Bringing service to life

2015 Full Year Results

Serco Group plc
25 February 2016

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Agenda

OVERVIEW
Rupert Soames, CEO

FINANCIAL REVIEW
Angus Cockburn, CFO

OPERATIONAL & STRATEGIC PROGRESS
Rupert Soames

Q&A
Ed Casey, COO
Rupert Soames
Angus Cockburn

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FY 2015 Overview

Rupert Soames
Group Chief Executive

Performance ahead of our expectations

- **Trading better than expected**
  - Underlying Trading Profit £96m; Reported Trading Profit £138m; Free Cash Outflow of £16m
- **Transformed Balance Sheet**
  - Net Debt reduced by £605m to £78m; leverage ~0.5x EBITDA
- **2014 provisions stand the test of events**
  - Net release in Reported Trading Profit of £21m vs £745m of provisions taken in 2014; OCP utilisation in year £14m less than forecast
- **Reshaped the portfolio to focus on public services: 5 sectors in 4 regions**
  - Disposal programme completed; other non-core contracts exited; Centres of Excellence launched
- **Other early elements of transformation progressing well**
  - Costs down by >£330m; systems improved; employee engagement well up; pipeline up ~£1.5bn; relations with customers improved
- **2016 guidance unchanged**

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FY 2015 Financial Review

Angus Cockburn
Chief Financial Officer

Income statement – Revenue and Trading Profit

As per FY14, our headline measures are consistent with IFRS: Revenue measures exclude share of JV revenue, Trading Profit measures include share of JV PAT

Underlying measure presented for consistency to include the performance of discontinued operations, and to strip out one-time items and multi-year Review impacts

£m	FY15	FY14
Revenue	3,177	3,596
Include: discontinued operations	338	359
Revenue including discontinued operations	**3,515**	**3,955**
Reported Trading Profit	137.6	(632.1)
Exclude: Contract and Balance Sheet Review adj.	(20.9)	745.3
Exclude: Assets held for sale D&A benefit	(11.7)	-
Exclude: one-time profit on contract termination	(9.0)	-
Underlying Trading Profit	**96.0**	**113.2**

– Memo: Currency impact immaterial for the year (£7m adverse for Revenue including discontinued operations; £0.1m favourable for Underlying Trading Profit)

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Revenue – divisional analysis

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

Disposal impact principally GSR in AsPac in May 2015

Revenue - growth composition

£m	FY14	Organic	(Disposed) /Acquired	FX	Total	FY15
UK CG	962	(22%)	(1%)	-	(23%)	742
UK&E LRG	960	(4%)	-	(2%)	(6%)	906
Americas	708	(8%)	-	+6%	(2%)	693
AsPac	706	(9%)	(6%)	(8%)	(23%)	545
Middle East	260	+4%	+2%	+6%	+12%	291
Continuing	**3,596**	**(10%)**	**(1%)**	**(1%)**	**(12%)**	**3,177**
Global Services	359	(7%)	(1%)	+2%	(6%)	338
Total	**3,955**	**(10%)**	**(1%)**	**-**	**(11%)**	**3,515**
FY15 v FY14		↓£392m	↓£41m	↓7m	↓£440m	

- **Note: Translational FX sensitivity**
  - FY15 £:Aus$ average rate of 2.04; 1% move = ~£5m Revenue (~£0.4m Underlying Trading Profit)
  - FY15 £:US$ average rate of 1.53; 1% move = ~£7m Revenue (~£0.6m Underlying Trading Profit)

Ending of NPL contract and transfer of Shop Direct contract are classed as organic declines rather than disposals.

