opportunities at the start of 2014, 19 have been lost whilst 5 have been won. Together with other movements in the pipeline, there are now around 30 opportunities we are focused on, with the result that, over the next two years, the estimated total value of new larger bid opportunities is £5bn, down from £12bn a year earlier.

The Group's order book at 31 December 2014 stood at £12.6bn (£15.8bn including the Group's share of joint venture contracts), down from £13.6bn a year earlier (£17.1bn including joint ventures). This provides revenue visibility of over 80% for 2015, based on our outlook as set out below. Whilst there are limited near-term new bid opportunities to benefit 2015 significantly, the level of future rebid risk is also reduced. With a thoroughly reviewed strategy to take the Group forward, rebuilding the pipeline is a major focus of the new management teams across the divisions.

Outlook for 2015 and the opportunity in subsequent years

On 10 November 2014, we provided an update on the Strategy Review, including the initial findings of the Contract and Balance Sheet Review, and an early view of the outlook. In that statement we said that for 2015, before the impact of any disposals, we believed Adjusted Revenue could be around £4bn, that there could be a further decline in the Group's margin to around 2.5% and that Adjusted Operating Profit could be around £100m. Furthermore, we said that, depending on decisions around disposals, Adjusted Revenue could reach a nadir of £3.0-3.5bn in 2016, and margins could be as low as 2-3%. We also estimated that the provisions, impairments and other balance sheet charges would total around £1.5bn.

At the time we cautioned that whilst we had made good progress, the reviews were ongoing, and that the information set out at that time would be subject to further work through to the completion of our year end audit in March 2015. This work has now been completed and, I am glad to say that our initial estimates of the total impact of the Contract and Balance Sheet Review have proved largely correct, that trading for 2014 has been in line with our November statements, and that we are maintaining our guidance for 2015, albeit with a change in definition to the key forecasting measures. However, given the significance of the uncertainties further out, in

particular the timing of any disposals and the time it will take to rebuild the pipeline and implement the strategic initiatives we are setting out, the Board considers the comments previously made around 2016 are no longer appropriate and the Group is no longer providing formal guidance for 2016 and beyond.

Historically, the key metrics used in forecasts were non-GAAP measures of Adjusted Revenue (adjusted to include Serco's share of joint venture revenue) and Adjusted Operating Profit (adjusted to exclude Serco's share of joint venture interest and tax as well as removing transaction-related costs and other material costs estimated by management that were considered to have been impacted by the UK Government reviews that followed the issues on the EM and PECS contracts). We believe that in the future the Company should report its results (and provide its future guidance) on metrics that are more closely aligned to statutory measures. Accordingly, our outlook for 2015 is now expressed in terms of Revenue and Trading Profit. The Revenue measure is consistent with the IFRS definition, and therefore excludes Serco's share of joint venture revenue. Trading Profit, which is otherwise consistent with the IFRS definition of operating profit, adjusts only to exclude amortisation and impairment of intangibles arising on acquisition, as well as exceptional items. Trading Profit is therefore lower than the previously defined Adjusted Operating Profit measure due to the inclusion of Serco's share of joint venture interest and tax charges. We believe that reporting and forecasting using metrics that are consistent with IFRS will be simpler and more transparent, and therefore more helpful to investors.

The Group's current expectations for 2015 are Revenue of approximately £3.5bn, Trading Profit of around £90m and EBITDA (as defined for covenant purposes) of approximately £160m. The expectations are unchanged from those set out in November, with the only difference being the change in definition of these measures. The principal drivers of the underlying pressure on 2015 Revenue and Trading Profit versus 2014 remain those previously described, namely the impact of net attrition from lost contracts and assumptions for reduced volumes on operations such as Australian Immigration Services. These expectations do not include any adjustment for potential disposals that may be completed over the course of 2015.

Looking further out, the Group is no longer providing formal guidance for 2016 and beyond. Performance is likely, at least in the initial stages, to remain challenging given the impact still to come through from known attrition such as our Northern Rail contract ending in 2016, and in particular due to the time required to rebuild the pipeline and implement the various initiatives to further stabilise and then transform the Group's performance. Future performance will also depend on the outcome of the programme of planned disposals.

According to the Directors' current best estimates of market growth rates, the sectors to be focused on are likely to grow at an average rate of 5-7% a year, and industry margins across Serco's mix of business are likely to be in the range of 5-6%. If this turns out to be correct, and markets develop as expected, Serco believes that after the initial years of restructuring and transformation, progress will be made towards bringing performance in line with the average of the Group's peers.

Funding strategy, proposed raising of equity and dividend policy

The Strategy Review has assessed the appropriate funding strategy for the Group. Net debt (including that for assets and liabilities held for sale) was £682m at 31 December 2014, but averaged £783m over the course of 2014. For 2015, a net cash outflow of around £150-200m is anticipated, before the effect of the proposed rights issue and any proceeds from business disposals; this reflects in particular: the projected cash outflow on onerous contracts, the updated estimate of which is £139m and is described more fully in the Finance Review; an impact from year-end net debt levels becoming more aligned with average net debt levels; and exceptional costs in 2015 which will include refinancing fees of approximately £30m, and further restructuring programmes that will be developed as part of implementing the Strategy Review.

The Board has concluded that it needs to reduce the Group's indebtedness and that the appropriate leverage for the business over the medium term is in the region of 1-2x average net debt to EBITDA. In 2015, we anticipate that EBITDA for leverage covenant purposes will be approximately £160m, or about £70m higher than Trading Profit, before any adjustment for potential disposals that may be completed over the course of 2015.

Our future strategy, which we outline below and have explained further in the Prospectus, must be properly funded, and the Group put on a firm foundation which will allow it to grow and flourish. It has also become increasingly clear that if we are to retain customers' confidence a firm foundation is an absolute necessity. To achieve this, the business will need a sustainable balance sheet with a prudent level of financial gearing appropriate for the level of operational gearing given the mix of businesses we have. To this end, the Board is today launching a fully underwritten rights issue to raise gross proceeds of approximately £555m. Further detail

on the rights issue can be found in the separate announcement and the associated Prospectus also being published on 12 March 2015.

Based on 2015 forecasts, the net proceeds of the proposed rights issue are expected to reduce leverage to around 2x. Leverage would be expected to reduce further to around the bottom end of the target range following the planned disposal of businesses that are no longer core to strategy. The disposal proceeds are uncertain in both timing and amount, but in combination with the proposed rights issue proceeds will enable us to reach what the Board consider an appropriate level of financial gearing. Furthermore, progress is being made to institute improved day-to-day working capital controls and cash forecasting in order to promote sustainable cash generation and to focus on appropriate levels of return on capital.

As part of the funding strategy, we have reached agreement with our lending banks and US private placement noteholders to refinance our facilities. The agreements include an extension of the Revolving Credit Facility from 2017 to 2019, and more flexible financial covenants. The amendments will only become effective upon the receipt of the proceeds of the rights issue. Full details can be found in the Capital and Indebtedness section of the Prospectus.

As part of the actions being taken to reduce the Group's indebtedness, the Board is not recommending the payment of a final dividend for the 2014 financial year. Dividends paid in the year totalled £53m or 10.55p per share, representing the final dividend for 2013 of 7.45p that was paid to shareholders on 14 May 2014, together with the interim 2014 dividend of 3.10p that was paid to shareholders on 17 October 2014.

The Board is committed to resuming dividend payments and a progressive dividend policy when it is prudent to do so. The Directors' decision as to when to declare a dividend and the amount to be paid will take into account the Group's underlying earnings, cash flows and financial leverage, the requirement to maintain an appropriate level of dividend cover and the market outlook at the time. It is not anticipated that the Board will recommend any dividend in respect of the 2015 financial year.

Proposed disposals

As announced on 10 November 2014, we intend to dispose of a number of businesses that are not core to our future strategy as summarised below, and where the resulting proceeds will contribute to reducing net debt. These businesses include the Environmental Services and Leisure businesses in the UK, the Great Southern Rail business in Australia, and the majority of our private sector BPO business. In aggregate, these businesses contributed around £560m of revenue in 2014. If any of these disposals complete in 2015, it is expected that the Group's 2015 revenue and profits (as compared with the forecasts in our outlook commentary, above) will be reduced and that this reduction may be material depending on the timing of the disposals, with the expectation being that the later in 2015 such a disposal takes place, the less the reduction will be. Further, the effect of any disposal on the Group's 2015 profits will be dependent on agreement around what cost structures transfer to a buyer, as will the resulting proceeds from any transaction. There are ongoing sale processes in respect of each business, we are encouraged with progress made to date and would anticipate transactions, if they are agreed with buyers, to complete later this year.

Corporate Renewal Programme and strengthened management team

During 2014, extensive work was undertaken as part of the Corporate Renewal Programme agreed with Government to address the issues raised in the EM/PECS investigations.

The Corporate Renewal Programme focused on improving Serco's systems, processes and management information. We have substantially rewritten our system of management control, in particular as it relates to bid development and approval and contract management; developed an approach to management information and review that focuses equally on operational as well as financial performance; and materially strengthened our processes of management assurance, risk assessment, and internal audit, as well as our Board governance. We have reduced spans of management control, establishing two UK divisions – one for UK Central Government and one for UK and Europe Local and Regional Government – where there was one before, and reducing layers, by having the management of the Asia Pacific and Middle East regions report directly to the Group CEO rather than through an intervening supervisory layer.

These programme elements and the many others we have previously described are set out in full in the Prospectus. In January 2014, the Cabinet Office issued a statement that, following scrutiny by officials and a detailed review by the Government's independently appointed Oversight Group, the scope of our Corporate

Renewal Programme was accepted and that the changes Serco had already made and our commitment to go further over the coming months were positive steps that the Government welcomed. In October 2014, the Corporate Renewal Programme was reported on by the UK Government's appointed consultants confirming that Serco had identified and understood the causes of previous issues and, through the Corporate Renewal Programme, has put in place cultural and governance structures designed to address those issues and sustain ongoing customer confidence.

There has also been a significant change in the leadership of the Group and the UK divisional management, and I am very pleased to say that we have succeeded in making some really strong appointments. I am naturally delighted that Angus Cockburn, with whom I worked for 11 years at Aggreko, joined Serco as Chief Financial Officer in October 2014. He was instrumental in the success of Aggreko, is a highly experienced CFO, and he and I have complementary skills. We have also made good progress strengthening our UK management team, with the appointment of Kevin Craven, previously CEO of Balfour Beatty Services, to run the Central Government division, and Liz Benison, previously VP and General Manager of Computer Science Corporation's UK business, to run the Local and Regional Government division; both of them started in September 2014. David Eveleigh, previously General Counsel of BT Global Services, joined as General Counsel and Company Secretary in November 2014. I would also like to pay tribute to the dedication of Bob McGuinness and Andrew White, who stepped into the breach to run the UK divisions whilst we were looking for new people; and of course I am grateful to Andrew Jenner who guided the Finance function under circumstances which were far from easy.

Your Chairman, Alastair Lyons, informed the Board in November of his intention to step down once a new Chairman has been appointed. Whilst I respect Alastair's decision, I was saddened by it, and I want to put on record the fact that he has done an outstanding job stewarding the Company through the travails of the last two years. Alastair was instrumental in stabilising Serco with new management and non-executive directors, a much improved relationship with the UK Government, and clarity as to our strategic direction. Nobody could have worked harder or done more to get us to the point where we can now concentrate on building a solid future for Serco.

Strategy Review summary

In April 2014, Serco announced that we would be carrying out a comprehensive review of our strategy. The key objectives of the Strategy Review were threefold:

- Firstly, to analyse the current situation, in terms of the state of the markets, competitive positioning, opportunities and threats faced by Serco, and to identify a set of strategic options open to Serco, alongside the Contract and Balance Sheet Review.
- Secondly, to develop a strategy that offers the greatest opportunity for value creation, balancing risk and reward, playing to the strengths of Serco, aiming for a more simple strategy underpinned by markets that exhibit structural growth.
- Finally, to identify how to create a firm foundation from which a business can be built to deliver the strategy and therefore value to shareholders, customers and staff.

With regards to the first objective, the Strategy Review made clear that the public sector market had become a tougher place to operate, that Serco was not adding enough value to the private sector BPO business, and that Serco had some specific operational challenges that needed resolution. The public sector market has seen slower growth over recent years as budgets have been cut, and at the same time customers have become more sophisticated in procurement, risk transfer and contract management. In the private sector BPO market, new contracts tended to be more capital intensive than those Serco was used to from public sector contracts; customers are more brand wary and so were more cautious following the publicity surrounding the investigations into the Electronic Monitoring (EM) and Prisoner Escort & Custody Services (PECS) contracts; and the complexity of multiple service lines across multiple sectors and geographies demanded management time without contributing significantly to Serco's core public service capabilities. Finally, the review made clear some weaknesses in the operating model, namely that financial performance was undermined by loss-making contracts and a weakened balance sheet, that the pipeline had suffered and a low win rate had affected growth, and that risk assessment mechanisms needed to be strengthened. Furthermore, Serco's devolved nature resulted in poor generation of scale benefits and underlying information and technology infrastructure was weak.

Against the second objective, the Strategy Review proposed that the Board focus the Group on where its key skills and competitive advantages lie. In other words, to exit the private sector through the sale of the majority of Serco's private sector operations, to focus on the public sector market and be a leading public service provider.

Specifically to focus on five pillars of: Justice & Immigration, Defence, Transport, Citizen Services and Healthcare; and across four geographies: UK & Europe, North America, Middle East and Australia/New Zealand.

The move into private sector BPO was intended to reduce the Group's dependencies upon the UK and the public sector, and gain exposure to a market which offered higher rates of growth, whilst adding a new capability in middle and back office processing alongside Serco's historic strength in the delivery of frontline services. This failed, however, to reflect adequately the difficulty of building distribution off a base of limited presence in the private sector BPO market, and the anticipated move to whole agency public sector outsourcing in the UK has not developed at the expected pace. Furthermore, the integration of the Group's acquisitions in this sector, principally Intelenet and The Listening Company, both with each other and the rest of the Group, was not well done.

While examining our markets, we concluded that, whilst the public service market presents a number of challenges, it also has many attractions: public services tend to be of a critical nature and therefore unlikely to be disrupted by the economic cycle or disappear altogether; they are unlikely to be disrupted by technology or other exogenous factors; and a low level of private sector penetration allows plenty of headroom for market growth – all underpinned by structural drivers that will continue to promote the growth of the market over the long term.

Serco has, over the past 25 years, built powerful positions in its principal frontline services both in the UK and in North America, Asia Pacific, and the Middle East. In these areas Serco has depth of know-how and a track-record of successful delivery, which allows it to take capabilities developed in one geography and create a relevant presence in another – the export of the Group's justice and non-clinical healthcare support experience from the UK to Australia being examples. In the future, Serco will focus on growing its business within those areas where it has sustainable competitive advantage, whilst at the same time reducing costs by simplifying its organisational design and sharing common services across the Group. All this will be developed within a control framework based on clear understanding of, and adherence to, the Group's best practice. This will be supported by timely performance information that highlights unplanned exceptions at an early stage, allowing effective management intervention.

We are, therefore, able to adopt a strategy that is based on maximising the potential of Serco's areas of strength. Our competitors tend to be based on multiple sectors in a single geography or a single sector in multiple geographies. Serco has breadth across both sector and geography allowing it to achieve presence and diversification across a number of Business-to-Government ("B2G") markets at the same time. This is Serco's competitive differentiation and represents a strong base for future growth.

Furthermore, we believe that nearly all governments are going to be faced by inexorable pressure on four fronts: the growing costs of healthcare and the costs of supporting ageing populations; the need to reduce public debt and expenditure deficits; rising expectations of service quality amongst public service users; and the unwillingness of voters and corporate taxpayers to countenance tax increases (we call these the "Four Forces"). To reconcile these forces, governments need to continuously improve the quality and efficiency of service delivery. We believe that public sector monopolies are, by their nature, less well-equipped to manage continuous innovation and improvement in service delivery than the private sector, and a model in which government sets strategy, defines services so they are contestable, and then effectively competes, procures and oversees service delivery, is the best route to delivering improving quality and reducing the cost of public services. Such a strategy relies on vibrant and competitive markets of private sector suppliers to deliver public services.

Our new strategy builds on the strengths of Serco. Serco already has leading positions with recognised expertise across a number of important segments in some of the largest public services markets in the world with a unique portfolio of service offerings across Justice & Immigration, Defence, Transport, Citizen Services and Healthcare. Serco is one of the few companies that can offer a wide range of services in each of the UK, US, Australia, New Zealand and the Middle East, which are markets in which governments frequently engage private companies in the provision of public services. The combination of an international footprint with a portfolio of sectors, across federal, state and local government customers provides a healthy level of diversification without excessive complexity. Such a portfolio protects the business against sudden changes from elections in any particular geography, against changes in policy or attitude to competition, and allows Serco to balance the ebb and flow of demand across the business. Furthermore, the strategy builds upon strong relationships already held, requires a public sector ethos in delivery that is already evident, and leverages Serco's current expertise in the transformation and management of complex frontline services to the public. Finally, a simpler strategy, combined with a large order book and the resilience of longer term contracts, provide Serco with the time and clarity to improve the way the business works.

For these reasons, we believe that the future of Serco lies in being a leading provider of public services; where our customers are governments or others operating in the public sector; and where Serco benefits from scale, expertise and diversification by operating internationally across five segments.

The third objective of the Strategy Review was to identify how to create a firm foundation from which a business can be built to deliver the strategy and therefore value to shareholders, customers and staff. To achieve this foundation, our implementation plan aims to fix our challenges and so become the best managed company in the sector. We will achieve this by building a solid platform from which to grow; reducing our costs; and repositioning for growth.

Specifically, we will build a solid platform through three areas of focus. We will strengthen our balance sheet through the rights issue, improved working capital management and the disposals programme; this will result in financial position with the flexibility to implement the strategy and ensure stakeholder confidence is maintained. We will actively mitigate our loss making contracts through operational management and commercial negotiation, with plans now in place across underperforming contracts to improve profitability and cash flow performance whilst meeting all our contractual service obligations. We will also improve our management information through more frequent, balanced and detailed reporting, in order to improve our visibility of performance and strengthen our controls and governance. We will also be focusing on risk-adjusted returns on capital as a way of judging our contracts.

We will reduce our costs through continuing to delayer, rolling out continuous improvement initiatives in our contract base, and making better use of our scale in procurement and the use of shared services; all led by dedicated leadership with external support. Such actions are targeted to drive £20m of gross cost savings within our 2015 cost base, and begin the longer term journey towards recovering our margins to those more in line with our peers.

Finally, we will reposition the business for growth, enabled by a clear and focused market strategy. We will focus our business development spend on our chosen pillars; invest in the development of markets and opportunities; strengthen our bid risk management through tightened procedures and more thorough commercial reviews; and build strong cross-business networks to share capability and best practice. In this way we expect, over time, to grow our pipeline, improve our win rates, reduce the number of loss making contracts and produce a better return for the risks we take on.

More information on Serco, including the background to and further detail on the Strategy Review, are set out in the Prospectus.

Rupert Soames OBE

Serco Group Chief Executive Officer

Divisional Reviews

This section is presented according to the management structure and internal reporting that Serco has put in place for 2015 as a result of actions from the Corporate Renewal Programme and the Strategy Review. The UK Central Government division is now a separate unit which brings together Serco's work for the UK Central Government; it also brings together all Transport operations, including those for devolved authorities that were previously included in the UK and Europe Local and Regional Government division. The UK and Europe Local and Regional Government division now incorporates public sector BPO operations previously included in the Global Services division, together with Citizen Services previously included in the Central Government division; all public sector BPO operations are therefore now brought together in this division. The former AMEAA region is now reported as two separate divisions – 'AsPac' (the Asia Pacific region, consisting principally of Serco's operations in Australia and New Zealand) and the Middle East. Americas is unchanged as a distinct regional division. The Global Services division now consists of BPO operations only in the private sector.

Aligned to statutory reporting, Serco's share of revenue from its joint ventures is no longer included in divisional revenue, while Serco's share of joint ventures' interest and tax costs is included in divisional Trading Profit. The Group has also simplified its reporting by ending the sharing of Income Statement reporting of certain contracts between two segments. This shared reporting of contracts occurred predominantly between the AsPac and UK segments (including, for example, Australian immigration services), with these contracts now being solely reported within the segment that delivers the contract to the end customer. Going forward, eliminating the shared Income Statement reporting of such contracts will increase the transparency and clarity of our segmental performance reporting. The prior year comparative segmental information has been restated to reflect these changes and a full reconciliation of divisional results is available within the accompanying results presentation on www.serco.com/investors. Further segmental information on this basis is included at note 5 to the consolidated financial statements, while segmental information on the previous structure, as reported to the Board during 2014, is included at note 42.

Year ended 31 December £m	2014 Revenue	2013 Revenue	2014 Profit	2013 Profit
UK Central Government	962	1,074	(242.8)	114.6
UK and Europe Local and Regional Government	960	963	(90.4)	17.8
Americas	708	765	16.5	65.1
AsPac	706	871	(201.6)	78.2
Middle East	260	268	(0.2)	24.5
Global Services	359	343	(23.4)	7.8
	3,955	4,284	(541.9)	308.0
Corporate costs	n/a	n/a	(90.2)	(50.6)
Revenue and Trading (Loss)/Profit	3,955	4,284	(632.1)	257.4
<i>Of which, onerous contract provisions, asset impairments and other review items charged in 2014</i>			(745.3)	

UK Central Government

The UK Central Government division includes our frontline services in Defence, Home Affairs (encompassing justice-related operations, immigration and border security) and Transport (including contracts for the Department for Transport as well as those for devolved authorities).

Year ended 31 December £m	2014 Revenue	2013 Revenue	2014 Profit	2013 Profit
Revenue and Trading (Loss)/Profit	962	1,074	(242.8)	114.6
<i>Of which, onerous contract provisions, asset impairments and other review items charged in 2014</i>			(300.8)	

Divisional revenue on a constant currency and reported currency basis declined by 11%. Excluding the impact of disposals, the organic decline was 8%. Drivers of the reduction included the loss of the Electronic Monitoring (EM) contract, the re-role of Ashfield prison and the end of the Colnbrook Immigration Removal Centre (IRC) contract. There was also an impact from volume-related reductions at our strategic partnership with the Defence Science and Technology Laboratory (Dstl) and certain other defence-related projects. There was partial offset to

these reductions from additional project revenue from the expansion of Thameside prison and from additional service users on the COMPASS UK asylum seeker support contracts.

Divisional Trading Profit, before the impact of onerous contract provisions, asset impairments and other charges, reduced much more significantly than revenue. Around £7m of the decline is a result of the prior year including a profit contribution from the UK Transport Maintenance & Technology business up to its disposal on 27 November 2013. The EM, Ashfield and Colnbrook IRC contracts had a greater impact on profitability than the respective revenue decline, reflecting their above average margins. Whilst revenue increased on COMPASS due to additional service users, this only served to increase the significant losses sustained on the contract given Serco is incurring a loss on each service user, and given that limited scale efficiency is currently being achieved to reduce this loss per service user. On the Prisoner Escort & Custody Services (PECS) contract, the loss was excluded from the previous definition of Adjusted Operating Profit as it was included within management estimates related to the UK Government reviews. The loss on PECS, now within Trading Profit, increased as we continued to apply additional resources to improve the operational performance.

The contract re-pricing on AWE that began only part-way through 2013 and the interim franchise agreement on Northern Rail from April 2014 did not reduce revenue as our share of joint venture revenue is now excluded, but these re-pricings significantly reduced Trading Profit. Lower profits also reflected increased costs from operating this new division separately as part of the Corporate Renewal Programme, and from a lower recovery of bid investment costs on major bids that were unsuccessful such as those for the Defence Infrastructure Organisation (DIO), the Nuclear Decommissioning Authority, the TransPennine rail franchise and the Docklands Light Railway (DLR) rebid.

