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Key points of statement


- The Contract & Balance Sheet Reviews identify likely impairments and further Onerous Contract Provisions totalling around £1.5bn, approximately half of which relates to goodwill and intangible assets.

- Forecast for 2014 Adjusted Operating Profit reduced by approximately £20m to £130-140m (before the impact of the Contract & Balance Sheet Reviews); outlook for 2015 reduced.

- Discussions to be held with lenders to negotiate amendments to the operation of covenants.

- Medium term capital structure target of 1-2x net debt to EBITDA.

- Proposed equity rights issue of up to £550m in the first quarter of 2015; fully underwritten on a standby basis by Bank of America Merrill Lynch and J.P. Morgan Cazenove.

- Programme of disposals of businesses not core to our future strategy underway, including the majority of our private sector BPO business.
Update on Contract & Balance Sheet Reviews, Trading & Outlook, Capital Structure and Funding Strategy

Angus Cockburn
Group Chief Financial Officer
Contract & Balance Sheet Reviews

- **Strategy Review includes analysing the contract base and a thorough appraisal of the Balance Sheet**
  - Contract & Balance Sheet Reviews are still ongoing
  - Thorough and rigorous process with independent support from EY

- **Estimate aggregate impairments, Onerous Contract Provisions and other adjustments of approximately £1.5bn to be charged in FY14**
  - Approximately half is goodwill (principally related to Global Services) and other intangible asset impairments
  - Around £450m Onerous Contract Provisions for projected losses on challenging contracts
    - Royal Australian Navy Armidale Class Patrol Boats (ACPB) c.£150m
    - UK asylum seeker support (COMPASS)
    - Royal Navy fleet support (FPMS)
    - Prisoner Escort & Custodial Services (PECS)
    - National Citizen Service
  - Other write-downs, adjustments to provisions, accruals and tax balances

- **Discussions to be opened with customers on how to mitigate potential losses**
Out-turn for 2014 and outlook for 2015

- **Latest trading and operational update**
  - Mid-single digit organic revenue decline in H2
  - Reduced volumes in Australian immigration services contract
  - Contract losses and renegotiations (e.g. Electronic Monitoring and Northern Rail)
  - Profit impact from operational challenges requiring increased investment (e.g. COMPASS, ACPB, FPMS)
  - £900m contract awards since the half year

- **Reduced profit out-turn forecast for 2014**
  - Adjusted Revenue £4.8bn; AOP £130-140m (before Contract & Balance Sheet Reviews impact)

- **Reduced outlook for 2015**
  - Adjusted Revenue c.£4bn; AOP c.£100m (in both cases before the impact of any disposals); assumes c.£50m benefit from utilising OCPs
  - Budgets still require further work and potential adjustment
Capital Structure Assessment

- At 30 June 2014, Group Net Debt of £581m and leverage of 2.41x (vs covenant of 3.5x EBITDA)

- Anticipate net debt to be in the region of £650-700m at 31 December 2014
  - Lower cash flows generated from trading
  - Other impacts such as foreign exchange movements

- Anticipated year end leverage ratio likely to exceed 3x EBITDA

- Opening discussions with lenders about possible amendments to the operation of the financial covenants
  - To remain compliant with terms of debt
  - To reflect strengthening of capital structure and funding position through proposed raising of new equity
  - Debt realignment with existing lenders to occur along with rights issue
Funding strategy and proposed future raising of equity

- **Appropriate funding strategy to reduce indebtedness**
  - 2015 opening net debt for leverage purposes of £650m-£700m
  - Average net debt has been £100-150m higher than at the statutory balance sheet dates
  - 2015 EBITDA for leverage purposes in the order of c.£160m

- **Board has preliminary view that leverage should be in the region of 1-2x net debt to EBITDA over medium term**

- **Interim “self-help” actions:**
  - Improved working capital controls and cash forecasting
  - Board will not recommend the payment of a final dividend for 2014; dividend policy to be reconsidered when trading outlook and cash generation improves
  - Disposals of non-core assets including UK Environmental Services and Leisure businesses, Great Southern Rail in Australia and majority of private sector BPO business

- **Rights issue of up to £550m in Q1 2015**
  - Fully underwritten on standby basis by Bank of America Merrill Lynch and J.P. Morgan Cazenove
  - To follow completion of the reviews and publication of the 2014 results
Update on Strategy Review

Rupert Soames
Group Chief Executive
Our future: an international B2G business

- **Focus on what we are really good at**

- **Strong core providing services to Governments and public bodies around the world**
  - In 2014, core will provide c.80% of Adjusted Revenues & c.95% of economic profit

- **An international “B2G” business with a unique portfolio of expertise offered across a focused set of sectors and geographies**
  - Shrink portfolio to five core sectors with attractive growth and strong propositions
    - Justice & Immigration
    - Defence
    - Transport
    - Citizen Services
    - Healthcare
  - Focus on four core regions with scale, relationships and a track record of delivery: UK, North America, Middle East and Australia/New Zealand
  - Capture and transfer skills and knowledge between sectors and geographies offering unmatched diversity of service
  - Competitive cost position from simplified structure and focused portfolio
Market for services to Governments is attractive

- **Three forces driving enduring structural growth:**
  - Rising healthcare and pension costs
  - Increased citizen expectations
  - Unwillingness of citizens to pay more tax