Underlying Trading Profit – divisional analysis

Profit reduction from contract attrition, volume reductions particularly DIBP in AsPac, and disposals

Offset by OCP utilisation and costs reducing broadly in line with revenue decline

FY14 had losses of £54m subsequently covered by OCP, so FY14 of £167m more comparable to FY15's £96m

£m	FY15 UTP	FY15 Margin	FY14 UTP	FY14 Margin	TP Change
UK CG	53.1	7.2%	58.0	6.0%	(4.9)
UK&E LRG	4.7	0.5%	3.4	0.4%	1.3
Americas	44.3	6.4%	43.2	6.1%	1.1
AsPac	11.9	2.2%	35.5	5.0%	(23.6)
Middle East	18.9	6.5%	19.1	7.3%	(0.2)
Divisions continuing	**132.9**	**4.2%**	**159.2**	**4.4%**	**(26.3)**
Corporate costs	(51.2)	(1.6%)	(52.8)	(1.5%)	1.6
Total continuing	**81.7**	**2.6%**	**106.4**	**3.0%**	**(24.7)**
Global Services	14.3	4.2%	6.8	1.9%	7.5
Underlying	**96.0**	**2.7%**	**113.2**	**2.9%**	**(17.2)**

- **Note: Margin enhancement of equity accounting**
  - If JV revenue of £737m was included, FY15 Group margin would decrease from 2.7% to 2.3% (FY14: 2.9% to 2.4%)
  - Impact principally UK CG – FY15 margin would decrease from 7.2% to 3.7% (FY14: 6.0% to 3.5%)

Provisions and other Review adjustments

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

Overall adjustment for Review items results in a £21m benefit to Reported Trading Profit in FY15

Guidance continues to be on the basis of Underlying Trading Profit ie before any OCP adjustments

- FY14 total operating profit charge of £1,299m, of which £745m within Reported Trading Profit
  - £433m of OCPs were the main items which impact future profits and cash flows (£447m inc. exceptionals)
  - £312m of other charges to Reported Trading Profit, mainly contract-related, reflecting asset impairments, together with other charges to accruals and provisions
- FY15 overall adjustment a net £21m benefit to Reported Trading Profit
  - In-year utilisation of £125m (£114m excluding exceptional utilisation of £11m), better than £139m initial estimate, which benefits cash
- OCP releases and charges broadly offset each other
  - £89m release (£92m including exceptional release of £3m); £63m ACPB, together with other smaller ones such as FPMS and Ashfield
  - £92m charge; new £34m OCP on Lincs CC, £11m increase on PECS, others include Mount Eden, VDOT and Hong Kong
- £24m release of other provisions, accruals and allowances for bad debts

Income statement

Income statement presented for combination of continuing and discontinued operations

Statutory operating profit before exceptionals of £132.7m

Net finance costs reduced to £32.0m, reflecting reduction in average net debt partially offset by blended cost and discount unwind on provisions

£m	FY15	FY14
Underlying Trading Profit (UTP)	**96.0**	**113.2**
Review adjs within Reported Trading Profit (RTP)	20.9	(745.3)
Assets held for sale D&A within (RTP)	11.7	-
Other one-time items within (RTP)	9.0	-
Amort. and impair't of intangibles arising on acq'n	(4.9)	(23.7)
Operating profit/(loss) before exceptionals	**132.7**	**(655.8)**
Net finance costs before exceptionals	(32.0)	(36.7)
PBT before exceptionals	**100.7**	**(692.5)**
Tax on UTP and net finance costs before exceptionals	(30.5)	(45.3)
Tax on other non-exceptional items	(6.1)	34.2
PAT before exceptionals	**64.1**	**(703.6)**
Exceptional items, net of tax	(217.2)	(643.5)
Loss after tax	**(153.1)**	**(1,347.1)**

Tax

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

Cash tax lower than income statement charge

Estimated UK tax losses at 31 December 2015 of £761m with a potential value of £137m at 18% tax rate; only £11m currently being recognised, with remainder being a contingent asset

- Tax charge of £30.5m on Underlying PBT of £64.0m, equivalent to a 47.7% effective tax rate
  - Tax charge at 30%+ rate on overseas profits (Americas, Australia, India, etc)
  - Absence of deferred tax credit for losses in the UK (UK divisions and corporate expenses)
- For FY16, continue to anticipate a rate of ~50%
  - Assumes continued absence of deferred tax credit in the UK
  - FY16 higher than FY15 reflecting mix of international profits
- Cash tax rate continues to be lower than income statement charge
  - £2.7m paid in FY15
  - Lower cash tax includes the effect of losses on onerous contracts overseas as well as the UK, together with refunds and sale of losses to JV entities
- Future years' effective tax rate will continue to be high until UK tax losses can be recognised based on IAS12 technical requirements