The substantial charges in 2014 for provisions, impairments and other review items reflects principally a number of significantly loss-making contracts for UK Central Government that require onerous contract provisions, together with other related impairments and charges. COMPASS has charges of £115m, reflecting the latest volume assumptions in a rapidly changing environment and the latest view of our estimated costs over the remaining five years of the contract. The Royal Navy fleet support contract (FPMS) has charges of £66m, reflecting updated vessel utilisation and maintenance cost assumptions through to 2022. The PECS and HMP Ashfield contracts have charges of £27m and £19m respectively.

The value of signed contracts totalled approximately £1.4bn in 2014. This excludes Serco's £520m share of the interim franchise for Northern Rail as this is operated as a joint venture. Serco's selection by Transport Scotland to manage the new franchise for the Caledonian Sleeper services was the Group's largest contract award in the year, with total revenue to Serco over the 15-year contract estimated at approximately £800m and therefore representing over half of the total award value for the division. Other awards included the successful rebid of Yarl's Wood Immigration Removal Centre valued at approximately £70m, and various defence support work extended or expanded with a cumulative award value of over £100m. The awards also included the short term extensions to the DLR and National Physical Laboratory (NPL) contracts, both of which have now ended.

In the near term, there are no major contracts that require extending or rebidding. However, The DLR, NPL and Colnbrook IRC contracts, together with all other known attrition from contract losses, accounted for 20% of 2014 divisional revenue.

Although there are limited major new bid opportunities to be decided over the next year, beyond that sees several opportunities including potential outsourcing of the Defence Fire & Risk Management Organisation. Following the significant disruption to our customer relationships with UK Central Government in 2013 and the subsequent Corporate Renewal process that has been put place over the course of 2014, rebuilding the pipeline is now a major focus. The Strategy Review is placing clear emphasis on those markets where Serco has significant skills and capabilities which for this division includes each of Justice & Immigration, Defence and Transport in the UK, and the revised divisional structure and new management team are in place to take this business forward successfully.

UK and Europe Local and Regional Government

The UK and Europe Local and Regional Government division includes our frontline services in the devolved public service delivery markets of Health, Direct Services (principally environmental and leisure services for local authorities) and Infrastructure Services (such as facilities management), together with Citizen Services which includes welfare support operations, BPO services for local authorities and various support operations for European Agencies.

Year ended 31 December £m	2014 Revenue	2013 Revenue	2014 Profit	2013 Profit
Revenue and Trading (Loss)/Profit	960	963	(90.4)	17.8
<i>Of which, onerous contract provisions, asset impairments and other review items charged in 2014</i>			(93.8)	

Divisional revenue on a constant currency and a reported currency basis was broadly flat in 2014. Excluding the impact of disposals, organic growth was 3%. Growth was supported by new European Agency contracts with the European Commission and European Space Agency, together with an expansion of certain local authority BPO operations; there was offset to this from volume-related reductions on the National Citizen Service and Work Programme contracts.

Divisional Trading Profit, before the impact of onerous contract provisions, asset impairments and other charges, reduced much more significantly than revenue. There were increased costs including the effect of operating this new division separately, together with the effect of some challenging contracts such as the National Citizen Service, and a lower level of typically higher margin public sector BPO project work and consulting.

Contracts operated by the UK and Europe Local and Regional Government division that are loss-making include Suffolk Community Healthcare, where an exceptional onerous contract provision and related asset impairments of £16m has been driven by a greater loss rate due to unanticipated increases in volume, for which there is no additional revenue, along with having to use greater numbers of agency staff to deliver improved performance; the contract is due to end in September 2015. The charge to Trading Profit for provisions, impairments and other review items of £93.8m includes those for other loss-making contracts, the largest ones being Hertfordshire Country Council BPO services contract, Citizen Services (the largest charge of which relates to the National Citizen Service Contract which ends later in 2015), and the Anglia Support Partnership operations.

The value of signed contracts totalled approximately £400m in 2014. Contracts for public sector BPO operations accounted for towards half of this. These were predominately for UK local authorities and included a new contract to provide a range of business process and contact centre services for Lincolnshire County Council valued at over £70m, and various extensions to our ICT services for Glasgow City Council, Peterborough City Council and the London Borough of Enfield valued in aggregate at a further £70m. In Direct Services, Havering has been added as a fifth London borough where we provide environmental services with a total contract value of around £40m, whilst an extension and expanded services at Milton Keynes is valued at £58m. In our leisure services business, we were awarded a new contract valued at approximately £50m to manage and operate the Wet 'n' Wild waterpark in North Shields, Tyne and Wear. An extension with expanded scope was secured to continue providing IT support to the European Parliament valued at €60m, whilst a new contract for additional IT support to the European Space Agency was also awarded with a value to Serco of approximately €36m.

Looking ahead, there are European Agencies IT support contracts coming up for rebid in the short term that accounted in aggregate for 4% of 2014 divisional revenue, whilst the Work Programme which is also coming up for rebid accounted for 1% of 2014 divisional revenue. The Suffolk Community Healthcare contract due to end in September 2015 accounted for 6% of 2014 divisional revenue. Attrition from known losses, predominantly Westminster City Council BPO support and a private sector facilities management contract for an aviation industry customer, accounted in aggregate for 4% of 2014 divisional revenue.

There are limited major new bid opportunities to be decided in the next 12 months. With new management in place and a revised divisional structure, rebuilding the pipeline is a clear focus. Opportunities already being developed include: further non-clinical support services for NHS trusts; local authority strategic partnerships for BPO support covering Finance, HR, ICT and citizen contact; and expanded services for European Agencies.

Americas

Our Americas division provides professional, technology and management services focused on Defence, Transport, and Citizen Services (principally process outsourcing for government agencies). The US federal government, including the military, civilian agencies and the national intelligence community, are our largest customers. We also provide services to the Canadian Government and to selected US state and municipal governments.

Year ended 31 December £m	2014 Revenue	2013 Revenue	2014 Profit	2013 Profit
Revenue and Trading (Loss)/Profit	708	765	16.5	65.1
<i>Of which, onerous contract provisions, asset impairments and other review items charged in 2014</i>			(26.7)	

Divisional revenue on a constant currency basis reduced by 1% in 2014, though the weakening of the US dollar extended the decline on a reported currency basis to 7%. Both the US Affordable Care Act (ACA) eligibility support services contract and the Virginia Department of Transport traffic management services contract began in the second half of 2013, so there was a full-year benefit of these major new operations in 2014. This largely offset other contract attrition including that relating to certain US intelligence agency IT contracts, C4ISR work on Naval Electronic Surveillance Systems and Atlantic Aviation Engineering, and various areas of support to the US Federal Retirement Thrift Investment Board (FRTIB) and the Department of Veteran Affairs.

Divisional Trading Profit, before the impact of onerous contract provisions, asset impairments and other charges, reduced more than revenue. New contracts such as processing support work for the US ACA were at lower margins than the contracts where work has ended. Our contract supporting the Department of State's National Visa Center and Kentucky Consular Center (NVC/KCC) was only extended for part of the 2014 year and was at lower margins, as was our rebid to continue providing Driver Examination Services for the Ontario Ministry of Transportation in Canada.

The impact of provisions, impairments and other review items was relatively limited for the Americas division, in part reflecting the different contracting model which tends to be shorter term and less exposed to issues around fixed price bidding.

The value of signed contracts totalled over £650m in 2014. The largest were the expanded first option year of the US ACA valued at over US\$200m, a five-year rebid for the Department of Defense providing program management and related support valued at over US\$140m, and an extension to our contract providing career transition services for US soldiers. There was also good progress in securing IDIQ contract vehicles that enable Serco to compete for task orders across various areas of defence support work; this shorter term but still relatively regular work typically accounts for approximately one quarter of revenue for the Americas division.

Looking ahead, the two largest rebids due during 2015 are our contracts for US Department of Homeland Security benefits records management services and for air traffic control services for the Federal Aviation Administration; these accounted for 5% and 3% respectively of 2014 divisional revenue. The short-term outlook for the Federal Government services market appears more stable in terms of agreement around government budgets and funding. In the longer term, the market, including defence services, remains attractive in size and growth potential. New bid opportunities include further development in non-defence areas, such as processing support for the Department of State and Department of Homeland Security, and various state transport operations and maintenance contracts. We are also looking at opportunities in non-clinical healthcare support and, longer term, the potential for our involvement in parts of the Justice & Immigration market.

AsPac

Operations in the Asia Pacific division include Justice, Immigration, Defence, Healthcare and Transport services. With Serco's operations in Australia being the largest element of the division, the country represents 17% of total Revenue for the Group.

Year ended 31 December £m	2014 Revenue	2013 Revenue	2014 Profit	2013 Profit
Revenue and Trading (Loss)/Profit	706	871	(201.6)	78.2
<i>Of which, onerous contract provisions, asset impairments and other review items charged in 2014</i>			(237.1)	

Divisional revenue on a constant currency basis declined by 9%, though significant currency weakening against sterling, particularly the Australian dollar, extended the decline on a reported currency basis to 19%. The division's single largest contract which provides Immigration Services in Australia saw revenues reduce by 35% to approximately £300m; this reflected fewer people in our care following the significant changes to government policies addressing the issue of people arriving by boat without a valid visa. Other contract starts and ramp-ups provided good growth, including the Fiona Stanley Hospital in Perth moving to the operational stage, a short-term contract providing private sector aviation support services in the Australian natural resources industry; and new transport management services in Asia such as those for the Hong Kong Tsing Sha Control Area.

Divisional Trading Profit, before the impact of onerous contract provisions, asset impairments and other charges, reduced much more significantly than revenue. In Australian Immigration Services there was a greater impact on profitability from the volume reductions together with changes to the mix of services provided and the types of centres remaining in operation. The loss of the Australian regional defence garrison support services contracts, operated in partnership with Sodexo, has not reduced revenue as it was a joint venture operation, but reduced profits. The Trading Profit for 2013 included a profit still being recognised on the Armidale Class Patrol Boats (ACPB) contract which was not repeated in 2014. Overheads also increased in the division, reflecting in particular increased bid costs on a number of unsuccessful large tenders including a new-build prison and two rail operations in Australia.

There was a significant impact from provisions, impairments and other review items in the AsPac division, with the vast majority of this driven by the ACPB contract for Defence Materiel Organisation on behalf of the Royal Australian Navy. Detailed engineering reports have revealed major issues with the class of vessel, including those related to design, manufacture, usage and maintenance practice, all of which have conspired to require maintenance expenditure far in excess of that envisaged at the time the vessels first began service in 2005. Until the second half of 2014, it was believed that these issues could be fixed as part of a one-off maintenance cycle. However, updated engineering assessments indicate far greater costs over the remaining life of the vessels and therefore for our operation of the contract through to 2022. An onerous contract provision of £136m, together with a further £60m of related impairments and other balance sheet adjustments, has therefore been required.

The value of signed contracts totalled over £200m in 2014, however this was dominated by continuation of two existing operations rather than new bids. An extension to Serco's Traffic Camera Services contract in Australia is valued at approximately £50m. By far the largest award was successfully rebidding the provision of onshore immigration detention services in Australia. Whilst the five-year contract has a much larger potential value, since it is volume related, Serco will initially only reflect in its order book an estimate of approximately £125m of revenue anticipated in relation to the first year of the contract.

Looking ahead, the estimate of lower immigration detention volumes is expected to reduce further the revenue for the AsPac division in 2015. There will also be a greater reduction in profitability than revenue following the rebid. After securing this important contract however, there are no other significant contracts that require extending or rebidding in 2015, though there will be attrition impact from the loss of the garrison support contracts and the end of the short-term private sector aviation support services contract in the Australian natural resources industry. Whilst progress on new bids was weak in 2014, significant market opportunities remain in the region. These include further opportunities in Justice & Immigration, defence support and transport operations where Serco has strong presence in each of these local markets. Serco is also looking to develop opportunities in Citizen Services and build upon its skills in non-clinical healthcare.

Middle East

Operations in the Middle East division include Transport, Defence, Healthcare and other Direct Services such as facilities management.

Year ended 31 December £m	2014 Revenue	2013 Revenue	2014 Profit	2013 Profit
Revenue and Trading (Loss)/Profit	260	268	(0.2)	24.5
<i>Of which, onerous contract provisions, asset impairments and other review items charged in 2014</i>			(19.3)	

Divisional revenue on a constant currency basis increased by 3%, though the weakening of local currencies against sterling resulted in a reported currency decline of 3%. Growth was led by expanded transport operations including those in Dubai, new health services in Abu Dhabi and defence training services in Qatar.

Divisional Trading Profit, before the impact of onerous contract provisions, asset impairments and other charges, reduced more than revenue. The greater impact on profitability reflected lower margins on the Dubai Metro contract that was extended in late 2013, the end of air traffic control operations in Kurdistan, together with delays in awards and lower overall success rates on new bids.

The impact of provisions, impairments and other review items was limited for the Middle East division compared to the other divisions, and mainly reflects receivable and other impairments rather than any significant onerous contracts.

The value of signed contracts during 2014 totalled approximately £135m. This included the successful rebids of air navigation services in Bahrain and Sharjah, and of our public facilities management contract for the Abu Dhabi Municipality, the next phase of the new military college in Qatar and new contracts won for further healthcare support services in Abu Dhabi and Saudi Arabia.

Looking ahead, rebids to secure in 2015 include Sowwah Square facilities management, Baghdad air navigation services, Palm Jumeirah Monorail operations and logistics and base support services provided to the Australian Defence Force (ADF) in the region; these accounted in aggregate for 22% of 2014 divisional revenue. Whilst new bid win rates have been lower in 2014, there remains a vibrant public service outsourcing market in the region and Serco has strong references to continue expanding. Major opportunities include light rail across the region and other transport operations, as well as further non-clinical healthcare and defence training support.

Global Services

Following the transfer of public sector BPO operations to our other divisions, the Global Services division now consists of Serco's private sector BPO business, predominantly for customers in the UK, India and North America. The operations consist of middle and back office skills and capabilities across customer contact, transaction and financial processing, and related consulting and technology services. As previously described, Serco intends to dispose of the majority of the private sector BPO business.

Year ended 31 December £m	2014 Revenue	2013 Revenue	2014 Profit	2013 Profit
Revenue and Trading (Loss)/Profit	359	343	(23.4)	7.8
<i>Of which, onerous contract provisions, asset impairments and other review items charged in 2014</i>			(30.3)	

Divisional revenue on a constant currency basis increased by 11%, though the weakening of local currencies against sterling resulted in a reported currency growth of 5%. Growth was led by new customers or expanded services in India and the Middle East, the latter of which included the benefit of a small infill acquisition of a regional provider of BPO services; organic growth was 9%. Revenue in the UK declined, reflecting in particular the end of the additional work for the transformation phase of the major Shop Direct contract as well as exits from certain loss-making contracts.

Divisional Trading Profit, before the impact of onerous contract provisions, asset impairments and other charges, reduced much more significantly than revenue. Cost reduction activity announced last year has delivered

savings in 2014, but these were offset by profit decreases on certain contracts moving from transformation to full operational phase and an increase in costs associated with internal systems. The exit of low margin or loss-making work has also had the impact of a number of delivery centres in the UK and India becoming underutilised in the short term.

The impact of provisions, impairments and other review items reflects a number of onerous contract provisions required on loss-making contracts, all of which are relatively small. In addition to the £30.3m charged to Trading Profit, there is an exceptional £39.2m impairment of Global Services assets transferred to held for sale; within this the largest contract-related charge is for £8.7m for Shop Direct.

The value of signed contracts during 2014 totalled approximately £250m. The largest, with a value of approximately £140m over 10 years was a new contract for multi-channel customer contact services for a major UK retailer. Other similar contracts have been awarded in the United States, Qatar and Australia, reflecting continued regional development of private sector BPO operations.

Looking ahead, there is no significant attrition anticipated from the ending of any individual contracts and there are also no significant contracts that require extending or rebidding during 2015. As always, existing customers are always seeking to reduce costs, however our efficiency plans include a number of specific operational improvement initiatives in several major contracts and delivery centres to improve profitability. Currently there are a limited number of major new bid opportunities to be decided, although the pipeline in this business tends to be generated over a shorter time period than those for our frontline public service operations. Reinvigorating business development efforts is a key focus of management to recover the division from the consequential impact of challenges elsewhere in Serco, particularly some residual brand issues in the UK market.

Corporate costs

Year ended 31 December £m	2014 Revenue	2013 Revenue	2014 Profit	2013 Profit
Revenue and Trading (Loss)/Profit	n/a	n/a	(90.2)	(50.6)
<i>Of which, onerous contract provisions, asset impairments and other review items charged in 2014</i>			(37.3)	

Corporate costs relate to typical central function costs of running the Group including executive, governance and support functions. Where appropriate, these costs are stated after allocation of recharges to operating divisions. The costs of Group-wide programmes and initiatives are also incurred centrally, and these include the costs of the Corporate Renewal Programme.

There was a £37.3m charge to Trading Profit relating to the impairment of various intangible assets held at Group level, property dilapidation provisions and balance sheet timing adjustments in recognition of employee-related costs.

Finance Review

Changes to non-statutory measures

Our financial statement disclosure has been simplified, increasing the transparency of how we report and making it easier for the reader of our Annual Report and Accounts to interpret the financial information. The format and style of this Finance Review has therefore changed with the use of newly defined non-statutory numbers and more explanation of what lies behind the numbers. The Finance Review is longer than usual as a result, but there is a lot to talk about and our objective is to give our shareholders as clear an understanding as we can about what has happened from a financial perspective in 2014.

The simplification in the use of supplemental non-statutory measures used by the Board to assess the performance of the business has involved moving to measures that are more closely aligned with IFRS and which are clearly and easily reconciled to the numbers in the statutory financial statements. A reconciliation to the former adjusted measures is provided below to provide comparability from the old measures to these new ones.

With respect to revenue, the former Adjusted Revenue measure included Serco's share of the revenue of joint ventures. We now exclude revenue from joint ventures in line with the statutory definition.

In terms of profit, our new measure of Trading Profit more closely aligns to the statutory number, meaning fewer reconciling items. Trading Profit is defined as Operating Profit before i) amortisation and impairment costs of intangibles arising on acquisitions, and ii) exceptional items. A significant change from the former Adjusted Operating Profit measure has been to present joint venture results on a statutory accounting basis which includes the share of joint venture results after tax and interest instead of proportionally consolidating joint venture Adjusted Operating Profit. In addition, Trading Profit is now stated after transaction-related costs and no longer excludes any "Management Estimates". For example, during financial year 2013, management excluded from Adjusted Operating Profit the estimated impact of the charges related to UK Government reviews on the business. From this set of Accounts onwards, no "Management Estimates" will be included in the Trading Profit measure unless they are classified as exceptional items in the statutory consolidated Income Statement.

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 on 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. Free Cash Flow and Trading Cash Flow, consistent with Trading Profit, exclude exceptional items which are considered to be non-recurring in nature and outside the normal operations of the Group. Consistent with Trading Profit these measures also no longer exclude transaction-related costs and "Management Estimate" items.

A new measure of pre-tax return on invested capital (ROIC) has been introduced in 2014 to measure how efficiently the Group uses its capital in terms of the return it generates from its assets. Pre-tax ROIC is calculated as Trading Profit divided by the Invested Capital balance. Invested Capital represents the assets and liabilities considered to be deployed in delivering the trading performance of the business. Of the total assets on the balance sheet, Invested Capital assets are: goodwill and other intangible assets; property, plant and equipment; interests in joint ventures; trade and other receivables; inventories; and assets classified as held for sale. 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 and liabilities classified as held for sale. All other liabilities are excluded from Invested Capital being: retirement benefit obligations; tax liabilities; provisions; obligations under finance leases; derivative financial instruments; and loans. The calculation of ROIC is shown in a table presented later in this review.

Overview of financial performance

Serco faced an unprecedented set of challenges in 2014, and as a consequence our financial performance in 2014 was very poor. Some of these challenges arose in 2014 as a direct result of the issues we encountered in our relationship with the UK Government in 2013 and other key customers, and there is little doubt that these difficulties had a substantial impact in 2014 on our ability to win new business and to satisfactorily resolve contractual issues; others were due to some valuable contracts being lost or taken back in house; while on certain other contracts the cost of providing services rose – in some cases dramatically.

- The business encountered critical operational difficulties during the year on some large contracts (for example COMPASS and ACPB) with a consequent and unexpected increase in costs to levels far above those seen in 2013
- Contracts which in 2013 had contributed significant amounts of profit were lost (e.g. Electronic Monitoring), had reduced margins on re-bid (e.g. Northern Rail) or saw sharply lower profitability as a consequence of reduced volumes (e.g. Australian Immigration)
- There has been a significant change in senior management, in particular in the Group leadership and the UK business, together with a restructuring of the latter into two new divisions
- The business was operating for a number of months in a strategic vacuum as the new management team were actively developing a new strategic direction for the Group

These challenges had a significant adverse impact on the trading performance of the business.

As part of the Strategy Review, a Contract and Balance Sheet Review was undertaken ahead of year-end based on management accounts as at 30 September 2014. This was then updated to reflect the position as at 31 December 2014. Onerous contract provisions and impairments had a material impact on the trading result for the year and include the impact of the new strategic direction of the Group and management's best estimate as to the likely outcome on key multi-year contracts.

The Trading Loss for the year was £632.1m (2013: Trading Profit £257.4m) including charges of £745.3m from onerous contract provisions, asset impairments and other provisions. In addition, exceptional losses of £661.5m included £466.0m of non-cash charges from the impairment of goodwill.

Consolidated Income Statement

For the year ended 31 December	2014	2013 (Restated*)
	£m	£m
Revenue	3,955.0	4,284.2
Trading (loss)/profit	(632.1)	257.4
Other expenses – amortisation and impairment of intangibles arising on acquisition	(23.7)	(21.4)
Operating (loss)/profit before exceptional items	(655.8)	236.0
Exceptional (loss)/profit on disposal of subsidiaries and operations	(5.4)	19.2
Other exceptional operating items	(656.1)	(109.7)
Exceptional operating items	(661.5)	(90.5)
Operating (loss)/profit	(1,317.3)	145.5
Investment revenue	6.2	5.2
Finance costs	(42.9)	(42.4)
(Loss)/profit before tax	(1,354.0)	108.3
Tax on (loss)/profit before exceptional items	(11.1)	(38.7)
Tax on exceptional items	18.0	28.8
Tax	6.9	(9.9)
(Loss)/profit for the year	(1,347.1)	98.4
Trading margin	(16.0%)	6.0%
Trading (loss)/earnings per share	(131.0p)	36.0p
(Loss)/earnings per share before exceptional items	(135.0p)	32.7p
(Loss)/earnings per share	(258.4p)	20.1p
Dividends per share	3.10p	10.55p

*Restated to reflect prior period adjustments as set out in Note 2 to the Accounts

Revenue

Revenue declined by 7.7% in the year to £3,955.0m (2013: £4,284.2m) which is a 3.5% decline at constant currency. This included the impact of lower volumes on the Australian Immigration services contract and net contract attrition elsewhere, particularly in the UK Central Government and Americas divisions. Organic revenue (which excludes currency effects, acquisition and disposals) was negative 2.5%. This was less than the constant currency decline of 3.5% largely due to the adjustment, when calculating organic revenue growth, to remove the effect of the prior year revenue relating to the UK Transport Maintenance business which was disposed of in November 2013.

Trading Loss

The Trading Loss for 2014 of £632.1m (2013: Trading Profit of £257.4m) reflected the poor trading performance, including the recognition of future contract losses, asset impairments and other charges. The most significant losses were incurred in Central Government with a £242.8m Trading Loss (2013: Trading Profit £114.6m) and in AsPac where there was a £201.6m Trading Loss (2013: Trading Profit £78.2m). Both of these segments losses reflected the outcome of the Contract and Balance Sheet Review which included significant onerous contract provisions.

Reconciliation to Former Non-statutory Measures

In order to provide comparability the tables presented show reconciliations to the former non-statutory measures of Adjusted Revenue, Adjusted Operating Profit and Free Cash Flow from the new performance measures of Revenue, Trading Profit, Free Cash Flow and Trading Cash Flow.