- **Governments will have to innovate and use every tool at their disposal to deliver better services at lower cost**

- **UK age-affected spending rising fast, prompting a review of priorities and productivity**
  - Spending on health, education, pensions and elderly likely to rise from c.£368bn in 2013 to c.£400bn in 2018

- **Australian government facing similar spend issues**
  - Spending on health, welfare and education likely to rise at c.4.2% over 5 years from AUS$234bn (2013) to AUS$278bn in 2018
  - To keep overall spend in line with GDP, non-age affected spend has to shrink from c.11.5% of GDP in 2013 to c.10.5% of GDP in 2017-18
### Five core sectors which will drive our future growth (1/2)

<table>
<thead>
<tr>
<th>Sector</th>
<th>2014 Revenue</th>
<th>Key service lines</th>
<th>Regions</th>
<th>Examples</th>
</tr>
</thead>
<tbody>
<tr>
<td>Justice &amp; Immigration</td>
<td>c.£700m</td>
<td>- Integrated custodial contracts</td>
<td>UK</td>
<td>Doncaster; innovative PbR pilot</td>
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<td></td>
<td></td>
<td>- Rehabilitation</td>
<td>AsPac</td>
<td>Mt Eden: public sector prison to private sector</td>
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<tr>
<td></td>
<td></td>
<td>- Immigration detention centres</td>
<td></td>
<td>DIBP: Largest private sector immigration detention facility in Australia</td>
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<tr>
<td>Defence</td>
<td>c.£1,200m</td>
<td>- Integrated base support</td>
<td>UK</td>
<td>AWE: Whole enterprise outsourcing of critical state asset</td>
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<tr>
<td></td>
<td></td>
<td>- Engineering services</td>
<td>AsPac</td>
<td>DBS: Full support of MOD back office</td>
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<tr>
<td></td>
<td></td>
<td>- Maritime support</td>
<td>US</td>
<td>C4ISR: Niche &amp; defensible expertise</td>
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<tr>
<td></td>
<td></td>
<td>- Training</td>
<td>Middle East</td>
<td>RAF: Largest outsource provider for base support services</td>
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<tr>
<td></td>
<td></td>
<td>- Defence readiness</td>
<td></td>
<td>MELABS: Middle East support to Australian forces</td>
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</table>
Five core sectors which will drive our future growth (2/2)

<table>
<thead>
<tr>
<th>Sector 2014 Revenue</th>
<th>Key service lines</th>
<th>Regions</th>
<th>Examples</th>
</tr>
</thead>
<tbody>
<tr>
<td>Citizen Services (public sector BPO) c.£800m</td>
<td>▪ Complex case management ▪ Front and middle office BPO</td>
<td>▪ UK ▪ AsPac ▪ US</td>
<td>▪ Australian Tax Office; complex and sensitive data management ▪ Child Maintenance Group for DWP in UK; sensitive and complex cases ▪ CMS US; large scale manpower mobilisation &amp; critical policy vehicle ▪ US Patent office: sensitive information</td>
</tr>
<tr>
<td>Transport c.£900m</td>
<td>▪ Operating and maintenance of rail, urban transit &amp; other systems</td>
<td>▪ UK ▪ US ▪ ME ▪ AsPac</td>
<td>▪ Dubai metro; world’s longest automated rail system ▪ US VDOT: private sector provider of urban transit systems</td>
</tr>
<tr>
<td>Healthcare c.£300m</td>
<td>▪ Patient admin and FM ▪ Design and operation of new build PFI hospitals</td>
<td>▪ UK ▪ US ▪ Middle East ▪ AsPac</td>
<td>▪ Fiona Stanley Hospital; end to end provision of non-clinical services ▪ Forth Valley; innovative provision of non-clinical services in UK ▪ Dr Sulaiman Al Habib JV; presence in Saudi Arabia</td>
</tr>
</tbody>
</table>
Markets will support value creation

- Significant programme of change required over coming years

- Serco will become smaller and more focused…
  - Revenues could drop to £3.0-3.5bn in 2016, depending on progress with disposals
  - Margins could drop to 2-3%

- Markets likely to be growing at 5-7% per annum, supporting margins of 5-6% and attractive rates of risk-adjusted return on capital employed
In the near term we will transform our operating model to reduce our cost base and to reposition to secure long term growth.

Transform Serco’s operating model to reduce cost and reposition for growth

Selective expansion to drive growth

Focus on driving growth margins and returns

Now - 2017
Reposition for growth
- Exit or renegotiate non-core and loss making contracts
- Invest in capability, MI, systems & BD to consolidate strengths
- Reduce overhead and support function costs
- Improve contract delivery margins through Continuous Improvement

2017 and beyond
Increase conversion and win rates; improve margins and returns
- Benefit from past investments in repositioning
- Scale BD investments with sector ambitions
- Complement investments in Centres of Excellence with investment in IT and technology capabilities

2018 and beyond
Grow from robust foundation
- Solidify leadership in core markets
- Build recognition as experts with best in class operating model
- Selectively expand into international markets
Questions and Answers

Rupert Soames, Group Chief Executive
Angus Cockburn, Chief Financial Officer
Ed Casey, Chief Operating Officer