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Exceptional items

Previously anticipated loss on BPO disposal offset by non-cash hedging and translation gain

Impairment of goodwill reflected £66m re BPO business when held for sale, and £88m further impairment re Americas on updated testing

£166m of £188m operating exceptionals are therefore non-cash

Restructuring reflects headcount reductions, external fees, etc

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

£m	FY15	FY14
Profit/(loss) on disposals inc. discontinued	2.8	(5.4)
Other exceptional operating items:		
Impairment of goodwill inc. discontinued	(153.4)	(466.0)
Impairment of other discontinued assets	(14.9)	(39.2)
Impairment and related charges re GSR	-	(37.2)
Restructuring costs inc. discontinued	(21.9)	(32.7)
UK frontline clinical health contract provisions	2.8	(16.1)
Aborted transaction costs	(1.7)	-
Costs re UK Government review	(1.2)	(9.2)
Provision for settlement re DLR pension deficit	-	(35.6)
Other provision for legal claims	-	(20.1)
Other exceptional operating items	(190.3)	(656.1)
Exceptional operating items	**(187.5)**	**(661.5)**
Exceptional net finance costs	(32.8)	-
Tax on exceptional items	3.1	18.0
Total exceptional items, net of tax	**(217.2)**	**(643.5)**

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EPS and DPS

EPS presented for combination of continuing and discontinued operations

Underlying EPS reflects the Underlying Trading Profit measure, after deducting pre-exceptional net finance costs and related tax effects

As indicated last March, not recommending a dividend for 2015

	FY15	FY14
Weighted average share count for basic EPS	**986.5m**	**655.1m**
Underlying EPS	**3.44p**	**4.73p**
Impact of non-underlying items	3.11p	(112.16p)
Statutory EPS before exceptional items	**6.55p**	**(107.43p)**
Impact of exceptional items	**(22.02p)**	(98.23p)
Statutory EPS	**(15.47p)**	**(205.66p)**
DPS	**-**	**3.10p**

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Trading and free cash flow

Free cash flow outflow driven by the working capital outflow as previous cash management now largely unwound, the provisions movement reflecting cash outflow on OCP contracts, and increased capex

Outflow better than originally anticipated, which includes ~£20m lower OCP outflows, ~£50m from one-time cash inflows (Shop Direct, Thurrock, tax), and ~£20m non-cash movement re hedging

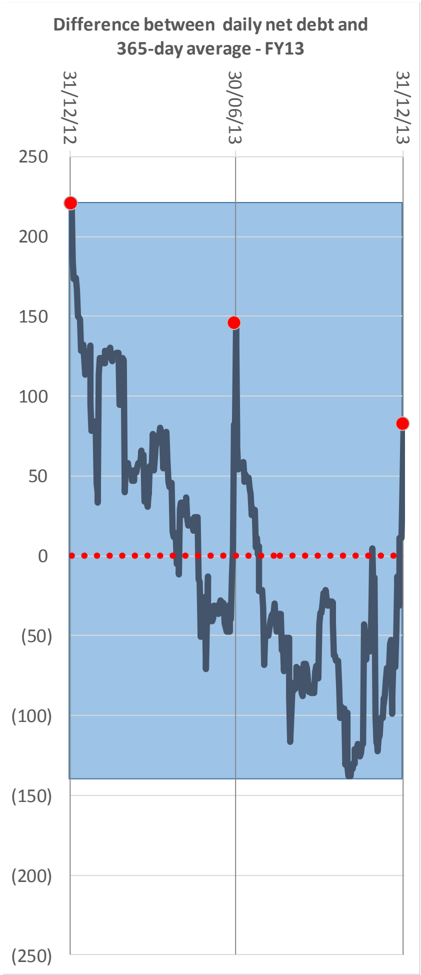
£m	FY15	FY14
Operating profit/(loss) before exceptionals	**132.7**	**(655.8)**
Share of profit of joint ventures	(37.0)	(30.0)
Depreciation, amortisation and impairment	71.5	141.2
Working capital movement	(22.6)	17.0
Working capital impairment	-	148.8
Provisions movement	(116.0)	472.6
Other non-cash movements	30.6	9.1
Tax (paid)/received	(2.7)	0.6
Net cash inflow from operating activities	**56.5**	**103.5**
Dividends from joint ventures	32.5	34.8
Net interest paid	(32.7)	(39.6)
Net capital expenditure	(72.5)	(36.5)
Free Cash Flow	**(16.2)**	**62.2**
Add-back: tax (inc. R&D expenditure)	3.4	(0.1)
Add-back: net interest, as above	32.7	39.6
Trading Cash Flow	**19.9**	**101.7**
Underlying Trading Profit	**96.0**	**113.2**
Trading cash conversion	***21%***	***90%***