For the year ended 31 December	2014	2013 (Restated)
	£m	£m
Revenue	3,955.0	4,284.2
Add: share of joint venture revenues	798.3	855.8
Adjusted Revenue	4,753.3	5,140.0
Trading (Loss)/Profit*	(632.1)	257.4
Transaction related costs	0.9	3.5
Share of joint venture tax and interest	7.9	11.8
Management estimation of charges related to UK Government reviews*	42.9	21.0
Adjusted Operating (Loss)/Profit*	(580.4)	293.7

* Included in the 2014 Trading Loss of £632.1m were charges totalling £745.3m related to the onerous contract provisions, asset impairments and other provisions in 2014. With respect to the charge of £745.3m there was £718.0m charged to Adjusted Operating Profit and £27.3m was charged to the management estimation of charges related to UK Government reviews.

Trading Cash Flow and Free Cash Flow: Year ended 31 December	2014	2013
	£m	£m
Trading Cash Flow	101.7	119.9
Add: Tax received/(paid)	0.1	(18.8)
Add: Interest received	2.7	2.6
Less: Interest paid	(42.3)	(40.8)
Free Cash Flow	62.2	62.9
Add: transaction cash costs	0.3	2.8
Add: Management estimate cash items	16.9	9.2
Add: Directly reimbursed capital expenditure	-	9.9
Free Cash Flow (as previously defined)	79.4	84.8

Reportable Segments

This section is presented according to the management structure and internal reporting that Serco has put in place for 2015 as a result of actions from the Corporate Renewal Programme and the Strategy Review. The UK Central Government division is now a separate unit which brings together Serco's work for the UK Central Government; it also brings together all Transport operations, including those for devolved authorities that were previously included in the UK and Europe Local and Regional Government division. The UK and Europe Local and Regional Government division now incorporates public sector BPO operations previously included in the Global Services division, together with Citizen Services previously included in the Central Government division; all public sector BPO operations are therefore now brought together in this division. The AMEAA region is now reported as two separate divisions – 'AsPac' (the Asia Pacific region, consisting principally of Serco's operations in Australia and New Zealand) and the Middle East. Americas remains as a distinct regional division. The Global Services division now consists of BPO operations only in the private sector.

Aligned to statutory reporting, Serco's share of revenue from its joint ventures is no longer included in divisional revenue, while Serco's share of joint ventures' interest and tax costs is included in divisional Trading Profit. The Group has also simplified its reporting by ending the sharing of Income Statement reporting of certain contracts between two segments. This shared reporting of contracts occurred predominantly between the AsPac and UK segments, with these contracts now being solely reported within the segment that delivers the contract to the end customer. Going forward, eliminating the shared Income Statement reporting of such contracts will increase the transparency and clarity of our segmental performance reporting. The prior year comparative segmental information has been restated to reflect these changes. Further segmental information is included at note 3 to the accounts, while segmental information on the previous structure, as reported to the Board during 2014, is included at note 18.

2014	CG £m	LRG £m	Americas £m	AsPac £m	Middle East £m	Global Services £m	Corporate £m	Total £m
Revenue	961.4	959.8	708.1	706.0	260.4	359.3	-	3,955.0
Change	(10.5%)	(0.3%)	(7.4%)	(18.9%)	(2.8%)	4.6%		(7.7%)
Change at constant currency	(10.5%)	0.4%	(1.5%)	(8.7%)	3.3%	10.8%		(3.5%)
Trading (Loss)/Profit*	(242.8)	(90.4)	16.5	(201.6)	(0.2)	(23.4)	(90.2)	(632.1)
Amortisation of intangibles arising on acquisition	(0.1)	(1.7)	(2.3)	(2.2)	-	(5.1)	-	(11.4)
Impact of onerous contract provisions, asset impairments and other charges on impairment of intangibles arising on acquisition	-	(5.5)	-	(6.4)	-	(0.4)	-	(12.3)
Operating (loss)/profit before exceptional items	(242.9)	(97.6)	14.2	(210.2)	(0.2)	(28.9)	(90.2)	(655.8)

*Included in the 2014 Trading Loss were the following charges from onerous contract provisions, asset impairments and other charges:	(300.8)	(93.8)	(26.7)	(237.1)	(19.3)	(30.3)	(37.3)	(745.3)
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2013 (restated)	CG £m	LRG £m	Americas £m	AsPac £m	Middle East £m	Global Services £m	Corporate £m	Total £m
Revenue	1,074.6	963.0	764.6	870.6	267.9	343.5	-	4,284.2
Trading Profit/(Loss)	114.6	17.8	65.1	78.2	24.5	7.8	(50.6)	257.4
Amortisation of intangibles arising on acquisition	(0.4)	(1.7)	(11.3)	(2.4)	-	(5.6)	-	(21.4)
Operating profit/(loss) before exceptional items	114.2	16.1	53.8	75.8	24.5	2.2	(50.6)	236.0

Strategy Review and Funding

The Strategy Review determined that Serco's future focus will be as an international Business to Government (B2G) business with core sectors of: Justice and Immigration, Defence, Transport, Citizen Services and Healthcare. The Review has identified the need for the Group to have a sustainable balance sheet for the future with a level of financial gearing appropriate for the Group's business mix. Significant operational issues experienced during the year resulted in a marked deterioration in business performance, and has led to the need to reduce the Group's debt levels. The Group intends to reduce debt by way of the proposed equity rights issue and the disposal of businesses identified as non-core to the future strategy. A strong Balance Sheet will restore customer confidence in Serco and give the business a platform from which to implement the new strategy.

The proposed new equity to be raised through the rights issue is fully underwritten by Bank of America Merrill Lynch and J.P. Morgan Cazenove and a prospectus will be issued to shareholders on 12 March 2015. The rights issue, which is subject to shareholder approval, is scheduled to complete in late April 2015 when gross funds of approximately £555m (approximately £528m after costs) are expected to be received.

Planned non-core disposals include the majority of the Global Services private sector BPO business, the Environmental and Leisure businesses in the UK and the Great Southern Rail business in Australia. These businesses are disclosed as assets held for sale in the balance sheet.

In the fourth quarter of 2014 it became clear that the reduced trading outlook and impact of the onerous contract provisions, asset impairments and other charges could result in the Group failing its debt covenant obligations for 2014 and 2015. The Group announced on 10 November 2014 that it would be seeking discussions with its lenders, to ensure Serco remained compliant with the terms of its debt covenants.

Agreement was reached in December 2014 to allow the Group to defer its December 2014 financial covenant test until 31 May 2015 on the condition that the proposed Rights Issue is completed prior to this date. In addition, a number of changes were made to the way in which the covenant test will be calculated to exclude the financial impact of the Contract and Balance Sheet Review whilst including the impact of the Rights Issue on net debt. A further agreement has now been reached with lenders, conditional on the Rights Issue proceeding as planned and on up to £450m of the proceeds being used to repay gross debt.

Contract and Balance Sheet Review

A part of the Strategy Review involved conducting a review, ahead of the year-end, of major contracts and the Balance Sheet (the Contract and Balance Sheet Review), based on management accounts at 30 September 2014. There was a particular focus on the carrying value of assets and of contracts that were experiencing operational challenges. In our July 2014 update statement and at the time of our Half Year Results in August 2014, the Group reported that the results of the Contract and Balance Sheet Review could have an impact on our profits for the year.

The Contract and Balance Sheet Review was undertaken in the second half of 2014, assisted by the accountancy firm, Ernst & Young LLP (EY), and involved Serco's divisional finance teams and contract managers. The scope of the work covered all our contracts and balance sheets around the world. The Contract Reviews were based on a structured interview process with the relevant business and divisional teams assessing contractual features, operational and financial performance and outlook. The contracts were categorised as high, medium or low risk, based on the level of risk, uncertainty and judgement existing in each contract. High risk contracts underwent a full scope review including a full financial review of the contract, a review of the accounting model including challenging and stress testing the assumptions as well as a contract balance sheet review. Those contracts deemed to be medium risk were subject to a review of specific contract risks as well as a focus on the financial impact of the key contractual clauses and a review of the contract balance sheet. Where a contract was deemed low risk, no further work was undertaken. Full scope reviews were carried out on 19 contracts and specific scope reviews on 114 contracts. In terms of the Balance Sheet reviews, these assessed the recoverability of all assets including goodwill, property, plant, and equipment, intangibles and receivables, as well as a review of potential unrecorded liabilities. These reviews also encompassed balance sheet items pertaining to financial instruments and tax.

The onerous contract provisions, asset impairments and other provisions made were based on the findings from the risk based review of the Group's contracts, together with a number of financial, commercial and legal reviews of the medium and high risk contracts and the business unit balance sheets. There is a high level of uncertainty and judgement involved in assessing the assumptions underlying these charges, with a potentially broad range of outcomes including projecting contract and business performance for many years in to the future. However, we believe that we have taken the best estimate of the likely outcome based on the information currently available.

The 10 November 2014 trading update explained that the progress of the Contract and Balance Sheet Review brought management to a point where it was able to provide an initial estimate of the impairments, write-downs and onerous contract provisions that were likely to be required at the 2014 year end. These were estimated to total around £1.5bn, approximately half of which related to the impairment of goodwill and intangibles. The assessment of the carrying value of goodwill and intangible assets reflected the likely outcome of the Strategy Review and the resulting planned disposal of non-core businesses. The onerous contract provisions reflected the re-assessment of the scale of potential future losses on the larger loss-making contracts in the light of the latest operational developments and the worse than expected financial performance in the year.

Charge to Operating Profit from Onerous Contract Provisions, Asset Impairments and Other Provisions

The overall impact of the items identified in the Contract and Balance Sheet Review was £1.3bn. The guidance that we gave in November projected a number of around £1.5bn but it should be noted that £73 m which was in the original projection related to the DLR pension settlement and asset impairment charges associated with Great Southern Rail that are included as stand-alone exceptional items. Taking these items into account, the overall number is broadly in line with what we indicated in November when the Review was still in progress. However, as we completed the Review so the make-up of the number has evolved

and is different from the November update principally as there is a lower level of impairment of goodwill and intangibles, largely due to updated information on the structure and expected proceeds from assets held for sale and an increase to onerous contract charges following higher charges on individually material contracts. The table below shows the outcome from the charges identified in the Strategy Review and the Contract and Balance Sheet Review.

	Year ended 31 December 2014		
	Onerous contract losses and related impairments £m	Other impairments and charges £m	Total £m
Items charged to Trading Loss:			
Onerous contract provision for future year contract losses	(433.4)	-	(433.4)
Intangible fixed asset impairments and write-downs	(8.7)	(17.6)	(26.3)
Property, plant and equipment impairments	(19.1)	(3.0)	(22.1)
Impairment of receivables and other assets	(86.9)	(61.9)	(148.8)
Other provisions and accruals	(9.4)	(105.3)	(114.7)
Total items charged to Trading Loss	(557.5)	(187.8)	(745.3)
Impairment of intangibles arising on acquisition	(6.3)	(6.0)	(12.3)
Total items charged to operating loss before exceptional items	(563.8)	(193.8)	(757.6)
Exceptional items:			
UK frontline clinical health provision for future year contract losses	(13.7)	-	(13.7)
UK frontline clinical health other charges	(2.4)	-	(2.4)
Other provision for legal claims	-	(20.1)	(20.1)
Impairment of Global services assets transferred to held for sale	-	(39.2)	(39.2)
Impairment of goodwill	-	(466.0)	(466.0)
Total items charged to exceptional items relating to Review	(16.1)	(525.3)	(541.4)
Total charge to operating loss	(579.9)	(719.1)	(1,299.0)

The charges to operating loss set out above were assessed to determine whether they related to circumstances existing at 31 December 2013, and, if so, whether any amounts should be recognised as prior period adjustments. Serco has a number of contracts that are multi-year, fixed price and/or carry strict performance conditions, and, as a result, determining the future financial performance is complex and includes many assumptions, estimates and accounting judgements. Accordingly, one of the key areas of focus during the Contract and Balance Sheet Review was to determine the reasons underlying significant changes made to future estimated financial and operational performance, i.e. the "trigger points" for such changes. This focus was to ensure that there was adequate information to assess whether the accounting entries arising resulted from an error or a change in accounting estimate, for the purpose of determining whether the write-off should be reflected in the 2014 period or prior periods. The Contract and Balance Sheet review concluded that the onerous contract provisions arose from unexpected events and operational challenges occurring in the course of 2014, and therefore represented necessary revisions to the accounting estimates used previously, rather than errors arising from prior years.

Management have recognised a prior year adjustment to reflect the restatement of financial instruments giving rise to a net charge of £5.6m against prior year reported profits, which included a net credit to the 2013 Income statement of £3.0m. These amounts had previously been taken directly to reserves, and as a consequence there was no adjustment required to restate the net assets or cash flows of the Group as at 31 December 2013 or the prior year. The adjustment arose from the fact that the appropriate documentation required to support hedge accounting treatment was not fully in place for two hedges, which is more fully explained in Note 2 to the accounts. The Group concluded that all other charges are changes in estimates rather than errors. The events that occurred in 2014 and the detailed Review performed in conjunction with EY led us to conclude that all other charges are changes in estimate in nature.

Onerous Contract Provisions and Related Impairments

Included in the charge to Trading Loss were £557.5m of charges related to onerous contracts. The largest element of this charge was £433.4m related to the recognition of future year projected cumulative trading losses on contracts up to the contractual end date including attributable overheads and, where the impact of the time value of money was significant, discounting. Attributable overheads, such as IT and finance costs, are included in the provision and relate to the allocation of shared costs that can be linked to the contract activity performed. The costs are allocated on the basis of the key cost drivers, except where this is impracticable, where contract revenue is used as the basis. The balance of the charge to Trading Loss relating to onerous contracts was £124.1m and comprised impairment of contract balances which were predominantly non-cash in nature.

The £433.4m provision for future contractual losses charged to Trading Profit and held on the balance sheet at 31 December 2014 is based on projections of the future losses on approximately 50 contracts, with losses extending up to ten years to 2024 on the longest contract. These contracts, including UK frontline clinical healthcare, made a cumulative loss in 2014, before the impact of onerous contract provisions arising from the review, of approximately £95m. Significant judgement is required in determining the appropriate level of onerous contract provision, reflecting the extended time periods involved and a number of future variable items of which some, but not all are within management's control. Based on information currently available we believe that our estimate of the most likely outcome is, in aggregate, appropriate. Going forward, our contracts with onerous contract provisions will be assessed at least every six months (and more frequently if required due to changes in circumstances or performance). Given the nature of the contracts, it is possible that the actual financial performance may well be different from our current projections and as a result, our onerous contract provision, particularly in regard to individual contracts, might fluctuate year to year. This is a judgemental area but we will maintain a consistent approach to assessing forecast contract outcomes and will provide clear disclosure in our reporting in future periods of the utilisation and other changes to the onerous contract provisions.

Given the scale of these onerous contract provisions, asset impairments and other charges, and the consequent impact on future cash flow, the background to the five contracts with the largest financial impact is explained in more detail below. These account for approximately three quarters of the total onerous contract provisions charged to Trading Loss. The remaining contracts with charges related to onerous contract provisions cover a number of different sectors and geographies, but none has expected future cumulative trading losses greater than £15m.

	Year ended 31 December 2014		
	Onerous contract losses for future year contract losses £m	Related impairments and charges £m	Total charge Operating profit £m
Items charged to Trading Loss:			
ACPB	(135.6)	(60.0)	(195.6)
COMPASS	(112.3)	(3.0)	(115.3)
FPMS	(50.2)	(15.4)	(65.6)
PECS	(14.1)	(12.8)	(26.9)
Ashfield	(15.3)	(3.5)	(18.8)
Five largest	(327.5)	(94.7)	(422.2)
Other	(105.9)	(29.4)	(135.3)
Total items charged to Trading Loss	(433.4)	(124.1)	(557.5)
ACPB - Impairment of intangibles arising on acquisition	-	(6.3)	(6.3)
Total onerous contracts charged to operating loss before exceptional items	(433.4)	(130.4)	(563.8)
UK frontline clinical health exceptional provisions	(13.7)	(2.4)	(16.1)
Total onerous contract charges to operating loss	(447.1)	(132.8)	(579.9)

Armidale Class Patrol Boats (ACPB) contract. Total impairments and provisions: £201.9m

The single largest onerous contract provision for future year losses relates to our contract to operate and maintain a fleet of patrol boats for the Royal Australian Navy. This contract was entered into in December 2003 with an initial design and build phase, after which the fleet became operational in 2007. The boats were originally designed for general patrol duties. Serco's key obligation is to have the fleet available for operations for a fixed number of days a year.

In 2009 Australia was faced by a rapid and unforeseen increase in illegal arrivals by sea. The Armidale Class patrol boats were heavily used for detection and interception, and transporting immigrants to places of safety. Consequently, the patrol boats began to operate at a greatly increased operational tempo, and spent much more time in areas where sea conditions are hostile and extremely stressful on vessels. Neither the customer, nor Serco anticipated such a change in use of the patrol boats. As a consequence, the vessels have been operated in a manner beyond that originally anticipated and for which they were specified, which has resulted in increased repair and maintenance costs, longer periods in port, and consequent penalties being imposed by the customer for vessel non-availability. The contract has a further eight years to run, expiring in 2022. The Group is currently in negotiations with the Australian Defence Material Organisation with a view to agreeing the implementation of a remedial programme and improving the terms of the contract.

In the years to 31 December 2013, the contract was modestly profitable. As repair costs increased in 2012 and 2013, anticipated margins were reduced, but until the second half of 2014 it appeared likely that the revenues would exceed costs over the remaining life of the contract, and therefore there was no need to recognise an onerous contract provision. It was also believed that the customer would accept a proportion of the excess repair costs, particularly those related to corrosion, as an independent report, commissioned by the customer, had confirmed that the customer was partially responsible for the damage. However, in 2014 a number of events occurred that materially changed this judgement:

- In the first quarter of 2014, structural cracks were found in one of the patrol boats. Over the following months, inspections were carried out on the fleet as they came in from patrol, and it became clear that most of the boats had suffered similar damage, the remediation of which would require major work. As a result of this and increasing costs of repair and maintenance, in November 2014 we commissioned a specialist vessel engineering consultancy to produce a detailed projection of likely costs over the life of the contract both of repairing the structural damage, and maintaining the fleet through to the end of the contract. This report was recently finalised.
- As the amount of time spent on repairs increased, our ability to maintain fleet availability in accordance with the contract decreased, and this caused hardening attitudes between us and our customer. In 2013 and through the first half of 2014 we expected that a reasonable commercial settlement based on an equitable division of excess costs would be possible. By the time of our contract review, it was becoming clear that this would not be easily or quickly achieved. Furthermore, the costs of penalties payable to the customer for failure to meet availability targets increased.
- These problems were compounded by a major fire on one of the fourteen patrol boats whilst it was under repair in August 2014. This boat was rendered inoperable, increasing further the risk of missing the fleet availability targets and consequent additional penalties.

As a result of these contractual developments, a charge totalling £201.9m has been expensed in the year with a provision of £135.6m related to anticipated future losses over the remaining eight years of the contract. There were also £66.3m relating to impairments of contract balances and other charges, including the impairment of receivables of £52.2m arising from spend that was previously expected to be recoverable from the customer and £6.3m of impairment of intangibles arising on acquisition. Our estimate of future losses is based on our recent internal engineering assessment as well as the external expert review and reflects the scale of the remediation required and the operational availability challenge, exacerbated by the loss of one of the vessels.

Given the fact that the systemic extent of cracking and corrosion and remediation cost was not apparent until the second half of 2014, compounded by the deterioration in the customer relationship during the year and the loss of one vessel through fire in August 2014, we have concluded that this is a change in accounting estimate in 2014, and not a prior period error. The above amount is considered to be the most

appropriate charge to reflect the best estimate of future losses along with other write offs and impairments. However, Serco remains in ongoing discussion with the customer and is pursuing all avenues to mitigate losses.

***Commercial and Operational Managers Procuring Asylum Support Services (COMPASS) contract.
Total impairments and provisions: £115.3m***

The second largest onerous contract provision for future year losses relates to our COMPASS contract with the UK Home Office, which is for the provision of accommodation, transportation and subsistence payments for asylum seekers whilst their claims are being processed. Claim processing can take from a few months to several years.

This contract commenced in 2012 and provides services in two of the six administrative regions of the contract in the UK; the North West, comprising fourteen Local Authority areas; and Scotland & Northern Ireland. The contract runs to December 2017, with a further extension of up to two years at the option of the customer.

The contract was originally bid at a low margin and despite losses in the two years to 31 December 2013 there were expectations that it would become profitable within the contract period given anticipated volumes of asylum seekers, and on the assumption that the costs of running the contract could be reduced over time. Accordingly, no onerous contract provision was recognised at the 2013 year end. At 30 June 2014 an onerous contract provision of £6m was recognised, which was based on the then-current assumptions regarding asylum seeker numbers, the duration of accommodation and support services required, and forecasts of costs to deliver the contract.

The contractual performance and outlook have seen significant adverse changes since June 2014. In particular a number of events have occurred which have led to a significant increase in the level of contract loss we now expect to incur:

- There has been a significant increase in the volume of asylum seekers in our care during the course of 2014. At 31 December 2013 we had 10,024 in our care, whereas by December 2014 we were looking after 12,448 – a year-on-year increase of 24%, with an accelerating growth rate in the second half of the year. Growth in the number of asylum seekers is driven by three factors: the number of new asylum seekers arriving in the UK; the rate at which the Immigration Authorities process claims; and the proportion of asylum seekers allocated to each contractual region by the Immigration Authorities. We have no control over these factors, and all moved to our disadvantage during 2014.
- Despite the fact that the profile of our costs does not decrease in proportion to volume, the contract includes a price reduction provision at certain volumes of asylum seekers in our care, which was triggered in October 2014 by the volume growth.
- Availability and cost of housing: when finding housing for asylum seekers, we have to work closely with Local Authorities to gain permissions to house asylum seekers in their areas. Local Authorities have a statutory responsibility to provide and fund healthcare and education services for asylum seekers in their areas from existing budgets. Accordingly, gaining Local Authority agreement to allow asylum seekers to be housed in their areas can be challenging and takes time. If we have large numbers of additional asylum seekers we find ourselves having to provide accommodation for large numbers of asylum seekers in hotels rather than houses, which is much more expensive.
- Volatility in the number of service users has also become a major issue; as the system has come under strain from increasing numbers, so the numbers the Home Office instructs us to take can change rapidly from week to week, whereas procurement of properties takes a much longer timescale. On occasions, we have been instructed by the Home Office to take large numbers of service users with only a few days' notice and this inevitably causes increased costs and operational strain on the system. Similarly, where there is a sudden drop off in numbers of asylum seekers this can lead to a surplus in unoccupied rented housing, which also creates additional costs.
- Given recent volume growth we have reassessed our forecast volume assumptions. Based on historic numbers and trend analysis, we have assumed an average growth rate of 1.46% per month in the North West and 1.49% in Scotland and Northern Ireland. This produces forecasts of significantly higher numbers of asylum seekers towards the end of the contract, and as a result the projected losses are far larger than were previously anticipated.

As a result of these factors, a provision of £112.3m has been recognised to cover anticipated losses over the remaining five years of the contract (including the two extension years), and there have been asset impairments and other charges of £3.0m. This represents our current best estimate of the likely outcome, although the losses on the contract are closely linked to volume of asylum seekers, which is not in Serco's control and the range of potential outcomes is wide, given that there is no contractual cap on the total number of service users that could be assigned to Serco.

As the triggers for these charges have been the recent significant changes in volumes and the consequent activation of the volume price reduction, we have concluded that the charge is a change in accounting estimate in 2014, and not a prior period error.

Future Provision of Marine Services (FPMS) contract. Total impairments and provisions: £65.6m

The FPMS contract, which has a 15-year duration, provides marine support services to the UK Ministry of Defence (MOD) dockyard ports of Portsmouth, Plymouth and Faslane as well as support to military exercises and training and to the Raasay Ranges. Serco has been delivering services to the MOD under the FPMS contract since its inception in 2007 and operational performance against key performance indicators has remained consistently strong.

The contract has specific tasks that we are required to deliver in return for a fixed fee. Additionally, variable revenues are recognised for extra tasking (as instructed by the MOD and other third parties), and from time to time through the chartering of vessels to third parties.

The contract was profitable in the early years. However, a reduction in fixed fee revenue resulted in losses in 2011 and 2012. In 2013 the contract returned to profit as the Group secured a large number of extra tasking requests and third party charters, with the reduced fixed fee revenue also being offset to some extent by a cost reduction programme. During 2014, the contract again lost money as there were few opportunities for third party chartering revenue and additional tasking requests also ran at a lower level than previous years.

It has become clear that there is significant uncertainty about our future ability to generate third party chartering revenue. In addition, recent cost reduction measures put in place by the customer are likely to limit the volume of variable revenue opportunities in terms of extra task orders. Furthermore, a review of the contract during the second half of 2014, based on latest cost estimates, considered the on-going cost base to deliver the contract. This review covered the required resourcing, repairs and maintenance spend and sub-contractor agreements and concluded that, despite efforts in recent years to reduce the cost base, Serco is likely to lose money on the fixed fee element of the contract.

As a result of these factors a charge totalling £65.6m has been taken, comprising a provision of £50.2m to cover anticipated future losses over the remaining eight years of the contract and £15.4m of asset impairments and other charges. As the triggers for this adjustment were the significant and unexpected reduction of variable revenues from chartering and task orders in the year, which could not have been foreseen, together with the findings from the contract review, we have concluded that this is a change in accounting estimate in 2014, and not a prior year error.

Prisoner Escort and Custody Services (PECS) contract. Total impairments and provisions: £26.9m

This is a contract with the Ministry of Justice (MOJ) for the provision of prisoner transportation between courts and prisons and for the management of prisoner welfare when at court. The seven-year contract was awarded in 2011, with three one year extension options at the customer's discretion.

In 2013 Serco identified misreporting of its Designated Ready and Available for Court Time (DRACT) performance measure, and in late 2013 an outline agreement was reached with the MOJ that Serco could retain the contract in return for making service improvements, at Serco's cost, and forgoing any future profit. During the course of 2014 Serco and the MOJ worked together to determine the detail of this agreement and the consequent level of investment required by Serco. Discussions were at an early stage at June 2014 and are now concluded. This has allowed us finally to determine the transformation activities necessary, and as a result in the second half of 2014 we took the decision to extend our transformation programme into 2015, at an additional estimated cost of £6m. The crystallisation of these obligations has also allowed us to refine our assessment of the future level of resources which will be necessary within the

contract to sustain our service at the agreed levels for the remainder of the contract term. This resulted in a significant increase in expected future costs.

The total onerous contract provision at 31 December 2014 is £14.1m, to cover future anticipated losses over the remaining 3 years and 8 months of the contract, with asset impairments and other charges of £12.8m. The principal factors driving our estimate are the extent and speed of our ability to reduce the level of staff overtime and the requirement for short-term agency resource through planned operational improvements.

This adjustment is a direct result of the discussions concluded in the second half of 2014, and consequently the adjustment is considered to be a change in accounting estimate in 2014, and not a prior period error.

Ashfield prison. Total impairments and provisions: £18.8m

The HMP Ashfield PFI contract commenced in 1999 and runs through to 2024. In 2013 the operational role of Ashfield was changed from a Young Offender Institution to an adult male sex offenders' prison resulting in a changed cost base. Such changes are normal in the life of a 25-year contract, and there is an established process for agreeing resultant price changes. However, since the change of operational role of the prison the MOJ has imposed on us a level of pricing which we dispute, and which would result in substantial losses over the remaining life of the contract. We remain in negotiation with the MOJ but progress has been slow and agreement has not yet been reached. Should we continue to be unable to reach a resolution with the MOJ, we will have to invoke contractual remedies, including the dispute resolution mechanism under the terms of the contract. Since the outcome of any such process is uncertain, we judge we need to take an onerous contract provision of £15.3m to cover anticipated future losses, as well as impairing certain other assets totalling £3.5m, making an aggregate charge against the contract of £18.8m.

As the adjustment is the result of the failure to resolve pricing in 2014, the adjustment is considered to be a change in accounting estimate in 2014, and not a prior period error.

Other Onerous Contract Provisions Charged to Trading Loss

Total other onerous contract provisions charged to Trading Loss for future year losses of £105.9m, related to contracts which each had cumulative future year trading losses of up to £15m. These contracts were individually reviewed as part of the Contract and Balance Sheet Review by EY and management and arise from one or more of the following factors in the second half of 2014: a change to the strategic direction of the business, a reassessment of the likely outcome of disputed items, and adverse operational results arising from external factors leading to a reassessment of the future profitability. These factors led to these contracts becoming onerous and provisions being recognised at the lower of the net costs to fulfil contracts and, where applicable, the costs to end contracts early. In each case, it was concluded that as the triggering events arose in 2014, these provisions were changes in estimates.

Onerous Contract Provisions Projected Utilisation

Projecting the future utilisation of the onerous contract provision is not easy given the inherent uncertainties of predicting future contract performance, particularly when the performance on a number of key contracts depends on future service demand and volume which are factors we do not control. It is hard to forecast, for example, the number of asylum seekers entering the United Kingdom. However, given the fact that projected utilisation correlates with the estimated cash impact of these future contract losses, we have estimated the projected phasing below. The projected utilisation reflects, where the impact was significant, discounting of the future contract losses and this has reduced the total provision on the balance sheet by £21m. Clearly, we will in future years review our contract performance regularly and update our estimate of onerous contract provisions and associated projected future utilisation.

	2015	2016	2017 onwards	Total
	£m	£m	£m	£m
Projected provision utilisation*	139	83	225	447

*including exceptional items for UK frontline clinical Health and provisions included in held for sale liabilities

The projected provision utilisation represents our current understanding of the contracts' future financial outturn. Depending on various factors, as outlined below, the extent of actual losses and cash flows is likely to vary from these estimates over the coming years.

These projections may need to be revised or could prove to be incorrect due to various internal and external factors, such as, (i) contract trading performance, (ii) the extent of actual losses, (iii) any re-negotiations of contract terms, (iv) insurance or other claims made or disputes or litigations with customers or suppliers, (v) the impact of macro-economic, social and political factors on the Group, such as economic recessions, changes to government policies and budgets and (vi) changes to volume, such as, significant increases or decreases in the number of asylum seekers under the Group's existing relevant contracts, (vii) changes to demand, such as, significant increases or decreases in the use of outsourcing services by the Group's government customers, or (viii) changes to costs, such as, increases in the cost of labour or materials employed by the Group.

Other Impairments and Charges to Trading Loss

Included in management's best estimate of outcomes from the accelerated review as announced in November 2014 were £187.8m of charges to Trading Loss. A significant portion relates to £105.3m of provisions and accruals for contracts, property, employee and legal related exposures. An estimated future cash impact of these items is expected to be £72.5m and these are all in relation to contracts that remain profitable, or for areas covering a range of contract or Group activity. These charges have arisen as a result of new information being made available in light of the changing risk profile of the Group and changing direction of the business which has led to a hardening of positions taken by customers and other parties where we have potential liabilities. The impact of the changes in certain customer positions as a result of these triggering events in the year has also led to a non-cash impairment of receivable balances of £61.9m.

There are also non-cash impairments of intangible and tangibles assets of £20.6m, relating primarily to corporate assets abandoned as a result of the strategy review. The business has developed various IT systems and processes which we no longer consider to be necessary to the future direction of the business, nor, therefore, is it appropriate to continue to hold these assets.

Impairment of Intangibles Arising on Acquisition

As a result of the Strategy Review there are areas of the business where acquisitions were made but we will no longer be pursuing opportunities, resulting in the abandonment of certain intangible assets, resulting in impairments totalling £12.3m, some of which related to contracts with future losses. As these are directly linked to the Strategy Review concluded in the year, they represent changes in management's best estimate.

Exceptional Items

Exceptional items are non-recurring items of financial performance that are outside normal operations and material to the results of the Group either by virtue of size or nature. After taking into consideration the reminder issued by the Financial Reporting Council in December 2013, regarding the treatment of exceptional items, we believe that the items set out below require separate disclosure on the face of the income statement to assist in the understanding of the underlying performance of the Group.

	Year ended 31 December 2014 Total £m	Year ended 31 December 2013 Total £m
Costs associated with UK Government review	(9.2)	(11.6)
Settlement amount relating to UK Government reviews	-	(66.3)
UK frontline clinical health contract provisions	(16.1)	(17.6)
Restructuring costs	(32.7)	(14.9)
Provision for settlement relating to DLR pension deficit funding dispute	(35.6)	-
Other provision for legal claims	(20.1)	-
Impairment and related charges of Australian rail business	(37.2)	(9.6)
Impairment of Global Services business transferred to assets held for sale	(39.2)	-
Impairment of goodwill	(466.0)	-
Deferred consideration adjustment relating to prior year acquisition	-	10.3
Total other exceptional items	(656.1)	(109.7)
(Loss)/profit on disposal of businesses	(5.4)	19.2
Total exceptional items	(661.5)	(90.5)

Costs Associated with UK Government Reviews

During the year there were exceptional costs totalling £9.2m (2013: £11.6m) associated with the UK Government reviews and the programme of corporate renewal. This reflected external costs incurred and included external adviser costs related to these reviews and the Corporate Renewal Programme.

UK Frontline Clinical Health Contract Provisions

During 2014, there were additional exceptional provisions of £16.1m (2013: £17.6m), including an onerous contract provision of £13.7m to cover the anticipated future year loss from the unexpected increase in patient volumes in 2014 on the Suffolk Community Health contract. The provisions relate to the re-evaluation of the forecast losses of the UK clinical health operations, against which an exceptional onerous contract provision of £17.6m was made in the prior year and reflect the Group's withdrawal from the front-line UK clinical health market, with the future focus of the Group on Healthcare being on the provision of non-frontline health services. This re-evaluation reflected reviews showing there are additional costs of delivering improved service levels and meeting performance obligations through to the end of the contracts. The Cornwall out-of-hours contract is being exited early in May 2015 and Braintree Clinical Services was disposed of in March 2014. The third loss-making contract, Suffolk Community Health, is being run through to the end of the contract term in September 2015.

Restructuring Costs

As a result of analysis of the cost structures in the businesses and initial actions from the Strategy Review, an exceptional restructuring charge of £32.7m was taken in the year reflecting £19.8m in relation to headcount reductions, £6.9m in relation to property-related exit costs and related asset impairments and £6.0m of adviser costs associated with the Strategy Review and the Contract and Balance Sheet Review. These have been treated as exceptional costs as they have arisen directly as a result of restructuring in response to the impact of the UK Government reviews and the Strategy Review.

Provision for Settlement Relating to DLR Pension Deficit Funding Dispute

In November 2014 the Group agreed to settle a dispute with the Trustees of the Docklands Light Railway (DLR) Pension Scheme over the extent of its liability to fund the deficit on the scheme. This had previously been included as a contingent liability in 2013 based on legal advice taken at the time. The settlement has resulted in a total exceptional charge inclusive of costs of £35.6m, consisting of the full and final settlement amount of £33.0m and costs of £2.6m. The settlement is to be paid over four equal annual instalments from January 2015 to January 2018 covering all past and any future DLR associated pension liabilities.

Other Provision for Legal Claims

An exceptional provision of £20.1m has been recognised for legal claims made against Serco for commercial disputes. This provision is based on legal advice received by the Company.

Impairment and Related Charges of Australian Rail Business

In 2014 the Group put the business up for sale and this is expected to complete in the first half of 2015. An impairment review was performed on the Australian rail business, Great Southern Rail, resulting in a charge totalling £37.2m (2013: £9.6m). This consisted of an impairment of £23.1m to reduce the carrying value of its net assets to the estimated recoverable amount and a charge of £14.1m in relation to the break costs of leases relating to the business.

Impairment Relating to Global Services Business Transferred to Assets Held For Sale

As part of the Strategic Review certain assets have been designated as non-core and are disclosed in the balance sheet as held for sale. Consequently a calculation of the fair value of the Global Services businesses has been performed and resulted in an impairment of the carrying value of assets of £39.2m. This relates to an impairment of the UK part of the Global Services business.

Impairment of Goodwill

As goodwill is not amortised, it is tested for impairment annually or if there are indications that it might be impaired. The recoverable amount of each cash generating unit (CGU) is based on value in use calculations derived from forecast cash flows based on past experience, adjusted to reflect market trends, economic conditions and key risks. These forecasts include an appropriate level of new business wins and an assumption that the final year forecast continues on into perpetuity at a CGU specific terminal growth rate that does not exceed the forecast GDP growth for the relevant market of the business.

The output of the Strategic Review identified a non-cash exceptional impairment of goodwill of £466.0m in relation to the reduction in the carrying value of net assets to the estimated recoverable amounts in the CGUs of the Group. The impairments arise as a result of two key issues. Firstly, forecasts of cash flows have been significantly impacted by the Strategy Review undertaken during the year, and secondly, the discount rates applied in the impairment calculations have increased to reflect the changing level of risk associated with the business and the fall in the Group's market capitalisation. The impairments arose in the following cash generating units.

Exceptional Impairment of Goodwill by Cash-generating Unit

	Year ended 31 December 2014 Total £m
UK Local & Regional Government: Local Services	(57.6)
UK Local & Regional Government: UK Health	(22.9)
Americas	(100.7)
Global Services	(284.8)
Total exceptional goodwill impairment charge	(466.0)

Loss on Disposal of Businesses

The net loss on disposal of businesses of £5.4m relates to the following specific disposals.

On 19 June 2014 the Group disposed of its debt collection business, Collectica Limited, which after disposal related costs, resulted in a loss on disposal of £3.5m. On 30 September 2014, the Group disposed of its Sky Germany business resulting in a loss on disposal of £3.1m. In the year there was also a £0.1m loss on disposal arising from the sale of Ascot College in 2013. These losses were offset by a gain of £0.5m on the disposal of the Braintree Community Hospital business on 10 March 2014 and a gain of £5.4m recognised in the period in relation to the disposal of the nuclear assurance technical consulting services business that had been sold in 2012, following the release of provisions which have become time

expired. In the year, a loan receivable in respect of a prior year disposal in the prior year was impaired by £4.6m.

Net Finance Expense

Net finance costs of £36.7m were £0.5m lower than 2013. This reflected reduced bank loan interest charges incurred in the year as a result of lower average net debt, and slightly higher investment revenue, which were partly offset by a £2.2m increase in facility fees associated with revisions to the terms of lending agreements.

Taxation

Our tax strategy is to manage all taxes to ensure that we pay the appropriate amount in the countries in which we operate, while both respecting applicable tax legislation and utilising appropriate legislative reliefs. Our strategy is aligned with the Group's business strategy and endorsed by the Board. Responsibility for tax strategy and risk management sits with the Chief Financial Officer. Day-to-day delivery of the strategy is executed by a global team of professionals who are aligned with our businesses and who work closely with local tax authorities and local advisors.

Taxes Received

We received net tax of £0.1m in the year with income taxes paid of £25.9m during the period, principally in our ASPAC (£10.1m), Americas (£5.9m) and Global Services India (£4.2m) divisions. We also received UK tax refunds of £26.0m arising from carrying back tax losses to earlier periods and from surrendering some of our tax losses to our UK joint ventures.

As at 31 December 2014, the Group has gross estimated UK tax assets of £723m (£145m net), which are potentially available to offset against future UK taxable profits. These comprise mainly UK tax losses available for carry-forward and deferred tax depreciation. Of these tax assets, £589m arise in Serco Limited, the Group's principal UK trading entity; the remaining £134m arise in other UK group companies. Of the net £145m of tax assets, only £10.5m is recognised on the balance sheet on the basis of forecast utilisation against future taxable profits, with £134.5m being a contingent asset not recognised on the balance sheet.

Tax Charge

In 2014 we recognised a tax charge of £11.1m on a pre-tax and pre-exceptional loss of £692.5m. The £11.1m charge includes a £34m deferred tax credit associated with ASPAC onerous contract provisions offset by a write-off of UK deferred tax assets and additional provisions against prior year uncertain tax positions. There is no tax credit arising on the pre-tax and pre-exceptional loss principally because no deferred tax credit is being recognised on UK tax losses arising from the Contract and Balance Sheet Review due to insufficient forecast taxable profits.

In 2014 we also recognised a £18.0m credit on exceptional losses of £661.5m. The credit represents the net impact of AsPac deferred tax arising on the impairment of our Australian rail business and deferred tax credits on provisions relating to other legal claims. There is only a limited tax credit associated with these exceptional costs principally because no deferred tax credit is being recognised in respect of goodwill impairment and no deferred tax credit is being recognised on UK tax losses arising.

The tax charge arising on Trading Profit before the impact of the Contract and Balance Sheet Review in 2014 is approximately 30%. This is higher than the 25% guidance we gave at Half Year due to a new tax election in respect of UK research & development made by our National Physical Laboratory subsidiary during the second half, the benefit of which is appropriately shown in operating costs rather than income taxes. The rate is also impacted by the change in reporting measure from Adjusted Operating Profit to Trading Profit, resulting in the exclusion of tax benefits arising in our joint ventures.

Our tax charge in future years will be materially impacted by our accounting for UK deferred taxes. To the extent that future UK tax losses are not recognised, our effective tax rate will be higher as we will not be recognising the associated tax benefit arising on the losses. To the extent that our existing UK tax losses are subsequently recognised or utilised, our effective tax rate will bring in the associated tax benefit and will reduce accordingly.

Joint Ventures – Serco's Share of Results

Year ended 31 December	2014 £m	2013 £m
Revenue	798.3	855.8
Operating profit	37.9	58.9
Net finance cost	(0.3)	(0.4)
Income tax expense	(7.6)	(11.4)
Profit after tax	30.0	47.1
Dividends received from joint venture	34.8	51.5

The most significant joint ventures are the UK's Atomic Weapons Establishment (AWE) and Northern Rail. Serco manages AWE in a consortium with Lockheed Martin and Jacobs Engineering Group in a 25 year contract to 2025. In 2014 Serco's share of revenue was £329.8m (2013: £341.2m) and profit after tax was £16.9m (2013: £22.3m). Northern Rail is a 50% joint venture with Abellio to operate the rail franchise that runs until February 2016. In 2014 Serco's share of revenue was £288.7m (2013: £325.2m) and profit after tax was £6.5m (2013: £12.4m). The prior year contract re-pricing on AWE and that agreed as part of the Northern Rail interim franchise drove the profit reductions.

(Loss)/Earnings per Share (EPS)

The loss per share 258.4p (2013: earning per share 20.1p). Loss per share excluding exceptional items of 135.0p (2013: earnings per share 32.7p). Measures of basic EPS are calculated on a weighted average share base of 521.5m (2013: 489.0m), the increase reflecting the 49.9m of new shares issued following the share placing completed on 7 May 2014.

Dividend

As part of actions being taken to reduce the Group's indebtedness, the Board is not recommending the payment of a final dividend for the 2014 financial year. Dividends paid in the year totalled £53.1m or 10.55p per share (2013: £51.5m or 10.55p per share) representing the final dividend for 2013 of 7.45p per share that was paid to shareholders on 14 May 2014 and the interim 2014 dividend of 3.10p per share that was paid to shareholders on 17 October 2014.

The Board is committed to resuming dividend payments and adopting a progressive dividend policy when it is prudent to do so. The Directors' decision as to when to declare a dividend and the amount to be paid will take into account the Group's underlying earnings, cash flows and balance sheet leverage, the requirement to maintain an appropriate level of dividend cover and the market outlook at the time. It is not anticipated that the Board will recommend any dividend in respect of the 2015 financial year.

Cash Flow Reconciled to Net Debt

The table below shows the operating loss and Free Cash Flow reconciled to movements in net debt. Free Cash Flow is the cash flow from subsidiaries and dividends received from joint ventures and is stated before exceptional items which are considered non-recurring in nature. Free Cash Flow for 2014 was £62.2m compared to £62.9m in 2013. This reflected a £154.4m year-on-year improvement in working capital, reduced tax payments of £18.9m and lower purchases of tangible and intangible assets of £23.3m, offset by a £181.1m reduction in the Operating cash inflow (before movements in working capital, exceptional items and tax) and reduced dividends from joint ventures of £16.7m. The impact of the Contract and Balance Sheet Review was mostly non-cash in nature in 2014, relating principally to provision movements and other impairments.

Cash Flow: Year ended 31 December	2014	2013
	£m	(Restated) £m
Operating (loss)/profit	(1,317.3)	145.5
Less: exceptional items	661.5	90.5
Operating (loss)/profit before exceptional items	(655.8)	236.0
Less: profit from joint ventures	(30.0)	(47.1)
Non cash movements	772.2	78.6
Operating cash inflow before movements in working capital, exceptional items and tax	86.4	267.5
Working capital movements	17.0	(137.4)
Tax received/(paid)	0.1	(18.8)
Cash flow from operating activities before exceptional items	103.5	111.3
Dividends from joint ventures	34.8	51.5
Interest received	2.7	2.6
Interest paid	(42.3)	(40.8)
Proceeds from disposal of tangible and intangible assets	6.9	5.0
Purchase of intangible assets	(20.0)	(27.8)
Purchase of tangible assets	(23.4)	(38.9)
Free Cash Flow	62.2	62.9
Acquisition of subsidiaries net of cash acquired	(6.5)	(18.6)
Proceeds from disposal of subsidiaries and operations	1.9	40.6
Costs of equity rights issue	(4.1)	-
Proceeds from share placement	156.3	-
Purchase of own shares net of share option proceeds	2.3	(14.9)
Acquisition of other investments	(3.5)	-
Increase in security deposits	-	(0.2)
Capitalisation of loan costs	4.6	-
Amortisation of capitalised loan costs	(1.0)	-
Impairment of loan receivable	(4.6)	-
Non-recourse loan advances	(6.8)	(5.3)
New and acquired finance leases	(13.7)	(23.0)
Exceptional items	(40.4)	(103.4)
Dividends paid	(53.1)	(51.5)
Non-controlling dividends paid	-	(0.6)
Foreign exchange (loss)/gain on net debt	(30.4)	0.6
Movement in net debt including assets and liabilities held for sale	63.2	(113.4)
Assets held for sale movement in net debt	39.5	-
Net debt at 1 January	(745.4)	(632.0)
Net debt at 31 December	(642.7)	(745.4)

The table below provides an analysis of Trading Cash Flow and provides the equivalent pre-interest and pre-tax cash flows equivalent to Trading Profit. This is derived from the cash flow from operating activities excluding tax items and is shown after net capital expenditure and after dividends received from joint ventures. The percentage conversion of Trading Profit into Trading Cash Flow is also provided in this table and this is a measure of the efficiency of the business in terms of converting profit into cash before taking account of the impact of interest, tax and exceptional items.

Trading Cash Flow: Year ended 31 December	2014	2013
	£m	£m
Cash flow from operating activities before exceptional items	103.5	111.3
Less: Tax (received)/paid	(0.1)	18.8
Dividends from joint ventures	34.8	51.5
Proceeds from disposal of tangible and intangible assets	6.9	5.0
Purchase of intangible assets	(20.0)	(27.8)
Purchase of tangible assets	(23.4)	(38.9)
Trading Cash Flow	101.7	119.9
Trading (Loss)/profit	(632.1)	257.4
Trading Profit cash conversion	n/a	46.6%

Cash flow from operating activities, before exceptional items, was £103.5m and this was £7.8m lower than the prior year, with the cash impact of the reduction in profit in large part offset by the improvement in working capital and movements in non cash items. Trading Cash Flow which is shown before the impact of exceptional items, tax and interest was £101.7m and this was down £18.2m on the prior year reflecting the £7.8m lower operating cash flow and the £16.7m reduction in dividends from joint ventures, being partly offset by reduced capital expenditure on tangible and intangible assets.