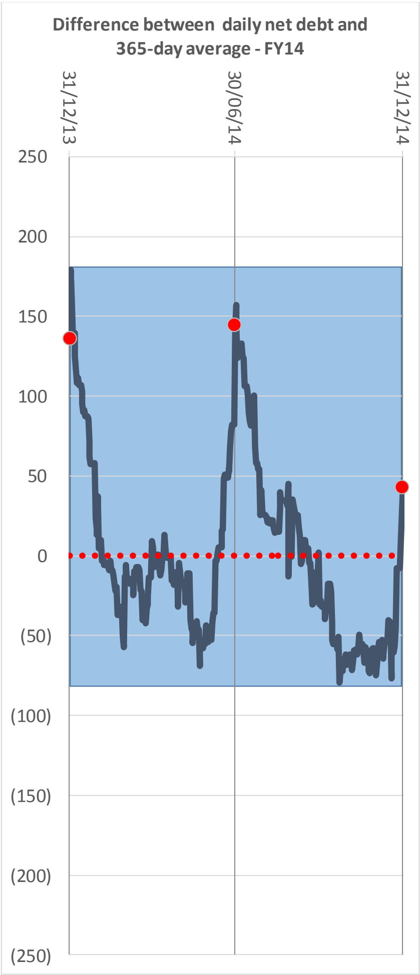
Cash management normalisation

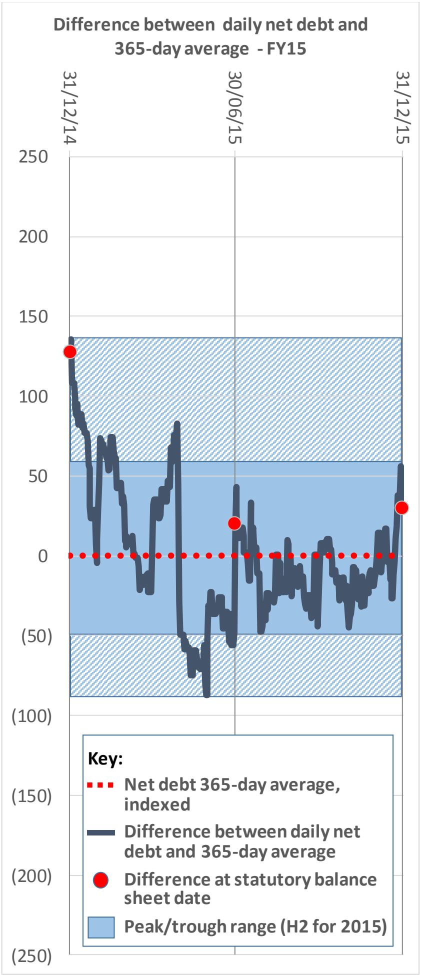
Previous cash management now largely unwound, removing optical benefit at the open/mid/closing statutory dates and narrowing the in-year cash cycle swings

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

By not repeating previous actions this had reduced to £108m for FY14, £59m for FY15 and £34m for 2H15







The impact of net proceeds from the May 2014 Placing, the April 2015 Rights Issue and refinancing, and the December 2015 BPO disposal are all removed from the net debt average used in the above charts.