The Trading profit conversion into trading Cash flow was 46.6% in 2013. There was a Trading Loss in 2014 and consequently the cash conversion rate is not reported above, however excluding the charges noted above from onerous contract provisions, asset impairments and other charges totalling £745.3m the conversion rate into Trading Cash Flow would have been 89.8%.

Treasury Operations and Risk Management

The Group's operations expose it to a variety of financial risks that include liquidity, the effects of changes in foreign currency exchange rates, interest rates and credit risk. The Group has a centralised treasury operation whose principal role is to ensure that adequate liquidity is available to meet the Group's funding requirements as they arise and that the financial risk arising from the Group's underlying operations is effectively identified and managed.

Treasury operations are conducted in accordance with policies and procedures approved by the Board and reviewed annually. Financial instruments are only executed for hedging purposes: speculation is not permitted. A monthly report is provided to senior management and treasury operations are subject to periodic internal review.

Liquidity and Funding

As at 31 December 2014, the Group had available committed funding of £1,314.8m, comprising a £730.0m revolving credit facility with a syndicate of banks and £584.8m of private placement notes. The principal financial covenants attaching to these facilities are that the ratio of net debt to EBITDA should not exceed 3.5x and the ratio of EBITDA to interest expense should be greater than 3.0x. In December 2014 the Group negotiated amendments to these covenants for the 31 December 2014 covenant test broadly to exclude the effect of the Contract and Balance Sheet Review from the definition of EBITDA, to delay the delivery of the 31 December 2014 covenant test until 31 May 2015 and assuming the rights issue is completed, to apply the proceeds of the proposed rights issue to reduce net debt. In addition to the above debt facilities the Group had a receivables financing facility of £60.0m.

Interest Rate Risk

Given the profile of the Group's business, we have a preference for fixed rate debt. Our treasury policies require us to maintain a minimum proportion of fixed rate debt as a proportion of overall net debt and for this proportion to increase as the ratio of EBITDA to interest expense falls. As at 31 December 2014, 95% (2013: 87%) of the Group's net debt was at fixed rates.

Foreign Exchange Risk

The Group is subject to currency exposure on the translation to GBP of its net investments in overseas subsidiaries. The Group manages this risk where appropriate by borrowing in the same currency as those investments. Group borrowings are predominantly denominated in GBP and USD.

The Group manages its currency flows to minimise foreign exchange risk arising on transactions denominated in foreign currencies and uses forward contracts if appropriate to hedge net currency flows. As part of the Contract and Balance Sheet Review we have reviewed current hedge designations and associated documentation.

Credit Risk

Cash deposits and in-the money financial instruments give rise to credit risk on the amounts due from counterparties. The Group manages this risk by limiting the aggregate amounts and their duration based on external credit ratings of the relevant counterparty.

Debt Covenants

The above facilities are unsecured and have financial and non-financial covenants and obligations typical of these arrangements. The principal financial covenants (as defined) require leverage not to exceed 3.5 times EBITDA and EBITDA to cover interest at least 3.0 times. In December 2014, agreement was reached for the Group to defer its December 2014 covenant test until 31 May 2015, along with certain other

amendments to ensure that the Group remained in compliance. In March 2015 further amendments were agreed, conditional on the receipt of Rights Issue proceeds and pay-down of up to £450m of gross debt, and prospectively these two financial covenants remain unchanged.

The covenant definition of Consolidated Total Net Borrowings represents Group recourse net debt at the balance sheet date adjusted to exclude encumbered cash, loan receivable amounts, and also adjusted to reflect the impact of currency hedges associated with recourse loans. The covenant definition of EBITDA is the operating profit of the business before exceptional items, and after deducting profits from joint ventures and after adding back depreciation, intangible amortisation, share-based payment charges and dividends received from joint ventures. The covenant test for 31 December 2014 has been deferred until 31 May 2015 and is therefore not shown below. When this is calculated at that time, the covenant definitions will have been amended so that EBITDA also excludes the impact of charges arising from the Contract and Balance Sheet Review and Consolidated Total Net Borrowings is calculated after the net proceeds from the equity rights issue. The covenant test for the year ended 31 December 2013 is shown below.

	At 31 December 2013 £m
Operating profit before exceptional items*	234.3
Less: Joint venture post-tax profits	(47.1)
Add: Dividends from joint ventures	51.5
Amortisation of Intangible assets	46.1
Depreciation	47.7
Share-based payment	2.9
Other adjustments	(4.1)
EBITDA per covenant	331.3
Net finance costs	37.2
Other adjustments	0.5
Net finance costs per covenant	37.7
Recourse net debt	725.1
Encumbered cash and other items	21.7
Consolidated Total Net Borrowings (CTNB)	746.8
Covenant CTNB/EBITDA (not to exceed 3.5x)	2.25x
Covenant EBITDA / Net finance costs (at least 3.0x)	8.79x

*Operating profit is shown before the impact of the restatement disclosed in note 2

Balance Sheet Summary

The balance sheet at 31 December 2014 is summarised below showing the impact of the assets and liabilities held for sale adjustment on line items. This shows net liabilities of £66.2m at 31 December 2014 compared to net assets of £1,095.9m a year earlier. The principal driver of this decline has been the £1,299.0m of charges against operating profit identified in respect of onerous contract provisions, asset impairments and other charges, in part offset by the £156.3m increase in net assets from the share placement which completed on 7 May 2014 and involved cash receipts from the issue of 49.9m new shares.

	At 31 December 2014 Including assets held for sale £m	At 31 December 2014 Adjustment for assets held for sale £m	At 31 December 2014 As reported £m	At 31 December 2013 (restated) £m
Non-current assets				
Goodwill	820.6	(279.1)	541.5	1,270.8
Other intangible assets	123.8	(5.0)	118.8	185.7
Property, plant and equipment	132.9	(94.5)	38.4	176.8
Other non-current assets	73.5	(26.8)	46.7	86.4
Deferred tax assets	48.4	(11.0)	37.4	57.9
Retirement benefit assets	143.9	-	143.9	64.2
	1,343.1	(416.4)	926.7	1,841.8
Current assets				
Inventories	33.9	(2.7)	31.2	49.4
Trade and other current assets	623.7	(119.0)	504.7	773.1
Current tax	20.7	(4.2)	16.5	19.5
Cash and cash equivalents	202.5	(22.4)	180.1	125.1
	880.8	(148.3)	732.5	967.1
Assets classified as held for sale	-	564.7	564.7	-
Total current assets	880.8	416.4	1,297.2	967.1
Total assets	2,223.9	-	2,223.9	2,808.9
Current liabilities				
Trade and other current liabilities	(695.7)	96.1	(599.6)	(664.3)
Current tax liabilities	(34.4)	21.8	(12.6)	(10.4)
Provisions	(223.8)	18.1	(205.7)	(26.2)
Obligations under finance leases	(18.5)	8.9	(9.6)	(14.9)
Loans	(48.4)	4.5	(43.9)	(52.2)
	(1,020.8)	149.4	(871.4)	(768.0)
Assets classified as held for sale	-	(219.9)	(219.9)	-
Total current liabilities	(1,020.8)	(70.5)	(1,091.3)	(768.0)
Non-current liabilities				
Other non-current liabilities	(37.3)	7.6	(29.7)	(55.2)
Deferred tax liabilities	(11.7)	2.5	(9.2)	(34.4)
Provisions	(384.1)	11.9	(372.2)	(34.9)
Obligations under finance leases	(45.1)	28.2	(16.9)	(53.1)
Loans	(773.7)	20.3	(753.4)	(756.1)
Retirement benefit obligations	(17.4)	-	(17.4)	(11.3)
	(1,269.3)	70.5	(1,198.8)	(945.0)
Total liabilities	(2,290.1)	-	(2,290.1)	(1,713.0)
Net (liabilities)/ assets	(66.2)	-	(66.2)	1,095.9

Net Debt

	At 31 December 2014 As reported	At 31 December 2014 Assets and liabilities held for sale adjustment	At 31 December 2014 including assets and liabilities held for sale	At 31 December 2013
	£m	£m	£m	£m
Cash and cash equivalents	180.1	22.4	202.5	125.1
Loans receivable	1.0	-	1.0	5.8
Other Loans	(797.3)	(0.8)	(798.1)	(788.0)
Obligations under finance leases	(26.5)	(37.1)	(63.6)	(68.0)
Recourse net debt	(642.7)	(15.5)	(658.2)	(725.1)
Non-recourse debt	-	(24.0)	(24.0)	(20.3)
Net debt	(642.7)	(39.5)	(682.2)	(745.4)

At 31 December 2014 net debt including debt items from assets and liabilities held for sale was £682.2m, a reduction of £63.2m on the prior year closing level. Average monthly net debt for the year was £782.9m (2013: £844.6m). The Group has a committed £730.0m (2013: £730.0m) five year multi-currency revolving credit facility (RCF) that matures in March 2017. As at 31 December 2014 £185.0m (2013: £175.0m) had been drawn down. In addition there are US private placement notes (Notes) totalling £584.8m (2013: £574.7m) with scheduled repayments between 2015 and 2024.

Pensions

At 31 December 2014, the net retirement benefit asset included in the balance sheet arising from our defined benefit pension scheme obligations was £101.1m (31 December 2013: net asset of £42.7m). The pension scheme asset base is £1.5bn (2013: £1.4bn).

Defined Benefit Pension Schemes	At 31 December 2014 £m	At 31 December 2013 £m
Group schemes – non contract specific	130.5	58.4
Contract specific schemes (including franchise adjustment)	(4.0)	(5.5)
Net retirement benefit asset	126.5	52.9
Retirement benefit assets	143.9	64.2
Retirement benefit obligations	(17.4)	(11.3)
Intangible assets arising from rights to operate franchises and contracts	-	1.0
Deferred tax liabilities	(25.4)	(11.2)
Net retirement benefit asset (after tax)	101.1	42.7
Key assumptions:		
Discount rate	3.60%	4.60%
Inflation rate of increase in pensions in payment	2.0% CPI and 3.0% RPI	2.5% CPI and 3.3% RPI
Life expectancy (years)		
Current pensioners at 65 -male	87.5	87.5
Current pensioners at 65 -female	90.0	89.9
Future pensioners at 65 - male	89.3	89.2
Future pensioners at 65 – female	92.0	91.9

The Group provides a number of occupational defined benefit and defined contribution schemes for its employees. The Group's principal defined benefit pension scheme is the Serco Pension and Life Assurance Scheme (SPLAS) and this had a surplus of £143.9m (2013: surplus £64.2m) calculated under IAS19 rules and is shown in the non-contract specific section of the above table. The increase in the surplus was driven principally by an increase in the value of Liability Driven Investments (LDI) assets in the year, coupled with a reduction in the inflation rate assumed when compared to last year. This more than offset the increase in the value of liabilities because of the effect of the 1.0% reduction in the AA corporate bond discount rate compared to the prior year.

Of the total net retirement benefit asset of £130.5m that related to non-contract specific schemes there was a surplus of £143.9m (2013: surplus £64.2m) in SPLAS; a deficit of £13.1m (2013: deficit £5.5m) in the Serco Section of the Railways Pension Scheme and a deficit of £0.3m (2013: deficit £0.3m) in a small German pension scheme.

The last formal actuarial valuation of SPLAS was undertaken as at 5 April 2012 and showed a deficit of £24m. The estimated actuarial deficit at 31 December 2014 was approximately £5m (2013: deficit £13m). The principal difference between the actuarial valuation and the IAS19 valuation relates to the use of a lower discount rate applied to measure the scheme liabilities for the actuarial basis. The main investments of this scheme are LDI that seek to reduce volatility by matching the liabilities of the scheme for changes in interest and inflation rates through a combination of gilts and corporate bonds with inflation and interest swap overlays.

The Group also had two contract-specific schemes. The £4.0m contract specific deficit related to the Serco Public Services Ltd Essex Pension Fund (2013: deficit £2.5m). In addition to this, the NPL contract and its associated defined benefit pension scheme ceased to be part of the Serco Group on 1 January 2015. As at 31 December 2014, there was a nil deficit on the NPL contract after the franchise adjustment (2013: deficit £0.9m) with the Group consolidated balance sheet including the scheme's fair value of scheme assets of £104.6m, present value of scheme liabilities of £127.5m and a balancing franchise adjustment of £22.9m.

On 7 December 2014, the DLR contract and its associated defined benefit pension scheme ceased to be part of the Serco Group. As a result, Serco's responsibilities as the participating employer in the DLR pension scheme ended. This has removed from the Group's balance sheet the DLR pension scheme, which resulted in a reduction in the fair value of scheme assets of £130.5m, present value of scheme liabilities of £161.7m and the franchise adjustment of £31.2m.

Assets Held for Sale

As part of the Strategic Review certain assets and liabilities have been designated as non-core and are held for sale. As at 31 December 2014 the following businesses have been disclosed as held for sale: National Physical Laboratory, Great Southern Rail, the UK environmental and leisure businesses, the offshore BPO business and the majority of the UK private BPO business.

Order Book

The order book reflects the estimated value of future revenue based on all existing signed contracts, excluding Serco's proportional 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 order book at 31 December 2014 was £12.6bn, a decrease of £1.0bn from the 31 December 2013 level of £13.6bn. This followed £3.1bn of signed contracts in 2014 (2013: £3.5bn) which did not fully replenish the £4.0bn revenue recognised in the year, with an additional £0.1bn adverse impact from foreign exchange. Signed contracts in the year included Caledonian Sleepers and Yarl's Wood rebid in Central Government, Centers for Medicare and Medicaid Services CMS expansion and Department of Defense providing program management and related support rebid in Americas, Department of Immigration and Border Protection rebid in AsPac and Lincolnshire County Council in Local & Regional Government.

ROIC

Invested Capital is calculated as explained earlier using the closing balance sheet related to the period; for 2015 it will be calculated as a two-point average of the opening and closing balance sheets for the period. For 2014 a single point has been used as there has been a significant reduction in net assets reflecting the losses in the year. For 2014, the return from Trading Profit before the impact of the Contract and Balance Sheet Review items was 11.3% (2013: 13.9%). The composition of Invested Capital and calculation of ROIC is summarised in the table below.

Invested Capital and ROIC %

	At 31 December 2014 £m	At 31 December 2013 £m
Non-current assets		
Goodwill	541.5	1,270.8
Other intangible assets	118.8	185.7
Property, plant and equipment	38.4	176.8
Interest in joint ventures	1.6	8.1
Trade and other receivables	38.1	78.3
	738.4	1,719.7
Current assets		
Inventory	31.2	49.4
Trade and other receivables	498.8	764.4
Assets classified as held for sale	564.7	-
	1,094.7	813.8
Total invested capital assets	1,833.1	2,533.5
Current liabilities		
Trade and other payables	(581.9)	(644.1)
Assets classified as held for sale	(219.9)	-
Non-current liabilities		
Trade and other payables	(29.7)	(34.1)
Total invested capital liabilities	(831.5)	(678.2)
Invested capital	1,001.6	1,855.3
Trading (Loss)/Profit	(632.1)	257.4
ROIC %	n/a	13.9%

Financial Statements

Consolidated Income Statement

For the year ended 31 December

	Note	2014 £m	2013 (restated)* £m
Continuing operations			
Revenue		3,955.0	4,284.2
Cost of sales		(4,019.7)	(3,788.9)
Gross (loss)/profit		(64.7)	495.3
Administrative expenses			
General and administrative expenses		(597.4)	(285.0)
Exceptional (loss)/profit on disposal of subsidiaries and operations	6	(5.4)	19.2
Other exceptional operating items	6	(656.1)	(109.7)
Other expenses – amortisation and impairment of intangibles arising on acquisition		(23.7)	(21.4)
Share of profits in joint ventures, net of interest and tax		30.0	47.1
Operating (loss)/profit		(1,317.3)	145.5
Operating (loss)/profit before exceptional items		(655.8)	236.0
Investment revenue	7	6.2	5.2
Finance costs	8	(42.9)	(42.4)
(Loss)/profit before tax		(1,354.0)	108.3
Tax on (loss)/profit before exceptional items		(11.1)	(38.7)
Tax on exceptional items		18.0	28.8
Tax credit/(charge)		6.9	(9.9)
(Loss)/profit for the year		(1,347.1)	98.4
Attributable to:			
Equity owners of the Company		(1,347.3)	98.4
Non-controlling interests		0.2	-
Earnings per share (EPS)			
Basic EPS	11	(258.35p)	20.12p
Diluted EPS	11	(258.35p)	19.66p

* Prior year adjustments have been made to reflect the restatement of certain financial instruments. Further details are given in note 2.

Consolidated Statement of Comprehensive Income

For the year ended 31 December

	Note	2014 £m	2013 (restated) £m
(Loss)/profit for the year		(1,347.1)	98.4
Other comprehensive income for the year:			
Items that will not be reclassified subsequently to profit or loss:			
Net actuarial gain on defined benefit pension schemes ¹		52.8	30.3
Actuarial gain/(loss) on reimbursable rights ¹		13.5	(37.1)
Tax relating to items not reclassified ¹		(12.9)	3.0
Share of other comprehensive income in joint ventures		1.9	3.9
Items that may be reclassified subsequently to profit or loss:			
Net exchange gain/(loss) on translation of foreign operations ²		24.9	(58.7)
Fair value loss on cash flow hedges during the year ²		(2.7)	(0.9)
Tax relating to items that may be reclassified ²		-	(0.1)
Share of other comprehensive expense in joint ventures		(3.8)	(1.8)
Total comprehensive (expense)/income for the year		(1,273.4)	37.0
Attributable to:			
Equity owners of the Company		(1,273.7)	37.0
Non-controlling interest		0.3	-

Notes:

- 1 Recorded in retirement benefit obligations reserve in the consolidated statement of changes in equity.
- 2 Recorded in hedging and translation reserve in the consolidated statement of changes in equity.

Consolidated Statement of Changes in Equity

	Share capital	Share premium account	Capital redemption reserve	Retained earnings	Retirement benefit obligations reserve	Share-based payment reserve	Own shares reserve	Hedging and translation reserve	Total share holders' equity	Non-controlling interest
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
At 1 January 2013	10.0	326.5	0.1	900.7	(138.6)	77.7	(58.8)	10.0	1,127.6	1.3
Prior year adjustment (note 4)	-	-	-	(8.7)	-	-	-	8.7	-	-
At 1 January 2013 (restated)	10.0	326.5	0.1	892.0	(138.6)	77.7	(58.8)	18.7	1,127.6	1.3
Total comprehensive income for the year	-	-	-	100.5	(3.8)	-	-	(59.7)	37.0	-
Shares transferred to option holders on exercise of share options	-	1.3	-	-	-	(4.5)	4.3	-	1.1	-
Dividends paid	-	-	-	(51.5)	-	-	-	-	(51.5)	(0.6)
Expense in relation to share-based payments	-	-	-	-	-	2.9	-	-	2.9	-
Tax charge in relation to share-based payments	-	-	-	-	-	(5.9)	-	-	(5.9)	-
Purchase of own shares for Employee Share Ownership Trust (ESOT)	-	-	-	-	-	-	(16.0)	-	(16.0)	-
At 1 January 2014 (restated)	10.0	327.8	0.1	941.0	(142.4)	70.2	(70.5)	(41.0)	1,095.2	0.7
Total comprehensive (expense) for the year	-	-	-	(1,349.2)	53.4	-	-	22.1	(1,273.7)	0.3
Issue of share capital*	1.0	-	-	155.3	-	-	-	-	156.3	-
Shares transferred to option holders on exercise of share options	-	0.1	-	-	-	(3.8)	6.0	-	2.3	-
Dividends paid	-	-	-	(53.1)	-	-	-	-	(53.1)	-
Expense in relation to share-based payments	-	-	-	-	-	5.4	-	-	5.4	-
Tax charge in relation to share-based payments	-	-	-	-	-	(0.4)	-	-	(0.4)	-
Change in non-controlling interest	-	-	-	-	-	-	-	-	-	0.8
At 31 December 2014	11.0	327.9	0.1	(306.0)	(89.0)	71.4	(64.5)	(18.9)	(68.0)	1.8

*During the year, the Group raised £156.3m via an equity placing of £49.9m shares. A cash box structure was used in such a way that merger relief was available under Companies Act 2006, section 612 and thus no share premium needed to be recorded. As the redemption of the cash box entity's preference shares was in the form of cash, the transaction is treated as qualifying consideration and the premium is therefore considered to be a realised profit.

Consolidated Balance Sheet

		At 31 December 2014	At 31 December 2013 (restated)	At 1 January 2013 (restated)
	Note	£m	£m	£m
Non-current assets				
Goodwill	12	541.5	1,270.8	1,312.1
Other intangible assets		118.8	185.7	215.7
Property, plant and equipment		38.4	176.8	176.9
Interests in joint ventures		1.6	8.1	11.9
Trade and other receivables		38.1	78.3	49.2
Derivative financial instruments		7.0	-	0.1
Deferred tax assets		37.4	57.9	40.1
Retirement benefit assets		143.9	64.2	69.7
		926.7	1,841.8	1,875.7
Current assets				
Inventories		31.2	49.4	53.1
Trade and other receivables		498.8	764.4	778.1
Current tax assets		16.5	19.5	24.6
Cash and cash equivalents		180.1	125.1	142.8
Derivative financial instruments		5.9	8.7	2.7
		732.5	967.1	1,001.3
Assets classified as held for sale	17	564.7	-	-
		1,297.2	967.1	1,001.3
Total assets		2,223.9	2,808.9	2,877.0
Current liabilities				
Trade and other payables		(581.9)	(644.1)	(757.3)
Derivative financial instruments		(17.7)	(20.2)	(13.8)
Current tax liabilities		(12.6)	(10.4)	(9.6)
Provisions	14	(205.7)	(26.2)	(11.5)
Obligations under finance leases		(9.6)	(14.9)	(10.7)
Loans		(43.9)	(52.2)	(64.0)
		(871.4)	(768.0)	(866.9)
Liabilities directly associated with assets classified as held for sale	17	(219.9)	-	-
		(1,091.3)	(768.0)	(866.9)
Non-current liabilities				
Trade and other payables		(29.7)	(34.1)	(42.3)
Derivative financial instruments		-	(21.1)	(24.5)
Deferred tax liabilities		(9.2)	(34.4)	(30.4)
Provisions	14	(372.2)	(34.9)	(44.7)
Obligations under finance leases		(16.9)	(53.1)	(39.5)
Loans		(753.4)	(756.1)	(661.8)
Retirement benefit obligations		(17.4)	(11.3)	(38.0)
		(1,198.8)	(945.0)	(881.2)
Total liabilities		(2,290.1)	(1,713.0)	(1,748.1)
Net (liabilities)/assets		(66.2)	1,095.9	1,128.9
Equity				
Share capital		11.0	10.0	10.0
Share premium account		327.9	327.8	326.5
Capital redemption reserve		0.1	0.1	0.1
Retained (loss)/earnings		(306.0)	941.0	892.0
Retirement benefit obligations reserve		(89.0)	(142.4)	(138.6)
Share-based payment reserve		71.4	70.2	77.7
Own shares reserve		(64.5)	(70.5)	(58.8)
Hedging and translation reserve		(18.9)	(41.0)	18.7
Equity attributable to owners of the Company		(68.0)	1,095.2	1,127.6
Non-controlling interest		1.8	0.7	1.3
Total equity		(66.2)	1,095.9	1,128.9

The financial statements were approved by the Board of Directors on 12 March 2015 and signed on its behalf by:

Rupert Soames
Group Chief Executive Officer

Angus Cockburn
Group Chief Financial Officer

Consolidated Cash Flow Statement

For the year ended 31 December

2014 2013

	Note	£m	£m
Net cash inflow from operating activities before exceptional items		103.5	111.3
Exceptional items		(40.4)	(103.4)
Net cash inflow from operating activities	16	63.1	7.9
Investing activities			
Interest received		2.7	2.6
Increase in security deposits		-	(0.2)
Dividends received from joint ventures		34.8	51.5
Proceeds from disposal of property, plant and equipment		5.8	4.6
Proceeds from disposal of intangible assets		1.1	0.4
Proceeds on disposal of subsidiaries and operations	5	1.9	40.6
Acquisition of subsidiaries, net of cash acquired	4	(6.5)	(18.6)
Acquisition of other investments		(3.5)	-
Purchase of other intangible assets		(20.0)	(27.8)
Purchase of property, plant and equipment		(23.4)	(38.9)
Net cash (outflow)/inflow from investing activities		(7.1)	14.2
Financing activities			
Interest paid		(42.3)	(40.8)
Dividends paid	10	(53.1)	(51.5)
Non-controlling interest dividends paid		-	(0.6)
Repayment of loans		(36.0)	(77.5)
Repayment of non recourse loans		(3.1)	(10.2)
New loan advances		17.4	176.5
Capital element of finance lease repayments		(18.2)	(4.9)
Purchase of own shares for Employee Share Ownership Trust (ESOT)		-	(16.0)
Costs of equity rights issue		(4.1)	-
Share placement net proceeds		156.3	-
Proceeds from issue of other share capital and exercise of share options		2.3	1.1
Net cash inflow/(outflow) from financing activities		19.2	(23.9)
Net increase/(decrease) in cash and cash equivalents		75.2	(1.8)
Cash and cash equivalents at beginning of year		125.1	142.8
Net exchange gain/(loss)		2.2	(15.9)
Cash reclassified to assets held for sale	17	(22.4)	-
Cash and cash equivalents at end of year		180.1	125.1

Notes to the consolidated financial statements

1. General information, going concern and accounting policies

The basis of preparation in this preliminary announcement is set out below.