Free cash flow to movement in net debt

Closing net debt reduced by £605m, with the principal drivers being the rights issue and disposal net proceeds

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

Adverse FX impact from translation of US$ denominated debt

£m	FY15	FY14
Free cash flow	**(16.2)**	**62.2**
Exceptional items	(88.4)	(40.4)
Net (acquisition)/disposal of subsidiaries	184.9	(4.6)
Placing net proceeds	-	156.3
Net proceeds/(costs) of rights issue	530.3	(4.1)
Purchase of own shares net of option proceeds	4.4	2.3
Dividends paid	-	(53.1)
Movement in finance leases	0.5	(13.7)
Movement in non-recourse loans	24.0	(6.8)
Other movements on investment balances	(1.9)	(4.5)
Foreign exchange	(32.9)	(30.4)
Movement in net debt	**604.7**	**63.2**
Opening net debt	(682.2)	(745.4)
Closing net debt (inc. held for sale)	**(77.5)**	**(682.2)**

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Net debt and leverage

Leverage ratio per covenant 0.44x; on a pro forma basis to remove ~£35m of EBITDA re the private sector BPO disposal, this would be ~0.5x; EBITDA also benefits from £30m of non-underlying items in FY15

Forecast net debt increase and EBITDA reduction would see leverage of approximately 2x at the end of 2016

£m	FY15	FY14*
Net debt (inc. held for sale)	(77.5)	(682.2)
Less: non-recourse net debt	-	24.0
Recourse net debt	**(77.5)**	**(658.2)**
Less: encumbered cash and other items	(14.2)	-
Add: rights issue gross proceeds less underwriting	-	543.7
Net borrowings per covenant	**(91.7)**	**(114.5)**
Leverage covenant		
EBITDA per covenant	209.5	192.5
Leverage ratio per covenant (not to exceed 3.5x)	**0.44x**	**0.59x**
Interest cover per covenant (at least 3.0x)	**6.67x**	**5.22x**

* The covenant test for 31 December 2014 was deferred until 31 May 2015. The covenant definition of EBITDA for was amended to exclude the impact of £757.6m of charges arising from the Contract and Balance Sheet Review, whilst net borrowings was calculated to pro forma for £543.7m to reflect the proceeds less underwriting charges from the equity Rights Issue.

Balance sheet summary

Receivables increase and payables decrease driven by unwind of cash push

Loans reduction driven by rights issue and disposal proceeds

Provisions reduction driven by OCP utilisation

Held for sale reduction reflects impairment and disposals, together with the reclassification of Enviro and Leisure

£m	FY15	FY14
Goodwill	509.9	541.5
Other intangible assets	89.8	118.8
Property, plant and equipment	73.2	38.4
Trade and other receivables	569.9	536.9
Inventories	26.4	31.2
Interest in joint ventures	13.8	1.6
Invested capital assets (before assets held for sale)	**1,283.0**	**1,268.4**
Cash and cash equivalents	323.6	180.1
Other assets (tax, fin. instruments, ret. benefit assets)	193.1	210.7
Total assets (before assets held for sale)	**1,799.7**	**1,659.2**
Invested capital liabilities (trade & other payables)	**(567.1)**	**(611.6)**
Loans	(381.9)	(797.3)
Provisions	(481.7)	(577.9)
Other liabilities (finance leases, tax, financial instruments, ret. benefit liabilities)	(94.2)	(83.4)
Total liabilities (before liabilities held for sale)	**(1,524.9)**	**(2,070.2)**
Assets held for sale (net)	**7.3**	**344.8**
Net (liabilities)/assets	**282.1**	**(66.2)**

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Provisions

Overall provision movements in line with expectations

Contract and Balance Sheet Review OCPs charged last year of £447m, now reduced to £300m; movement includes utilisation of £125m and £nil net charge/release