The financial information in this announcement does not constitute the Company's statutory accounts for the years ending 31 December 2014 or 2013, but is derived from these accounts.

Statutory accounts for 2013 have been delivered to the Registrar of Companies and those for 2014 will be delivered following the Company's Annual General Meeting. The auditors have reported on these accounts; their reports were unqualified and did not contain statements under S498 (2) or (3) or the Companies Act 2006 or equivalent preceding legislation.

The preliminary announcement has been prepared in accordance with International Financial Reporting Standards (IFRS) adopted for use in the European Union. Whilst the financial information included in this

preliminary announcement has been computed in accordance with IFRS, this announcement does not itself contain sufficient information to comply with IFRS. The Company expects to publish full Group and parent company only financial statements that comply with IFRS and FRS101 respectively, in March 2015.

The financial statements have been prepared on the historical cost basis.

Adoption of New and Revised Standards

The following changes to IFRSs became effective in the current reporting period:

Title	Type	Background	Impact on Serco
IAS 32 Financial Instruments: Presentation	Amendment to existing standard	IAS 32 affects the offsetting of financial assets and liabilities and was amended to clarify certain requirements on offsetting to make application more consistent.	Historically, financial assets and financial liabilities have not been offset within the Group financial statements as there has been limited ability to do so. Therefore, the impact of the amendments are not expected to have a material impact on future transactions and no adjustment is needed for the required retrospective application.
IAS 39 Financial Instruments: Recognition and Measurement	Amendment to existing standard	IAS 39 was amended to clarify that there is no need to discontinue hedge accounting if a hedging derivative is novated (provided certain criteria are met). In order to apply the amendments and continue hedge accounting, novation to a central counterparty must happen as a consequence of laws or regulations or the introduction of laws or regulations.	As the novation of derivatives instruments has not been performed at Serco recently, the application of the amendments did not impact on the Group financial statements when applied retrospectively. There is no expectation to novate any currently held derivatives and therefore there is no future impact anticipated as a result of this change.

Going Concern

In assessing the basis of preparation of the financial statements for the year ended 31 December 2014, the directors have considered the principles of the Financial Reporting Council's 'Going Concern and Liquidity Risk: Guidance for Directors of UK Companies 2009'; namely assessing the applicability of the going concern basis, the review period and disclosures.

The Group's current principal debt facilities at the year-end comprised a £730m revolving credit facility, and £584.8m of US private placements notes. As at 31 December 2014, the Group had £1,314.8m of committed credit facilities and headroom of £545.0m. Additionally the Group had a receivables financing facility of £60.0m. The Group's stated intention is to reduce the Group's indebtedness to a more prudent level of financial gearing, and anticipates achieving this through the proceeds from the rights issue expected to be received in late April 2015 and the disposal of non-core businesses.

In December 2014, agreement was reached for the Group to defer its December 2014 covenant test until 31 May 2015. When the covenant is calculated in May 2015, EBITDA will exclude the impact of charges arising from the Contract and Balance Sheet Review and Consolidated Net Borrowings will include the net proceeds from the equity rights issue, provided the proceeds are received by 30 June 2015.

Assessment of Going Concern

The directors have undertaken a rigorous assessment of going concern and liquidity taking into account financial forecasts, the anticipated receipt of proceeds from the rights issue, proposed debt refinancing, and disposals of non-core businesses. In order to satisfy ourselves that we have adequate resources for the future, the directors have reviewed the Group's existing debt levels, the committed funding and liquidity positions under the proposed terms of the debt covenants under the amended and restated credit facility, our ability to generate cash from trading activities, and the estimated gross proceeds of approximately £555m due in April 2015 from the proposed fully underwritten rights issue that is subject to shareholder

approval. Additionally there has been consideration of the potential reduction in debt levels from planned disposals of non-core businesses in 2015.

Review Period

In undertaking this review the Directors have considered the business plans which provide financial projections for the foreseeable future, which is interpreted as the period to December 2016. The Directors have also reviewed the principal risks we face taking account of those identified from the outcome of the Contract and Balance Sheet Review.

Risks Relating to Rights Issue

The directors have considered in their assessment of going concern, the prospects of the rights issue proceeding, and the net proceeds of the rights issue being received by the Group, together with the risks attached to the rights issue not taking place. The directors highlight that the prospectus to raise approximately £555m before costs, was sent to shareholders at the same time as the accounts were signed.

The Underwriters' agreement to underwrite the entire rights issues is conditional, amongst other things, on the Company's shareholders passing an ordinary resolution granting the directors the authority to issue the rights issue shares at the general meeting scheduled to take place on 30 March 2015. The Underwriters will also have termination rights in respect of, for example, breach by the Group of representations, warranties, and undertakings under the Underwriting Agreement. The Underwriting Agreement will become unconditional following admission of the rights issue shares to trading on the London Stock Exchange, which is expected to be on the day following the general meeting (31 March 2015). The Group may still be liable for any losses suffered from breaches of representations, warranties, and undertakings under the Underwriting Agreement.

Risks Relating to Refinancing

The Group has entered into agreements with its lenders and noteholders to refinance its current debt facilities, which are conditional on the rights issue proceeding, the Group receiving the net proceeds of the rights issue and the Group repaying up to £450m of its debt facilities. Should the rights issue not proceed the existing debt facilities will remain in place, subject to meeting ongoing financial debt covenant tests.

The Group expects to be able to meet its financial covenant tests under the existing debt facilities on 31 May 2015 in respect of the year ending 31 December 2014. However, unless further waivers or amendments are granted by the lenders, it is anticipated that the Group would breach its financial covenant tests in respect of the 12 months ending 30 June 2015 under the revolving credit facility and the receivables financing agreement when they are tested 90 days after 30 June 2015, which would trigger a cross-default under the US private placement notes. Following any such breach of financial covenants or cross-default, the lenders or noteholders (as applicable) would be entitled to demand the accelerated repayment in full of any amounts outstanding under the relevant existing debt facilities, including any interest due and the payment of a "make-whole amount" paid to noteholders under the US private placement notes. In this event, the Group does not anticipate that it would have the funds available to repay such amounts at that time, and would need to take alternative steps in order to be able to continue as a going concern, such as seeking:

- to negotiate further waivers of its financial covenants under the existing financing agreements with the lenders and noteholders;
- to establish alternative long-term committed debt facilities with wider covenants to replace the existing financing agreements;
- to derive other forms of funding, such as through a new equity restructuring with private capital investors or a conversion by the Group's lenders of existing debt into equity; and/or
- to make disposals of further assets not already considered for disposal, subject to necessary approvals from lenders and note holders.

Assessment

Despite the challenges and uncertainties which remain in our business, we are making good progress in implementing the plan of actions coming out of the Strategy Review including refocusing the Group as an international B2G business, and in rebuilding trust and confidence with the UK Government. Serco's more focused core will increasingly benefit from the transferability of skills and knowledge from one public service market or geography to another. The portfolio also offers a degree of risk diversification and allows adaptation to the requirements of changing Governments at different times.

As stated above the Group is embarking on a rights issue in order to substantially reduce its debt, and give it a firm financial foundation for its future. However, whilst the rights issue is fully underwritten, it is scheduled to complete within 6 weeks after the date of signing these accounts, and is dependent, inter alia, upon shareholders approving the proposed fundraising. The Directors expect the fundraising to be successfully completed by 24 April 2015, The shareholder approval is expected to be received on 30 March 2015, but at the time of signing these accounts there remains a material uncertainty related to events or conditions that may cast a significant doubt on Serco's ability to continue as a going concern and, therefore that it may be unable to realise its assets and discharge its liabilities in the normal course of business. The Directors believe that the fundraising is likely to be successfully completed by 24 April 2015, and they therefore have a reasonable expectation that the Company and the Group will be able to operate within the level of available facilities and cash for the foreseeable future and accordingly believe that it is appropriate to prepare the financial statements on a going concern basis.

Critical Accounting Judgements and Key Sources of Estimation Uncertainty

In the process of applying the Group's accounting policies, management has made the following judgements that have the most significant effect on the amounts recognised in the financial statements. As described below, many of these areas of judgement also involve a high level of estimation uncertainty.

An inherent level of judgement covering all of the items below exists regarding whether an amount recognised in the financial statements represents an error or a change in estimate. An error exists when an amount is recognised based on information that was available when the prior period financial statements were issued and could be reasonably expected to have been obtained and taken into account when those financial statements were prepared. The only such item relates to the mistreatment of certain hedging relationships as explained in note 2.

Provisions for Onerous Contracts

Determining whether provisions are required for loss making contracts requires significant judgements to be made regarding the ability of the company to maintain or improve operational performance. Judgements can also be made regarding the outcome of matters dependent on the behaviour of the customer in question.

The level of uncertainty in the estimates made, either in determining whether a provision is required, or in the calculation of a provision booked, is linked to the complexity of the underlying contract and the form of service delivery.

In recent years, additional contractual risks have been passed from customers to the Group, which has involved matters over which the Group has limited control and where there is insufficient contractual compensation for the changes. These include Service User volumes and the level of customer use of assets where we have a requirement to fund repairs and maintenance. Certain events in the current year have led to a significant crystallisation of such risks, resulting in a charge to onerous contract provisions of £476.1m. Further details can be seen in note 14. Additionally, and as a result of certain contracts becoming onerous in the period, contract specific assets including property, plant & equipment, bid costs, phase-in costs, accrued income and prepayment balances of £114.7m have been impaired.

Impairment of Assets

Identifying whether there are indicators of impairment for assets involves a high level of judgement and a good understanding of the drivers of value behind the asset. At each reporting period an assessment is performed in order to determine whether there are any such indicators, which involves considering the performance of our business and any significant changes to the markets in which we operate. The total value of assets which are covered by this assessment process (after previous impairments) is £1,379.4m (2013: £2,628.7m), which is the maximum exposure related to this judgement. We mitigate the risk associated with this judgement by putting in place processes and guidance for the finance community and internal review procedures.

Determining whether assets with impairment indicators require an actual impairment involves an estimation of the expected value in use of the asset (or CGU to which the asset relates). The value in use calculation involves an estimation of future cash flows and also the selection of appropriate discount rates, both of which involve considerable judgement. The future cash flows are derived from approved forecasts, with the key assumptions being revenue growth, margins and cash conversion rates. Discount rates are calculated with reference to the specific risks associated with the assets and are based on advice provided by external experts. Our calculation of discount rates are performed based on a risk free rate of interest appropriate to the geographic location of the cash flows related to the asset being tested, which is subsequently adjusted to factor in local market risks and risks specific to Serco and the asset itself.

During the year, goodwill associated with four CGUs was determined to be impaired, resulting in an exceptional charge of £466.0m. In addition, a charge of £44.6m was recognised in respect of certain intangible assets. A charge of £40.7m was recognised in respect of certain items of property, plant and equipment and £21.6m in respect of billed receivables.

Capitalisation of Internally Generated Intangible Assets

When the Group creates an intangible asset where the future economic benefits are greater than the expected costs, the development costs are capitalised if they meet the other requirements of IAS 38, *Intangible Assets*, as set out in the accounting policies section of the financial statements.

Revenue and Recognition

Calculating the fair value of revenue typically does not require a significant level of judgement, the exceptions to this are the following areas:

- Uncontracted variations or claims. Where work has been performed outside of the normal contracting framework at the request of the customer or a claim has been made for work performed but in dispute, judgement is required in order to determine whether there is sufficient certainty that the Group will be financially compensated revenue is only recognised to the extent that they have been orally agreed by the customer or are virtually certain of being received.
- Payments by results contracts. When returns are directly linked to performance through cost savings or other customer driven key performance indicators over a period of time an estimate is made of the likelihood of achieving the necessary level of performance when the period covers a financial year end. Revenue is only recognised when we can be reasonably certain of achieving the required level of performance.
- Long-term contracts. Revenue and profit is recognised for certain long-term project-based contracts based on the stage of completion of the contract activity. The assessment of the stage of completion requires the exercise of judgement and is measured by the proportion of costs incurred to estimated whole-life contract costs, except where whole life contract costs exceed the contract value, in which case the excess is expensed immediately.

Separation of Income Statement Items from Underlying Results

IAS 1 requires material items to be disclosed separately in a way that enables users to assess the quality of a company's profitability. In practice, these are commonly referred to as "exceptional" items, but this is not a concept defined by IFRS and therefore there is a level of judgement involved in determining what to include in underlying profit. We consider items which are material, non-recurring and outside of the normal operating practice of the company to be suitable for separate presentation.

Retirement Benefit Obligations

The calculation of retirement benefit obligations is dependent on material key assumptions including discount rates, mortality rates, inflation rates and future contribution rates. The value of net retirement benefit obligations at the balance sheet date is an asset of £126.5m (2013: £52.9m).

Assets Classified as Held For Sale

The group has classified several businesses as held for sale in the current year and where appropriate an allocation of goodwill has been made. This allocation is a best estimate based on indicative offers and these values may change as the deals are finalised. In addition, customer consent is required in some cases, which is usual and customary for the sale of businesses with outsourcing contracts. Receipt of these consents is assumed to be highly probable, but this is an area of judgement.

2. Prior Year Restatement

Two prior year adjustments have been made to reflect the restatement of certain financial instruments. These resulted in a cumulative net charge of £5.6m to prior years' reported profits, which included a net credit to the 2013 profit for the year of £3.0m. 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 31 December 2013 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.

Impact of prior year restatement on summarised financial statements

Year ended 31 December 2013	As previously disclosed £m	Derivatives £m	Net Investment Hedges £m	Restated £m
Income statement				
Revenue	4,288.1	(3.9)	-	4,284.2
Operating profit	143.8	(3.9)	5.6	145.5
Investment revenue	5.2	-	-	5.2
Finance costs	(42.4)	-	-	(42.4)
Profit before tax	106.6	(3.9)	5.6	108.3
Tax (charge)/credit	(11.2)	1.3	-	(9.9)
Profit for the year	95.4	(2.6)	5.6	98.4
Earnings per share	19.51p	(0.53p)	1.14p	20.12p
Other comprehensive (expense)/income for the year	(58.4)	2.6	(5.6)	(61.4)
Total comprehensive income for the year	37.0	-	-	37.0
Balance sheet				
Non-current assets	1,841.8	-	-	1,841.8
Current assets	967.1	-	-	967.1
Total assets	2,808.9	-	-	2,808.9
Current liabilities	(768.0)	-	-	(768.0)
Non-current liabilities	(945.0)	-	-	(945.0)
Total liabilities	(1,713.0)	-	-	(1,713.0)
Net assets	1,095.9	-	-	1,095.9
Retained earnings	946.7	(30.9)	25.2	941.0
Hedging and translation reserve	(46.7)	30.9	(25.2)	(41.0)
Other equity accounts	195.9	-	-	195.9
Equity	1,095.9	-	-	1,095.9
Cash flow				
Net cash inflow from operating activities	7.9	-	-	7.9
Investing activities	14.2	-	-	14.2
Financing activities	(23.9)	-	-	(23.9)
Net decrease in cash and cash equivalents	(1.8)	-	-	(1.8)
Net exchange loss	(15.9)	-	-	(15.9)

2. Prior Year Restatement (continued)

Year ended 31 December 2012	As previously disclosed £m	Derivatives £m	Net Investment Hedges £m	Restated £m
Income statement				
Revenue	4,060.1	(3.3)	-	4,056.8
Operating profit	272.2	(3.3)	18.3	287.2
Investment revenue	6.4	-	-	6.4
Exceptional other gain	51.1	-	-	51.1
Finance costs	(48.6)	-	-	(48.6)
Profit before tax	281.1	(3.3)	18.3	296.1
Tax (charge)/credit	(40.1)	1.1	-	(39.0)
Profit for the year	241.0	(2.2)	18.3	257.1
<i>Attributable to equity shareholders of the Company</i>	240.4			256.5
Earnings per share	48.94p	(0.44p)	3.72p	52.22p
Other comprehensive (expense)/income for the year	(79.6)	2.2	(18.3)	(95.7)
Total comprehensive income for the year	161.4	-	-	161.4

	As previously disclosed £m	Derivatives £m	Net Investment Hedges £m	Restated £m
Balance sheet				
Non-current assets	1,875.7	-	-	1,875.7
Current assets	1,001.3	-	-	1,001.3
Total assets	2,877.0	-	-	2,877.0
Current liabilities	(866.9)	-	-	(866.9)
Non-current liabilities	(881.2)	-	-	(881.2)
Total liabilities	(1,748.1)	-	-	(1,748.1)
Net assets	1,128.9	-	-	1,128.9
Retained earnings	900.7	(28.3)	19.6	892.0
Hedging and translation reserve	10.0	28.3	(19.6)	18.7
Other equity accounts	218.2	-	-	218.2
Equity	1,128.9	-	-	1,128.9
Cash flow				
Net cash inflow from operating activities	220.9	-	-	220.9
Investing activities	(4.0)	-	-	(4.0)
Financing activities	(259.8)	-	-	(259.8)
Net decrease in cash and cash equivalents	(42.9)	-	-	(42.9)
Net exchange loss	(8.9)	-	-	(8.9)

At 1 January 2012	As previously disclosed £m	Derivatives £m	Net Investment Hedges £m	Restated £m
Balance sheet				
Non-current assets	1,872.1	-	-	1,872.1
Current assets	958.9	-	-	958.9
Total assets	2,831.0	-	-	2,831.0
Current liabilities	(922.7)	-	-	(922.7)
Non-current liabilities	(904.5)	-	-	(904.5)
Total liabilities	(1,827.2)	-	-	(1,827.2)
Net assets	1,003.8	-	-	1,003.8
Retained earnings	703.5	(26.1)	1.3	678.7
Hedging and translation reserve	28.6	26.1	(1.3)	53.4
Other equity accounts	271.7	-	-	271.7
Equity	1,003.8	-	-	1,003.8

3. Segmental Information

This note is presented according to the management structure and internal reporting that Serco has put in place for 2015 as a result of actions from the Corporate Renewal Programme and the Strategy Review. The former segments, as reported in 2014 to the Board, is provided in note 18. The UK Central

Government division is now a separate unit which brings together Serco's work for the UK Central Government; it also brings together all Transport operations, including those for devolved authorities that were previously included in the UK and Europe Local and Regional Government division. The UK and Europe Local and Regional Government division now incorporates public sector BPO operations previously included in the Global Services division, together with Citizen Services previously included in the Central Government division; all public sector BPO operations are therefore now brought together in this division. The AMEAA region is now reported as two separate divisions – 'AsPac' (the Asia Pacific region, consisting principally of Serco's operations in Australia and New Zealand) and the Middle East. Americas remains as a distinct regional division. The Global Services division now consists of BPO operations only in the private sector.

The Group has simplified its reporting by ending the sharing of Income Statement reporting of certain contracts between two segments. This shared reporting of contracts occurred predominantly between the AsPac and UK segments, with these contracts now being solely reported within the segment that delivers the contract to the end customer. Going forward, eliminating the shared Income Statement reporting of such contracts will increase the transparency and clarity of our segmental performance reporting. The prior year comparative segmental information has been restated to reflect these changes.

The Group's new reportable operating segments reflecting the information reported to the Board in 2015 under IFRS 8 *Operating Segments* are:

Reportable segments	Operating segments
UK Central Government	Frontline services for sectors including Defence, Justice & Immigration and Transport delivered to UK Government;
UK & Europe Local & Regional Government	Services for sectors including Health, Local Government Direct Services, Citizen Services and BPO services delivered to UK & European public sector customers;
Americas	Professional, technology and management services for sectors including Defence, Transport and Citizen Services delivered to US federal and civilian agencies, selected state and municipal governments and the Canadian Government;
AsPac	Frontline services for sectors including Defence, Justice & Immigration, Transport, Healthcare and Citizen Services in the Asia Pacific region including Australia, New Zealand and Hong Kong;
Middle East	Frontline services for sectors including Defence, Transport and Healthcare in the Middle East region;
Global Services	BPO services for private sector customers predominantly in the UK, India and North America; and
Corporate	Central and head office costs

3. Segmental Information (continued)

The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 2 of the financial statements.

Geographic Information

	Year ended 31 December			
	Revenue	Non-current assets*	Revenue	Non-current assets*
	2014	2014	2013	2013
	£m	£m	£m	£m
United Kingdom	1,917.8	485.2	2,071.5	784.1
United States	660.4	337.5	706.5	423.7
Australia	657.0	140.3	833.0	167.0
Middle East	267.2	13.6	285.4	14.6
Other countries	452.6	308.7	387.8	391.9
Total	3,955.0	1,285.3	4,284.2	1,781.3

*Non-current assets exclude financial instruments, deferred tax assets and loans to joint ventures and includes assets of £405.4m (2013: £nil) reclassified as held for sale.

Revenues from external customers are attributed to individual countries on the basis of the location of the customer.

The following is an analysis of the Group's revenue, results, assets and liabilities by reportable segment:

Year ended 31 December 2014	CG £m	LRG £m	Americas £m	AsPac £m	Middle East £m	Global Services £m	Corporate £m	Total £m
Revenue	961.4	959.8	708.1	706.0	260.4	359.3	-	3,955.0
Result								
Trading (loss)/profit*	(242.8)	(90.4)	16.5	(201.6)	(0.2)	(23.4)	(90.2)	(632.1)
Amortisation and impairment of intangibles arising on acquisition	(0.1)	(7.2)	(2.3)	(8.6)	-	(5.5)	-	(23.7)
Operating (loss)/profit before exceptional items	(242.9)	(97.6)	14.2	(210.2)	(0.2)	(28.9)	(90.2)	(655.8)
Exceptional (loss)/profit on disposal of subsidiaries and operations	1.9	0.4	-	-	-	(3.1)	(4.6)	(5.4)
Other exceptional operating items	(42.7)	(95.9)	(101.7)	(41.3)	(1.7)	(332.7)	(40.1)	(656.1)
Operating loss	(283.7)	(193.1)	(87.5)	(251.5)	(1.9)	(364.7)	(134.9)	(1,317.3)
Investment revenue								6.2
Finance costs								(42.9)
Loss before tax								(1,354.0)
Tax credit								6.9
Loss for the year								(1,347.1)

*Trading (loss)/profit is defined as operating (loss)/profit before exceptional items and amortisation and impairment of intangible assets arising on acquisition.