£m	**Total OCPs**	Other contract provisions	Held for sale Adj.	**Total contract provisions**	Employee, Property and other	**Total reported provisions**
31 December 2014	(447.1)	(4.9)	21.6	(430.4)	(147.5)	(577.9)
Charge – Trading	(91.8)	(10.1)	12.8	(89.1)	(33.7)	(122.8)
Charge – exceptional	-	-	-	-	(35.8)	(35.8)
Release – Trading	88.8	2.7	(1.3)	90.2	15.0	105.2
Release – exceptional	2.8	-	-	2.8	2.2	5.0
Utilised – Trading	114.1	16.6	(24.7)	106.0	33.3	139.3
Utilised – exceptional	10.8	-	-	10.8	-	10.8
Unwinding of discount	(5.5)	-	-	(5.5)	(0.1)	(5.6)
Disposals	6.5	0.4	(6.9)	-	-	-
FX	8.2	0.3	-	8.5	(2.8)	5.7
Transfer re trade payables	-	(4.5)	4.5	-	(15.9)	(15.9)
Assets held for sale	-	-	4.9	4.9	5.4	10.3
Reclassifications	13.3	(13.6)	-	(0.3)	0.3	-
31 December 2015	**(299.9)**	**(13.1)**	**10.9**	**(302.1)**	**(179.6)**	**(481.7)**

- **Profile of remaining OCPs**
  - Utilisation phasing: 2016 ~£90m, 2017 ~£60m, 2018 ~£60m, 2019 ~£40m, 2020 ~£15m
  - Revenue base: 2016 ~£530m, 2017 ~£440m, 2018 ~£340m, 2019 ~£260m, 2020 ~£130m

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2016 outlook and modelling assumptions

- Revenue ~£2.8bn (2015: £3.5bn)
  - Contract attrition ~£500m; BPO exit £300m+; partial offset from new/expanded ~£100m
- Underlying Trading Profit ~£50m (2015: £96m)
  - Contract attrition ~£40m; BPO exit ~£20m
  - Further cost savings of £50m+
- Net finance costs (pre-exceptional) ~£20m (2015: £32m)
  - Lower average net debt and benefit of £113m repayment at par of USPP notes in February 2016
  - Prudent approach to further debt reduction
- Underlying effective tax rate of ~50% (2015: 48%)
  - High rate reflects extent to which UK tax losses not recognised and higher international CT rates
- Weighted average number of shares annualises to ~1.1bn
- Closing net debt of ~£200m, leverage of ~2x EBITDA
  - Likely greater free cash outflow than 2015 given lower Underlying Trading Profit and continued OCP cash outflows, albeit the latter at a lower rate
  - Further cash outflows on exceptional items
- Forecasts assume constant FX on 2015 average rates
- 2017: conditions remain uncertain; expect limited financial progress

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Cost reduction – Shared Services and overheads

- FY16 total cost saving challenge of ~£700m
  - ~£650m direct Cost of Sales via attrition, disposal, etc
  - ~£50m+ via Shared Services and overheads, equivalent to 10%+ reduction
- Shared Services are central to Serco's operating model: ~£180m cost base, to reduce by ~£30m
  - IT, HR, Finance, Procurement, etc
  - Some of this is 'Cost of Sales' in nature eg purchases on behalf of contracts
  - Some areas are more volume related, eg hiring, processing, etc
  - Others more fixed in nature, eg IT systems
  - Major project to drive efficiencies to lower cost but also promote increased use of Shared Services
- Other overheads ~£290m, to reduce by ~£20m
  - For non-UK divisions, this includes their equivalent of local shared service infrastructure
  - Major project ongoing to standardise overhead charging approach
  - Overheads include ~£50m BD/bidding; focus will be on improving return rather than reducing
  - Corporate costs of ~£50m to reduce by ~£10m
  - Other divisional and BU overheads to reduce by ~£10m

* Both the Shared Services cost base and the overheads cost base exclude offshore private sector BPO

Summary

- Trading for 2015 better than original expectations
- Balance sheet strengthened
- Cash management normalised
- Cost actions in focus
- Outlook for 2016 remains challenging, but guidance unchanged

Bringing service to life

FY 2015 Operational and Strategic Progress

Rupert Soames
Group Chief Executive

2015 highlights & lowlights

Highlights

- Rights Issue and debt refinancing completed; net debt reduced to £78m; cash flow normalised
- Disposal programme completed
- £1.8bn of order intake; pipeline starts to grow again; customer relationships normalised
- Operational performance improving; most start-ups / expansions / exits ran smoothly. Wiri / Fiona Stanley / Suffolk
- Progress on several major onerous contracts: ACPB / Ashfield / FPMS
- Significant cost savings
- Centres of Excellence launched
- Morale much improved