Segment assets								
Interests in joint ventures	(7.0)	5.0	0.2	3.0	0.4	-	-	1.6
Other segment assets	135.1	431.9	458.9	236.3	99.7	394.5	178.9	1,935.3
Total segment assets	128.1	436.9	459.1	239.3	100.1	394.5	178.9	1,936.9
Unallocated assets								287.0
Consolidated total assets								2,223.9
Segment liabilities								
Segment liabilities	146.1	247.5	62.0	99.2	55.2	29.3	93.3	732.6
Unallocated liabilities								1,557.5
Consolidated total liabilities								2,290.1

3. Segmental Information (continued)

Year ended 31 December 2013 (restated)	CG £m	LRG £m	Americas £m	AsPac £m	Middle East £m	Global Services £m	Corporate £m	Total £m
Revenue	1,074.6	963.0	764.6	870.6	267.9	343.5	-	4,284.2
Result								
Trading profit/(loss)*	114.6	17.8	65.1	78.2	24.5	7.8	(50.6)	257.4
Amortisation and impairment of intangibles arising on acquisition	(0.4)	(1.7)	(11.3)	(2.4)	-	(5.6)	-	(21.4)
Operating profit/(loss) before exceptional items	114.2	16.1	53.8	75.8	24.5	2.2	(50.6)	236.0
Exceptional profit on disposal of subsidiaries and operations	23.2	(4.0)	-	-	-	-	-	19.2
Other exceptional operating items	(73.9)	(18.7)	-	(10.1)	-	(5.7)	(1.3)	(109.7)
Operating profit/(loss)	63.5	(6.6)	53.8	65.7	24.5	(3.5)	(51.9)	145.5
Investment revenue								5.2
Finance costs								(42.4)
Profit before tax								108.3
Tax charge								(9.9)
Profit for the year								98.4

*Trading (loss)/profit is defined as operating (loss)/profit before exceptional items and amortisation and impairment of intangible assets arising on acquisition.

Year ended 31 December 2013 (restated)	CG £m	LRG £m	Americas £m	AsPac £m	Middle East £m	Global Services £m	Corporate £m	Total £m
Segment assets								
Interests in joint ventures	(2.3)	3.7	0.2	6.5	-	-	-	8.1
Other segment assets	224.5	640.3	558.3	324.9	93.8	618.4	126.0	2,586.2
Total segment assets	222.2	644.0	558.5	331.4	93.8	618.4	126.0	2,594.3
Unallocated assets								214.6
Consolidated total assets								2,808.9
Segment liabilities								
Segment liabilities	(142.9)	(229.0)	(70.3)	(108.3)	(39.4)	(37.8)	(61.3)	(689.0)
Unallocated liabilities								(1,024.0)
Consolidated total liabilities								(1,713.0)

4. Acquisitions

On 2 January 2014, 70% of the share capital of MENA Business Services LLC was acquired. MENA is a regional provider of contact centre, training services and business consultancy outsourcing services, based in the Middle East. The initial cash consideration was £3.1m. Up to a further £2.1m is payable from 2015 to 2016, contingent on the financial performance of the acquired business. The provisional fair value of this deferred contingent consideration is £2.1m. Goodwill of £4.4m arose on the transaction. Net cash payments arising on the acquisition were £2.3m, representing cash consideration of £3.1m net of £0.8m of cash balances acquired.

The provisional value of goodwill of £4.4m arising from the acquisition represents future opportunities in the Middle East business consultancy outsourcing services market. None of the goodwill is expected to be deductible for corporate income tax purposes.

On 12 August 2014, 60% of the share capital of ANTAB Operation and Maintenance Establishment LLC was acquired. ANTAB is a provider of estates management and support services in the healthcare market, based in Saudi Arabia. The cash consideration was £1.2m. Net cash inflow arising on this acquisition was £0.1m, representing cash consideration of £1.2m net of £1.3m of cash balances acquired.

Prior Year Acquisitions

Deferred consideration payments of £4.3m were made in the period in relation to prior year acquisitions. This represented £3.0m in respect of the final payment in relation to the acquisition of Intelenet and £1.3m in respect of deferred consideration in relation to the acquisition of Collectica Limited (formerly Philips Collection Services Limited).

In 2013 deferred consideration payments were made in relation to prior year acquisitions, which totalled £18.6m. This represented £11.9m in relation to the acquisition of Intelenet and £6.7m in relation to the acquisition of Serco Listening Company Limited.

5. Disposals

On 10 March 2014, the Group disposed of its Braintree Community Hospital business to the Mid Essex Clinical Hospital Trust. There was a payment of £0.5m to the purchaser and the gain on disposal was £0.5m, reflecting the net liabilities disposed. On 19 June 2014, the Group disposed of its debt collection business, Collectica Limited. The initial cash consideration received was £6.8m and the resulting loss on disposal was £3.5m. On 30 September 2014, the Group disposed of its Sky Germany business for a consideration of £0.8m resulting in a loss on disposal of £3.1m. Details of these transactions are given below:

The net assets at the date of disposal were:

	Collectica 2014 £m	Sky Germany 2014 £m	Other 2014 £m	Total 2014 £m	Total 2013 £m
Goodwill	3.4	-	-	3.4	15.7
Other intangible assets	0.2	-	-	0.2	0.5
Property, plant and equipment	-	0.2	-	0.2	0.7
Inventories	-	-	-	-	0.3
Trade and other receivables	6.3	0.2	-	6.5	11.0
Cash and cash equivalents	1.0	-	-	1.0	-
Trade and other payables	(1.6)	(0.1)	-	(1.7)	(4.2)
Tax liabilities	(0.1)	-	-	(0.1)	-
Provisions	-	-	-	-	(0.3)
Net assets disposed	9.2	0.3	-	9.5	23.7

The profit/(loss) on disposal is calculated as follows:

Cash consideration	6.8	0.8	(0.5)	7.1	49.2
Less:					
Net assets disposed	(9.2)	(0.3)	-	(9.5)	(23.7)
Impairment of loan receivable in respect of prior year disposal	-	-	(4.6)	(4.6)	-
Disposal-related costs	(1.1)	(3.6)	6.3	1.6	(6.3)
(Loss)/profit on disposal	(3.5)	(3.1)	1.2	(5.4)	19.2

The net cash inflow/(outflow) arising on disposals is as follows:

Consideration received	6.8	0.8	1.5	9.1	49.2
Less:					
Deferred consideration	-	(0.8)	0.5	(0.3)	(2.3)
Cash and cash equivalents disposed	(1.0)	-	-	(1.0)	-
Disposal-related costs paid during the period	(1.0)	(3.6)	(1.3)	(5.9)	(6.3)
Net cash inflow/(outflow) on disposal	4.8	(3.6)	0.7	1.9	40.6

Prior Year Disposals

There was a gain of £5.4m recognised in the period in relation to the disposal of the nuclear assurance technical consulting services business that had been sold in 2012, following the release of provisions which

have become time expired. A loss of £0.1m was also made in relation to the finalisation of the costs of disposal of Ascot College. In the year, a loan receivable in respect of a business sold in the prior year was impaired by £4.6m.

In the period, deferred cash proceeds of £2.0m in relation to the prior year disposal of UK transport maintenance and technology business were received. £0.4m was also cash paid in relation to accrued disposal costs in relation to prior year transactions.

6. Exceptional Items

Exceptional items are non-recurring items of financial performance that are outside of normal practice and material to the results of the Group either by virtue of size or nature. We believe these items require separate disclosure on the face of the income statement to assist in the understanding of the underlying performance of the Group.

Net profit on disposal of subsidiaries and operations

Year ended 31 December	2014 £m
Loss on disposal of Collectica Limited	(3.5)
Loss on disposal of Sky Germany business	(3.1)
Gain on disposal of Braintree Community Hospital business	0.5
Impairment of loan receivable in respect of prior year disposal	(4.6)
Prior period technical services disposal adjustment	5.4
Prior period Ascot College adjustment	(0.1)
Net loss on disposal of subsidiaries and operations	(5.4)

On 19 June 2014, the Group disposed of its debt collection business, Collectica Limited, which after disposal related costs, resulted in a loss on disposal of £3.5m. On 30 September 2014, the Group disposed of its Sky Germany business resulting in a loss on disposal of £3.1m. In the year there was also a £0.1m loss on disposal arising from the sale of Ascot College in 2013. These losses were offset by a gain of £0.5m on the disposal of the Braintree Community Hospital business on 10 March 2014 and a gain of £5.4m recognised in the period in relation to the disposal of the nuclear assurance technical consulting services business that had been sold in 2012, following the release of provisions which have become time expired. In the year, a loan receivable in respect of a prior year disposal in the prior year was impaired by £4.6m.

Year ended 31 December	2013 £m
Gain on disposal of UK transport maintenance business	23.2
Loss on disposal of occupational health business	(3.9)
Loss on disposal of Ascot College	(0.1)
Net profit on disposal of subsidiaries and operations	19.2

In November 2013 the Group completed the sale of its London streets maintenance and UK transport technology business to Cubic Corporation which, after disposal related costs, resulted in a profit on disposal of £23.2m. This was offset by a loss on the disposal of the occupational health business in October 2013 of £3.9m and Ascot College of £0.1m, which was sold in December 2013.

6. Exceptional Items (continued)

Other Exceptional Operating Items

Year ended 31 December	2014 £m	2013 £m	Costs Associated with UK Government Reviews
Costs associated with UK Government reviews	(9.2)	(11.6)	
Settlement amounts relating to UK Government reviews	-	(66.3)	
UK frontline clinical health contract provisions	(16.1)	(17.6)	
Restructuring costs	(32.7)	(14.9)	
Provision for settlement relating to DLR pension deficit funding dispute	(35.6)	-	
Other provision for legal claims	(20.1)	-	
Impairment and related charges of Australian rail business	(37.2)	(9.6)	
Impairment of Global Services business transferred to assets held for sale	(39.2)	-	
Impairment of goodwill	(466.0)	-	
Deferred consideration relating to prior year acquisition	-	10.3	
Other exceptional operating items	(656.1)	(109.7)	

Reviews

During the prior year, an investigation was undertaken by the Ministry of Justice into the billing practices in respect of the Electronic Monitoring (EM) contract. Additionally, the Cabinet Office undertook a wider review across other Serco contracts with UK Central Government. Serco also agreed with the UK Government to undertake a process of corporate renewal, to strengthen governance and transparency. During the year, there were exceptional costs totalling £9.2m (2013: £11.6m) associated with the UK Government reviews and the programme of corporate renewal. This reflected external costs incurred and included external adviser costs related to these reviews.

Settlement Amounts Relating to UK Government Reviews

In December 2013, following a review of the billing arrangements on the EM contract by the Ministry of Justice, a settlement of £64.3m was reached in respect of contractual claims. In addition, a £2.0m settlement was reached on the Prisoner Escort and Custody Services (PECS) contract which was also subject to Government review to reflect repayment of past profit earned on this contract. The settlement was full and final in respect of contractual claims with the proviso that additional payments might be sought in limited circumstances, such as if criminality were to be established; Serco continues to cooperate fully with the ongoing investigations by the Serious Fraud Office.

UK Frontline Clinical Health Contract Provisions

During 2014, there were additional exceptional provisions of £16.1m (2013: £17.6m), including an onerous contract provision of £13.7m to cover the anticipated future year loss from the unexpected increase in patient volumes in 2014 on the Suffolk Community Health contract. The provisions relate to the re-evaluation of the forecast losses of the UK clinical health operations, against which an exceptional onerous contract provision of £17.6m was made in the prior year and reflect the Group's withdrawal from the frontline UK clinical health market, with the future focus of the Group on Healthcare being on the provision of non-frontline health services.

This re-evaluation reflected reviews showing there are additional costs of delivering improved service levels and meeting performance obligations through to the end of the contracts. The Cornwall out-of-hours contract is being exited early in May 2015 and Braintree Clinical Services was disposed of in March 2014. The third loss-making contract, Suffolk Community Health, is being run through to the end of the contract term in September 2015.

Restructuring Costs

As a result of analysis of the cost structures in the businesses and initial actions from the Strategy Review, an exceptional restructuring charge of £32.7m was taken in the year reflecting £19.8m in relation to headcount reductions, £6.9m in relation to property related exit costs and related asset impairments and

£6.0m of adviser costs associated with the Strategy Review and the Contract and Balance Sheet Review. These have been treated as exceptional costs as they have arisen directly as a result of restructuring in response to the impact of the UK Government reviews and the Strategy Review.

Provision for Settlement Relating to DLR Pension Deficit Funding Dispute

In November 2014, the Group agreed to settle a dispute with the Trustees of the Docklands Light Railway (DLR) Pension Scheme over the extent of its liability to fund the deficit on the scheme. This had previously been included as a contingent liability in 2013 based on legal advice taken at the time. The settlement has resulted in a total exceptional charge inclusive of costs of £35.6m, consisting of the full and final settlement amount of £33.0m and costs of £2.6m. The settlement is to be paid over four equal annual instalments from January 2015 to January 2018 covering all past and any future DLR associated pension liabilities.

Other Provision for Legal Claims

An exceptional provision of £20.1m has been recognised for legal claims made against Serco for commercial disputes. This provision is based on legal advice received by the Company.

Impairment and Related Charges of Australian Rail Business

In 2014, the Group put the business up for sale and this is expected to complete in the first half of 2015. An impairment review was performed on the Australian rail business, Great Southern Rail, resulting in a charge totalling £37.2m (2013: £9.6m). This consisted of an impairment of £23.1m to reduce the carrying value of its net assets to the estimated recoverable amount and a charge of £14.1m in relation to the break costs of leases relating to the business.

Impairment Relating to Global Services Business Transferred to Assets Held for Sale

As part of the Strategic Review, certain assets have been designated as non-core and are disclosed in the balance sheet as held for sale. Consequently, a calculation of the fair value of the Global Services businesses has been performed and resulted in an impairment of the carrying value of assets of £39.2m. This relates to an impairment of the UK part of the Global Services business.

Impairment of Goodwill

As goodwill is not amortised, it is tested for impairment annually or if there are indications that it might be impaired. The recoverable amount of each cash generating unit (CGU) is based on value in use calculations derived from forecast cash flows based on past experience, adjusted to reflect market trends, economic conditions and key risks. These forecasts include an appropriate level of new business wins and an assumption that the final year forecast continues on into perpetuity at a CGU specific terminal growth rate that does not exceed the forecast GDP growth for the relevant market of the business.

The output of the Strategic Review identified a non-cash exceptional impairment of goodwill of £466.0m in relation to the reduction in the carrying value of net assets to the estimated recoverable amounts in the CGUs of the Group. The impairments arise as a result of two key issues. Firstly, forecasts of cash flows have been significantly impacted by the Strategy Review undertaken during the year, and secondly, the discount rates applied in the impairment calculations have increased to reflect the changing level of risk associated with the business and the fall in the Group's market capitalisation. Further details are provided in Note 12.

Adjustment to Prior Year Acquisitions

In the prior year, on assessment against the earn-out criteria, an adjustment was made to the deferred consideration arising on the Intelenet acquisition in 2011 of £10.3m.

Tax Impact of above Items

The tax impact of these exceptional items was a tax credit of £18.0m (2013: £28.8m). Further details are provided in note 9.

7. Investment Revenue

	2014	2013
Year ended 31 December	£m	£m
Interest receivable on other loans and deposits	3.1	2.4
Net interest receivable on retirement benefit obligations	3.1	2.3
Movement in discount on other debtors	-	0.5
	6.2	5.2

8. Finance Costs

	2014	2013
Year ended 31 December	£m	£m
Interest payable on non recourse loans	0.8	0.8
Interest payable on obligations under finance leases	3.2	2.5
Interest payable on other loans	29.4	31.5
Facility fees and other charges	9.5	6.1
Movement in discount on provisions and deferred consideration	-	1.5
	42.9	42.4

9. Tax

The effective tax rate on profit before exceptional items is -1.6% (2013: 19.42%). The principal drivers of this tax rate are charges incurred in the period on which no deferred tax credit has been recognised.

The effective tax rate on exceptional items is 2.7% (2013: 31.8%). This rate is driven primarily by goodwill impairment for which there is no associated tax credit.

At as 31 December 2014 the total deferred tax asset recognised in respect of UK losses is £10.5m (2013: £26m).

10. Dividends

	2014 £m	2013 £m
Amounts recognised as distributions to equity holders in the year:		
Final dividend for the year ended 31 December 2013 of 7.45p per share on 487.4 million ordinary shares (2013: Final dividend for the year ended 31 December 2012 of 7.45p per share on 488.3 million ordinary shares)	36.4	36.4
Interim dividend for the year ended 31 December 2014 of 3.10p per share on 538.4 million ordinary shares (2013: Interim dividend for the year ended 31 December 2013 of 3.10p per share on 486.9 million ordinary shares)	16.7	15.1
	53.1	51.5
Proposed final dividend for the year ended 31 December 2014 of nil per share (2013: 7.45p on 487.4 million ordinary shares)	-	36.4

A dividend waiver is effective for those shares held on behalf of the Company by its Employee Share Ownership Trust.

11. Earnings per Share

Basic and diluted earnings per ordinary share (EPS) have been calculated in accordance with IAS 33 *Earnings per Share*.

The calculation of the basic and diluted EPS is based on the following data:

Number of shares

	2014 Millions	2013 Millions
Weighted average number of ordinary shares for the purpose of basic EPS	521.5	489.0
Effect of dilutive potential ordinary shares: share options	-	11.6
Weighted average number of ordinary shares for the purpose of diluted EPS	521.5	500.6

	Earnings 2014	Per share amount 2014	Earnings 2013	Per share amount 2013
Earnings per share				
EPS	£m	Pence	(restated) £m	(restated) Pence
Earnings for the purpose of basic EPS	(1,347.3)	(258.35)	98.4	20.12
Effect of dilutive potential ordinary shares	-	-	-	(0.46)
Diluted EPS	(1,347.3)	(258.35)	98.4	19.66

Basic EPS Excluding Exceptional Items

Earnings for the purpose of basic EPS	(1,347.3)	(258.35)	98.4	20.12
Add back exceptional operating items	661.5	126.84	90.5	18.51
Add back tax on exceptional items	(18.0)	(3.45)	(28.8)	(5.89)
Earnings excluding exceptional operating items for the purpose of basic EPS	(703.8)	(134.96)	160.1	32.74

At 31 December 2014 options over 1,477,411 (2013: nil) shares were excluded from the weighted average number of shares used for calculating diluted earnings per share because their exercise price was above the average share price for the year and they were, therefore, anti-dilutive.

At further 8.7m shares are potentially dilutive but are not included in the above calculation due to the loss making position in the year.

12. Goodwill

	Cost £m	Accumulated impairment losses £m	Carrying amount £m
At 1 January 2013	1,312.1	-	1,312.1
Disposals	(15.7)	-	(15.7)
Exchange differences	(25.6)	-	(25.6)
At 1 January 2014	1,270.8	-	1,270.8
Additions	4.4	-	4.4
Disposals	(3.4)	-	(3.4)
Exchange differences	20.2	(5.4)	14.8
Impairment (exceptional)	-	(466.0)	(466.0)
Transfer to held for sale	(618.8)	339.7	(279.1)
At 31 December 2014	673.2	(131.7)	541.5

As a result of the reorganisation of the Group in the year, certain contracts and businesses have transferred between CGUs and these have been reflected in the information below. Part of this reorganisation led to the splitting of the Local Services CGU into several separate CGUs. However, as the new Local Services CGUs all operate within similar markets, with similar drivers, the assumptions applied to these CGUs are the same and they continue to be disclosed here as a single group of CGUs. The Germany CGU has been integrated within one of these new CGUs and as cash flows are no longer independent the goodwill has transferred across. In addition, the expected sale of a significant portion of both the Global Services and Local Services CGUs results in the transfer of an element of the goodwill balance to held for sale.

12. Goodwill (continued)

As goodwill is not amortised, it is tested for impairment annually or if there are indications that it might be impaired. The recoverable amount of each CGU is based on value in use calculations derived from forecast cash flows based on past experience, adjusted to reflect market trends, economic conditions and key risks. These forecasts include an appropriate level of new business wins and an assumption that the final year forecast continues on into perpetuity at a CGU specific growth rate.

In the current year, a material impairment of goodwill was noted during the review process, which arises as a result of two key issues. Firstly, forecasts of cash flows have been significantly impacted by the strategy review undertaken during the year which has changed the outlook of the Group, and secondly, the discount rates applied in the impairment calculations have increased to reflect the changing level of risk associated with the business. This level of risk is directly linked to the performance of the business following the impact of the UK Government review at the end of 2013. Finally, as a result of the transfer of elements of the Global Services and Local Services goodwill balances to held for sale we have assessed the fair value of these balances and made any additional impairment charges as required. The total impairment charge has been treated as "exceptional" and separated on the face of the income statement from the other results of the Group on the grounds that it is non-recurring in nature and outside of the normal course of the business.

A goodwill balance remains in the Healthcare CGU despite the exit from front line clinical health services due to the positive cash flows from other parts of the CGU and expected levels of growth. Movements in the balance since the prior year end can be seen as follows:

	Goodwill balance 31 December 2013 £m	Additions 2014 £m	Disposals 2014 £m	Exchange differences 2014 £m	Transfers 2014 £m	Impairment 2014 £m	Transfer to held for sale 2014 £m	Goodwill balance 2014 £m	Headroom on impairment analysis 2014 £m
UK Central Government									
Justice & Immigration*	46.0	-	(3.4)	-	7.0	-	-	49.6	147.0
Local & Regional Government									
Health	79.5	-	-	-	4.0	(22.9)	-	60.6	-
Local Services	116.9	-	-	(0.5)	5.8	(57.6)	(46.1)	18.5	-
Germany	17.6	-	-	(0.8)	(16.8)	-	-	-	-
Global Services	513.3	4.4	-	0.1	-	(284.8)	(233.0)	-	-
Americas	385.9	-	-	18.4	-	(100.7)	-	303.6	-
AsPac	103.3	-	-	(2.9)	-	-	-	100.4	314.8
Middle East	8.3	-	-	0.5	-	-	-	8.8	136.5
	1,270.8	4.4	(3.4)	14.8	-	(466.0)	(279.1)	541.5	598.3

* Formerly known as Home Affairs.

Included above is the detail of the headroom on the CGUs existing at the year end. For those CGUs which were impaired in the year, no headroom exists and therefore any reduction in forecasts or unfavourable movements in key assumptions would lead to an additional impairment. Headroom shown in respect of the other CGUs reflects where future discounted cash flows are greater than the underlying assets and includes all relevant cash flows including where provisions have been made for future costs and losses. The headroom in the Justice & Immigration CGU exists despite the future losses reflected in the onerous contract provisions seen in note 30 as a result of the CGU being in a net liability position. This is due to the cash payments related to the onerous contract provisions being removed from the terminal year as they are not expected in perpetuity.

The key assumptions applied in the impairment review are set out below:

	Discount rate 2014 %	Discount rate 2013 %	Terminal growth rates 2014 %	Terminal growth rates 2013 %
UK Central Government				
Justice & Immigration	9.2	9.1	1.9	2.2
Local & Regional Government				
Health	9.7	9.1	1.9	2.2
Local Services	9.7	9.1	1.9	2.2
Germany	-	8.6	-	2.0
Global Services	12.4	12.5	4.6	4.0
Americas	13.3	10.5	2.0	2.4
ASPAC	12.4	10.4	2.3	3.0
Middle East	9.0	8.6	2.2	3.0

Discount Rate

Pre-tax discount rates, derived from the Group's post-tax weighted average cost of capital have been used in discounting the projected cash flows. These rates are reviewed annually with external advisers and are adjusted for risks specific to the market in which the CGU operates. The increases noted in the table above reflect the increased level of risk in the business, partly as a result of the decline in market capitalisation, and partly as a result of the increased level of risk perceived by the market in the business model. The Global Services discount rate disclosed is a blended rate covering different geographic regions within the CGU and the decrease in the year reflects a change in mix of the expected cash flows.