Lowlights

- Difficult operational issues at Lincolnshire CC, VDOT and PECS offsets good progress on other contracts
- Reputational damage in New Zealand from Mt Eden
- Some major contracts ending: NBC, Thurrock, DSTL => heavy revenue / contribution attrition in 2016
- Tortuous BPO disposal
- Lower volumes of new work bid and won
- Although pipeline has begun to increase, still relatively weak

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Strategy – From Stabilise to Transform

Our Ambition

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

2014 Stabilise

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

2015-17 Transform

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

2018-20 Grow

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

Planned Outcome

Chosen sectors will grow at c.5-7%

Industry margins in our sectors c.5-6%

We believe our performance can match this

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Executing the Strategy – 2015 scorecard

A superb provider of Public Services

The best run business in our sector

Theme	**Winning good business**	**Executing brilliantly**	**A place people are proud to work**	**Profitable and sustainable**
2015 Focus	**Rebuild our pipeline**	**Build capability & efficiency**	**Energise our people**	**Strengthen financial performance**
	■ Started to develop sector propositions ■ Created new Centres of Excellence – Transport, Health, J&I ■ Pipeline starts to grow	■ Upgraded systems infrastructure and management information ■ Improved bidding and DPR processes ■ Implemented some more cost efficient structures	■ Built confidence in our strategy ■ Improved talent management and hired some great people ■ Increased staff engagement	■ Refinanced ■ Reduced debt ■ Mitigated some loss-making contracts ■ Reduced total costs ■ Beat our budgets

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Strategy – the focus on five sectors across four regions

2015 revenue excluding private sector BPO, including share of JVs

Sector	UK & Europe	Americas	Middle East	Asia Pacific		
Defence	£680m	£279m	£34m	£76m	**£1,069m 27%**	Strong
Justice & Immigration	£250m			£279m	**£529m 14%**	
Transport	£496m	£93m	£181m	£67m	**£837m 21%**	Foundation
Health	£324m		£8m	£84m	**£416m 11%**	
Citizen Services	£629m	£322m	£68m	£44m	**£1,063m 27%**	Exploring
Total	**£2,379m 61%**	**£694m 18%**	**£291m 7%**	**£550m 14%**	**£3,914m**	

Note: Revenue reflects £3,177m for Continuing Operations only (therefore excluding the discontinued £338m Global Services division, consisting of private sector BPO operations) and adjusted to include Serco's share of joint ventures revenue of £737m.

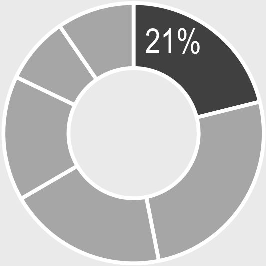
UK Central Government

2015 Revenue

£742m

(£219m)

(23%)



Underlying Trading Profit

£53.1m

(£4.9m)

(8%)

Sectors: Defence, Justice & Immigration, Transport

Performance summary

- Organic revenue decline: -22%. End of DLR, NPL, Colnbrook; some lower project and volume-related revenue.
- New contracts: Caledonian Sleeper started. £100m contract awards, mainly rebids/extensions.
- OCPs: New management having significant impact on operations. COMPASS provision unchanged despite current greater volume and volatility; FPMS and Ashfield OCP releases. PECS performing better against metrics following investment in systems and processes, but heavier losses.
- Attrition and rebids: ~£100m/15% revenue attrition in 2016. Additional profit pressure from end of Northern Rail. 12 major rebids/extensions 2016-18, ~40% of revenue base.
- Pipeline: Defence Fire & Risk Management Organisation, Clyde & Hebrides Ferries. Justice longer term potential.