Short Term Growth Rates

The annual impairment test is performed immediately prior to the year end, based initially on five year cash flow forecasts approved by senior management. Short term revenue growth rates used in each CGU five year plan are based on internal data regarding our current contracted position, the pipeline of opportunities and forecast growth for the relevant market.

Short-term profitability and cash conversion is based on our historic experiences and a level of judgement is applied to expected changes in both. Where businesses have been poor performers in recent history, turnaround has only been assumed where a detailed and achievable plan is in place and all forecasts include cash flows relating to contracts where onerous contract provisions have been made.

Terminal Growth Rates

The calculations include a terminal value based on the projections for the fifth year of the short-term plan, with a growth rate assumption applied which extrapolates the business into perpetuity. The terminal growth rates are based on long-term inflation rates of the geographic market in which the CGUs operate and therefore do not exceed the average long-term growth rates forecast for the individual markets. These are provided by external sources.

The decrease in rates noted year on year are partly due to a fall in long-term inflation rates, and partly as a result of the strategy review.

Sensitivity Analysis

Sensitivity analysis has been performed for each key assumption and the Justice & Immigration, AsPac and Middle East CGUs are not impaired following any reasonably possible change in a key assumption. Given the movements in the key assumptions in the current year, we have considered a 2% movement in

discount rates and a 1% movement in terminal growth rates to be reasonably possible. The removal of future revenues assumed in the impairment models have also been considered. These are fully expected to be generated from future contract wins, but for the purpose of sensitivity analysis we have assumed that it is reasonably possible that half of these cash flows are not included.

The impact of changes in key assumptions on the impaired CGUs is as follows:

- **Health:** The CGU represents the UK healthcare market segment. A 2% increase in the discount rate gives rise to an additional impairment of £16m and a 1% decline in the terminal growth rate leads to an additional impairment of £7m. If there is both a 2% increase in the discount rate and a 1% decline in the terminal growth rates an additional impairment charge of £19m would occur. The removal of half of uncontracted future cash flows creates an additional impairment of £34m, if all other assumptions remain unchanged.
- **Local Services:** Includes services provided to local authorities in respect of leisure, environmental and facilities management, both in the UK and in Europe. A 2% increase in the discount rate leads to a £4m impairment in the current goodwill balance on the remaining Local Services CGU, while a 1% decline in terminal growth impairs the balance by £2m. If both assumptions were to move adversely, a total impairment of £6m would arise. If half of uncontracted future cash flows were not to be achieved, £17m of the goodwill balance is impaired.
- **Global Services:** The CGU is a single reportable segments as defined by IFRS 8 *Operating segments* and due to the expected sale of a significant portion of the business, the impairment charge is limited by the estimated sales proceeds and therefore a reasonably possible adverse movement in the key assumptions has no impact on the impairment of this CGU, including uncontracted revenues.
- **Americas:** If the terminal growth rate were to fall by 1%, the impairment charge would increase by £39m, whereas a 2% increase in the discount rate results in an additional impairment charge of £86m. If both assumptions moved adversely by these rates, the impairment charge would increase by £107m. This CGU is also a single reporting segment. The removal of half of uncontracted future cash flows creates an additional impairment of £28m, if all other assumptions remain unchanged.

13. Analysis of Net Debt

	At 1 January 2014 £m	Cash flow £m	Reclassified as held for sale £m	Acquisitions* £m	Disposals £m	Exchange differences £m	Non cash movements £m	At 31 December 2014 £m
Cash and cash equivalents	125.1	74.1	(22.4)	2.1	(1.0)	2.2	-	180.1
Loan receivables	5.8	(0.2)	-	-	-	-	(4.6)	1.0
Non recourse loans	(20.3)	(3.7)	24.0	-	-	-	-	-
Other loans	(788.0)	18.8	0.8	-	-	(32.5)	3.6	(797.3)
Obligations under finance leases	(68.0)	18.2	37.1	-	-	(0.1)	(13.7)	(26.5)
	(745.4)	107.2	39.5	2.1	(1.0)	(30.4)	(14.7)	(642.7)

	At 1 January 2013 £m	Cash flow £m	Reclassified as held for sale £m	Acquisitions* £m	Disposals £m	Exchange differences £m	Non cash movements £m	At 31 December 2013 £m
Cash and cash equivalents	142.8	(1.8)	-	-	-	(15.9)	-	125.1
Loan receivables	1.2	4.6	-	-	-	-	-	5.8
Non recourse loans	(25.1)	4.9	-	-	-	(0.1)	-	(20.3)
Other loans	(700.7)	(103.6)	-	-	-	16.3	-	(788.0)
Obligations under finance leases	(50.2)	4.9	-	-	-	0.3	(23.0)	(68.0)
	(632.0)	(91.0)	-	-	-	0.6	(23.0)	(745.4)

* Acquisitions represent the net cash / (debt) acquired on acquisition.

In the current year, a change was adopted in relation to the presentation of capitalised finance costs, incurred in the raising of debt. As a result, an amount of £4.6m has been reclassified from trade and other receivables to loans, and this movement is included in non cash items above. The prior year has not been restated.

14. Provisions

	Employee related £m	Property £m	Contract £m	Other £m	Total £m
At 1 January 2013	13.3	7.9	14.9	20.1	56.2
Derecognised on disposal of subsidiary	-	(0.3)	-	-	(0.3)
Charged to income statement	5.8	0.2	21.7	7.8	35.5
Released to income statement	-	(0.1)	(4.6)	(7.4)	(12.1)
Utilised during the year	(2.7)	(2.5)	(5.9)	(6.0)	(17.1)
Unwinding of discount	-	0.2	0.2	-	0.4
Exchange differences	(0.7)	(0.1)	(0.4)	(0.3)	(1.5)
At 1 January 2014	15.7	5.3	25.9	14.2	61.1
Reclassified from trade and other receivables*	-	-	(3.9)	-	(3.9)
Recognised on acquisition of subsidiary	0.2	0.1	-	-	0.3
Charged to income statement - exceptional	8.8	2.2	19.4	57.7	88.1
Charged to income statement - other	19.8	15.1	456.7	41.5	533.1
Released to income statement	(0.2)	(0.1)	(3.5)	(4.2)	(8.0)
Utilised during the year	(7.7)	(1.7)	(36.3)	(5.1)	(50.8)
Transferred to trade payables	-	-	-	(8.2)	(8.2)
Assets held for sale	(1.7)	-	(21.5)	(6.8)	(30.0)
Unwinding of discount	-	0.1	-	-	0.1
Exchange differences	0.2	0.5	(6.4)	1.8	(3.9)
At 31 December 2014	35.1	21.5	430.4	90.9	577.9
Analysed as:					
Current	6.8	6.8	136.3	55.8	205.7
Non current	28.3	14.7	294.1	35.1	372.2

*£3.9m has been reclassified from accrued income.

Total provisions held by the Group at 31 December 2014 amount to £607.9m (2013: £61.1m) and include £577.9m (2013: £61.1m) shown above and £30.0m (2013: £nil) included within amounts held for sale on the balance sheet.

Contract provisions relate to provisions for loss making onerous contracts. The present value of the estimated future cash outflows required to settle the contract obligations as they fall due over the respective contracts has been used in determining the provision. The individual provisions are discounted where the impact is assessed to be material. Following a downturn in performance for certain contracts and the strategy review currently being undertaken, a full analysis was performed of the future profitability of all contracts with marginal performances and of the balance sheet items directly linked to these contracts.

There remains a level of uncertainty over the amount and timing of the related cash flows as a result of the matters set out in note 1. Due to the significant size of the balance, if the expected operational performance varies from the best estimates made at the year end, a material change in estimate may be required. The key drivers behind operational performance is the level of activity required to be serviced, which is often directed by the actions of the UK Government, and the efficiency of Group employees and resources.

The contract and balance sheet review also highlighted the need for additional provisions where parts of the business are no longer considered to be core. This resulted in an increase in various other provisions, as explained below.

Further details relating to Onerous Contract Provisions are described in the Finance Review section of the Strategic report under the heading "Onerous Contract Provisions and Related Impairments" including all sections up to, but not including, "Onerous Contract Provisions Projected Utilisation."

14. Provisions (continued)

Employee related provisions are for long-term service awards and terminal gratuities liabilities which have been accrued and are based on contractual entitlement, together with an estimate of the probabilities that employees will stay until retirement and receive all relevant amounts. There are also amounts included in relation to restructuring.

Property provisions relate to leased properties which are either underutilised or vacant and where the unavoidable costs associated with the lease exceed the economic benefits expected to be generated in the future. The provision has been calculated based on the discounted cash outflows required to settle the lease obligations as they fall due.

Other provisions are held for legal and other costs that the Group expects to incur over an extended period. These costs are based on past experience of similar items and other known factors and represent management's best estimate of the likely outcome.

15. Contingent Liabilities

The Company has guaranteed overdrafts, finance leases, and bonding facilities of its joint ventures up to a maximum value of £26.2m (2013: £26.0m). The actual commitment outstanding at 31 December 2014 was £21.4m (2013: £22.6m).

The Company and its subsidiaries have provided certain guarantees and indemnities in respect of performance and other bonds, issued by its banks on its behalf in the ordinary course of business. The total commitment outstanding as at 31 December 2014 was £192.1m (2013: £119.9m).

The Group is aware of other claims and potential claims which involve or may involve legal proceedings against the Group. The Directors are of the opinion, having regard to legal advice received and the Group's insurance arrangements, that it is unlikely that these matters will, in aggregate, have a material effect on the Group's financial position.

On 31st May 2011 we filed a claim with the Authority for Advance Rulings to seek to confirm that Serco was not required to withhold Indian income tax from the purchase price on the acquisition of Intelenet. The AAR declined to rule on the matter, so Serco filed a claim with the High Court to decide on the matter or direct the AAR to rule on the matter. The High Court has currently reserved judgment. Should the matter be decided against Serco, it would be liable for unprovided tax of £27m together with accrued interest to 31 December 2014 of £11m. Having taken appropriate professional advice, Serco considers it likely that it will ultimately be successful in this matter.

In December 2013, following a review of billing arrangements on the EM contract by the Ministry of Justice, a settlement of £64.3m was reached in respect of contractual claims. In addition a £2.0m settlement was reached on the Prisoner Escort and Custody Services (PECS) contract which was also subject to Government review to reflect repayment of past profits earned on this contract. The settlement was full and final in respect of contractual claims with the proviso that additional payments might be sought in limited circumstances, such as if criminality was to be established. Serco continues to cooperate fully with the ongoing investigations by the Serious Fraud Office.

16. Notes to the Consolidated Cash Flow Statement

Reconciliation of Operating Profit to Net Cash Inflow from Operating Activities

Year ended 31 December	2014 Before Exceptional Items £m	2014 Exceptional Items £m	2014 Total £m	2013 Before Exceptional Items £m	2013 Exceptional Items £m	2013 Total £m
Operating profit for the year	(655.8)	(661.5)	(1,317.3)	236.0	(90.5)	145.5
Adjustments for:						
Share of profits in joint ventures	(30.0)	-	(30.0)	(47.1)	-	(47.1)
Share-based payment expense	5.4	-	5.4	2.9	-	2.9
Exceptional impairment of goodwill	-	466.0	466.0	-	-	-
Exceptional impairment of property, plant and equipment	-	18.6	18.6	-	6.4	6.4
Exceptional impairment of intangible assets	-	6.0	6.0	-	3.2	3.2
Impairment and write down of intangible assets - other	38.6	-	38.6	-	-	-
Impairment of property, plant and equipment - other	22.1	-	22.1	1.4	-	1.4
Depreciation of property, plant and equipment	41.8	-	41.8	46.3	-	46.3
Amortisation of intangible assets	38.7	-	38.7	46.1	-	46.1
Exceptional profit on disposal of subsidiaries and operations	-	0.8	0.8	-	(19.2)	(19.2)
Exceptional impairment of loan receivable	-	4.6	4.6	-	-	-
Loss on disposal of intangible assets	0.2	-	0.2	1.0	-	1.0
Increase/(decrease) in provisions	472.6	85.5	558.1	(11.2)	18.6	7.4
Increase in deferred consideration in relation to prior year acquisition	4.0	-	4.0	-	-	-
Release of deferred consideration in relation to prior year acquisition - exceptional	-	-	-	-	(10.3)	(10.3)
Other non-cash movements	-	-	-	(7.9)	-	(7.9)
Impairment of working capital items (non-cash)	148.8	-	148.8	-	-	-
Total non cash items	772.2	581.5	1,353.7	78.6	(1.3)	77.3
Operating cash (outflow)/inflow before movements working capital	86.4	(80.0)	6.4	267.5	(91.8)	175.7
(Increase)/decrease in inventories	(1.4)	-	(1.4)	7.2	-	7.2
Decrease/(increase) in receivables	8.7	18.8	27.5	(66.0)	-	(66.0)
Increase/(decrease) in payables	9.7	20.8	30.5	(78.6)	(11.6)	(90.2)
Movements in working capital	17.0	39.6	56.6	(137.4)	(11.6)	(149.0)
Cash generated by operations	103.4	(40.4)	63.0	130.1	(103.4)	26.7
Tax repaid/(paid)	0.1	-	0.1	(18.8)	-	(18.8)
Net cash inflow from operating activities	103.5	(40.4)	63.1	111.3	(103.4)	7.9

Additions to fixtures and equipment during the year amounting to £12.5m (2013: £23.1m) were financed by new finance leases.

17. Assets Held For Sale

As part of the Strategic Review certain assets and liabilities have been designated as non-core and are held for sale. As at 31 December 2014 the following businesses have been disclosed as held for sale: National Physical Laboratory, Great Southern Rail, the UK environmental and leisure businesses, the offshore BPO business and the majority of the UK private BPO business.

While a significant portion of the Global Services CGU has been transferred to held for sale, as it does not represent the whole of a separate line of business it is not appropriate to treat as a discontinued operation.

	Note	At 31 December 2014 £m
Assets		
Goodwill	12	279.1
Other intangible assets		5.0
Property, plant and equipment		94.5
Deferred tax assets		11.0
Other non current assets		26.8
Inventories		2.7
Current tax		4.2
Cash and cash equivalents		22.4
Other current assets		119.0
Assets classified as held for sale		564.7
Liabilities		
Other current liabilities		(96.1)
Current tax liabilities		(21.8)
Provisions	14	(30.0)
Obligations under finance leases		(37.1)
Loans		(24.8)
Deferred tax liabilities		(2.5)
Other non current liabilities		(7.6)
Liabilities directly associated with assets classified as held for sale		(219.9)

18. Segmental information as reported to the Board in 2014

The tables below reflect the information reported to the Board for the purposes of resource allocation and assessment of segment performance in 2014. The definition of the segments focus on the geographic spread of the business in order to gain advantage of local market and customer understanding. Some of these segments were redefined in 2014 and the tables below and their comparatives have been restated for those changes reflected in the information reported to the board. Note 3 of these financial statements shows the view of the business going forwards and therefore include additional reorganisations that will be reflected in information reported to the Board in 2015.

Changes from the segments defined in the prior year financial statements include the separation of the UK & Europe division into two new divisions - UK Central Government and UK & Europe Local & Regional Government. This follows the Cabinet Office review across Serco contracts with UK Central Government, which resulted in Serco's agreement with the UK Government to undertake a process of corporate renewal, to strengthen governance and transparency which included the separation of the UK & Europe segment into these two new segments.

Other 2014 reorganisations of business units and changes of reporting to the Board include the separation of the former AMEAA segment into the new AsPac and Middle East segments, and the transfer of citizen services contracts from Global Services to UK Central Government.

The prior year comparative segment information has been restated to reflect these changes.

18. Segmental Information as Reported to the Board in 2014 (continued)

The Group's reportable operating segments under IFRS 8 *Operating Segments* are:

Reportable segments	Operating segments
UK Central Government	Frontline services for sectors including Defence, Justice & Immigration, Citizen Services and Transport delivered predominantly to UK Central Government;
UK & Europe Local & Regional Government	Frontline services for sectors including Health, Local Government Direct Services, Transport and BPO services delivered to UK & European public sector customers;
Americas	Professional, technology and management services for sectors including Defence, Transport and Citizen Services delivered to US federal and civilian agencies, selected state and municipal governments and the Canadian Government;
AsPac	Frontline services for sectors including Defence, Justice & Immigration, Transport, Healthcare and Citizen Services in the Asia Pacific region including Australia, New Zealand and Hong Kong;
Middle East	Frontline services for sectors including Defence, Transport and Healthcare in the Middle East region;
Global Services	BPO services for both public and private sector customers predominantly in the UK, India and North America; and
Corporate	Central and head office costs

The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 2 of the financial statements.

Geographic Information

Year ended 31 December	Revenue	Non-current assets*	Revenue	Non-current assets*
	2014	2014	2013	2013
	£m	£m	(restated) £m	(restated) £m
United Kingdom	1,917.8	485.2	2,071.5	784.1
United States	660.4	337.5	706.5	423.7
Australia	657.0	140.3	833.0	167.0
Middle East	267.2	13.6	285.4	14.6
Other geographies	452.6	308.7	387.8	391.9
Total	3,955.0	1,285.3	4,284.2	1,781.3

*Non-current assets exclude financial instruments, deferred tax assets and loans to joint ventures and includes assets of £405.4m (2013: £nil) reclassified as held for sale

Revenues from external customers are attributed to individual countries on the basis of the location of the customer.

18. Segmental Information as Reported to the Board in 2014 (continued)

The following is an analysis of the Group's revenue, results, assets and liabilities by reportable segment:

Year ended 31 December 2014	CG £m	LRG £m	Americas £m	AsPac £m	Middle East £m	Global Services £m	Corporate £m	Total £m
Revenue	926.4	749.1	708.1	624.8	243.7	702.9	-	3,955.0
Result								
Trading (loss)/profit*	(242.7)	(43.3)	16.5	(200.3)	(4.6)	(67.5)	(90.2)	(632.1)
Amortisation and impairment of intangibles arising on acquisition	(0.1)	(0.5)	(2.3)	(8.6)	-	(12.2)	-	(23.7)
Operating (loss)/profit before exceptional items	(242.8)	(43.8)	14.2	(208.9)	(4.6)	(79.7)	(90.2)	(655.8)
Exceptional (loss)/profit on disposal of subsidiaries and operations	1.9	0.4	-	-	-	(3.1)	(4.6)	(5.4)
Other exceptional operating items	(7.5)	(131.1)	(101.7)	(41.3)	(1.7)	(332.7)	(40.1)	(656.1)
Operating loss	(248.4)	(174.5)	(87.5)	(250.2)	(6.3)	(415.5)	(134.9)	(1,317.3)
Investment revenue								6.2
Finance costs								(42.9)
Loss before tax								(1,354.0)
Tax credit								6.9
Loss for the year								(1,347.1)

*Trading (loss)/profit is defined as operating (loss)/profit before exceptional items and amortisation and impairment of intangible assets arising on acquisition.

Segment assets								
Interests in joint ventures	6.3	(8.3)	0.2	3.0	0.4	-	-	1.6
Other segment assets	123.3	390.6	458.9	236.3	99.7	447.5	179.0	1,935.3
Total segment assets	129.6	382.3	459.1	239.3	100.1	447.5	179.0	1,936.9
Unallocated assets								287.0
Consolidated total assets								2,223.9
Segment liabilities								
Segment liabilities	119.4	195.4	62.0	99.2	55.2	108.2	93.2	732.6
Unallocated liabilities								1,557.5
Consolidated total liabilities								2,290.1

Year ended 31 December 2013 (restated)	CG £m	LRG £m	Americas £m	AsPac £m	Middle East £m	Global Services £m	Corporate £m	Total £m
Revenue	1,046.1	809.4	764.6	714.9	250.3	698.9	-	4,284.2
Result								
Trading profit/(loss)*	112.2	26.9	65.1	61.4	19.2	23.2	(50.6)	257.4
Amortisation and impairment of intangibles arising on acquisition	(0.3)	(0.3)	(11.3)	(2.4)	-	(7.1)	-	(21.4)
Operating profit/(loss) before exceptional items	111.9	26.6	53.8	59.0	19.2	16.1	(50.6)	236.0
Exceptional profit on disposal of subsidiaries and operations	-	19.2	-	-	-	-	-	19.2
Other exceptional operating items	(73.9)	(18.7)	-	(10.1)	-	(5.7)	(1.3)	(109.7)
Operating profit/(loss)	38.0	27.1	53.8	48.9	19.2	10.4	(51.9)	145.5
Investment revenue								5.2
Finance costs								(42.4)
Profit before tax								108.3
Tax charge								(9.9)
Profit for the year								98.4

*Trading (loss)/profit is defined as operating (loss)/profit before exceptional items and amortisation and impairment of intangible assets arising on acquisition.

18. Segmental Information as Reported to the Board in 2014 (continued)

Year ended 31 December 2013 (restated)	CG £m	LRG £m	Americas £m	AsPac £m	Middle East £m	Global Services £m	Corporate £m	Total £m
Segment assets								
Interests in joint ventures	7.7	(6.3)	0.2	6.5	-	-	-	8.1
Other segment assets	194.5	500.9	558.3	324.9	93.8	787.8	126.0	2,586.2
Total segment assets	202.2	494.6	558.5	331.4	93.8	787.8	126.0	2,594.3
Unallocated assets								214.6
Consolidated total assets								2,808.9
Segment liabilities								
Segment liabilities	(114.0)	(175.0)	(70.3)	(108.3)	(39.4)	(120.7)	(61.3)	(689.0)
Unallocated liabilities								(1,024.0)
Consolidated total liabilities								(1,713.0)

Directors' responsibilities

Alastair Lyons CBE	Non-Executive Chairman
Rupert Soames OBE	Group Chief Executive
Edward J Casey, Jr	Group Chief Operating Officer
Angus Cockburn	Group Chief Financial Officer
Mike Clasper CBE	Senior Independent Director and Non-Executive Director
Ralph D Crosby, Jr	Non-Executive Director
Tamara Ingram	Non-Executive Director
Rachel Lomax	Non-Executive Director
Angie Risley	Non-Executive Director
Malcolm Wyman	Non-Executive Director

We confirm that to the best of our knowledge:

1. The financial statements, prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
2. The management report, which is incorporated into the Directors' Report, includes a fair review of the development and performance of the business and the position of the company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

Forward-looking Statements

This announcement includes forward-looking statements. The words "expect", "anticipate", "may", "should", "will", "plan", "estimate", "intends", "aim", "forecast", "project" and similar expressions (or their negative) identify certain of these forward-looking statements. These forward-looking statements are statements regarding Serco's intentions, beliefs or current expectations concerning, among other things, Serco's results of operations, financial condition, liquidity, prospects, growth, strategies and the industry in which Serco operates. The forward-looking statements in this announcement are based on numerous assumptions regarding Serco's present and future business strategies and the environment in which Serco will operate in the future. Forward-looking statements involve inherent known and unknown risks,

uncertainties and contingencies because they relate to events and depend on circumstances that may or may not occur in the future and may cause the actual results, performance or achievements of Serco to be materially different from those expressed or implied by such forward looking statements. Many of these risks and uncertainties relate to factors that are beyond Serco's ability to control or estimate precisely, such as future market conditions, currency fluctuations, the behaviour of other market participants, the actions of regulators and other factors such as Serco's ability to continue to obtain financing to meet its liquidity needs, changes in the political, social and regulatory framework in which Serco operates or in economic or technological trends or conditions.

Past performance should not be taken as an indication or guarantee of future results and no representation or warranty, express or implied, is made regarding future performance. Except as required by the Financial Conduct Authority, the London Stock Exchange plc or applicable law or regulation, Serco expressly disclaims any obligation or undertaking to release any updates or revisions to these forward-looking statements to reflect any change in Serco's expectations with regard thereto or any change in events, conditions or circumstances on which any statement is based after the date of this announcement or to update or to keep current any other information contained in this announcement. Accordingly, undue reliance should not be placed on the forward-looking statements, which speak only as of the date of this announcement.