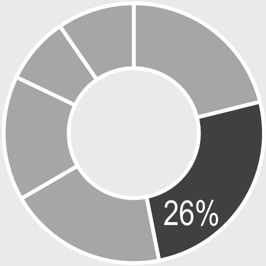
UK & Europe, Local and Regional Government

2015 Revenue

£906m

(£54m)

(6%)



Underlying Trading Profit

£4.7m

+£1.3m

+38%

Sectors: Health, Citizen Services including Enviro and Leisure

Performance summary

- Organic revenue decline: -4%. End of Westminster City Council BPO; Suffolk Community Healthcare, NCS.
- New Contracts: Lincs CC BPO, Havering enviro started. £400m contract awards, including new win supporting Dumfries & Galloway hospital and rebids at Wishaw and NNUH, and strong progress in European agencies.
- OCPs: New management facing some big challenges, including exiting some sensitive contracts. Lincs CC BPO very challenging transition and IT implementation. Partial offset from other OCP releases.
- Attrition and rebids: ~£200m/25% revenue attrition in 2016. Ten major rebids/extensions 2016-18, ~20% of revenue base.
- Pipeline: A number of enviro services and health FM bids; further developing pipeline elsewhere.

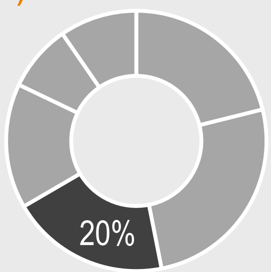
Americas

2015 Revenue

£693m

(£15m)

(2%)



Underlying Trading Profit

£44.3m

+£1.1m

+3%

Sectors: Defence, Citizen Services, Transport

Performance summary

- Organic revenue decline: -8%. End to part of FRTIB, some US Intel work, NBC visa processing. Partially offset by expansion of ACA processing and naval installation work.
- New contracts: £750m contract awards. Major rebids secured for air traffic control and patent processing. Third year of ACA optioned. New engineering support to US naval facilities. Other extensions and rebids of Canada Goose Bay, US military cost analysis support, US Navy personnel identification.
- OCPs: VDOT & DES operational challenges re new IT implementation.
- Attrition and rebids: ~£100m/15% revenue attrition in 2016. Five major rebids/extensions 2016-18, ~40% of revenue base.
- Pipeline: DoS Passport Support Services, strong book of opportunities for US Navy

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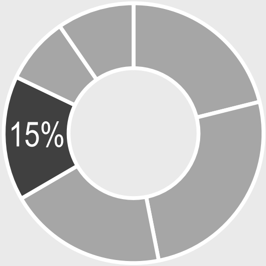
AsPac

2015 Revenue

£545m

(£161m)

(23%)



Underlying Trading Profit

£11.9m

(£23.6m)

(66%)

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

Performance summary

- Organic revenue decline: -9%. Almost entirely driven by volume and rate reductions in immigration services (IS).
- New contracts: Full operations at Fiona Stanley Hospital, Auckland South Corrections Facility and Acacia expansion. £300m contract awards, largest element is next year of IS. Lost two major new bids (Wellington, offshore IS).
- OCPs: ACPB performed much better operationally and £63m release following agreement to amend terms. Partial offset with charges for Hong Kong operations and Mount Eden following significant operational challenges.
- Attrition and rebids: ~£50m/10% revenue attrition in 2016. Seven major rebids/extensions 2016-18, ~15% of revenue base.
- Pipeline: 'Icebreaker' still in pipeline; strong prospects for Justice and Immigration.

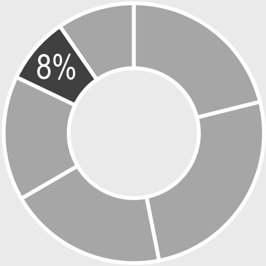
Middle East

2015 Revenue

£291m

+£31m

+12%



Underlying Trading Profit

£18.9m

(£0.2m)

(1%)

Sectors: Transport, Defence, Health, Direct Services

Performance summary

- Organic revenue growth: +4%; start of North South Railway contract for Saudi Railway Company, partially offset by end of air traffic control in Erbil.
- New contracts: £200m contract awards. New win for Saudi Railway Company. Rebids/extensions for ADF defence support, Abu Dhabi FM, Baghdad air traffic control, Dubai monorail.
- OCPs: No material existing or new OCPs. Successful outcome of focus on old debt resulted £8m credit in 2015.
- Attrition and rebids: No material revenue attrition in 2016. Seven major rebids/extensions 2016-18, ~30% of revenue base.
- Pipeline: Three major rail/tram opportunities; smaller defence training, non-clinical health and FM opportunities.

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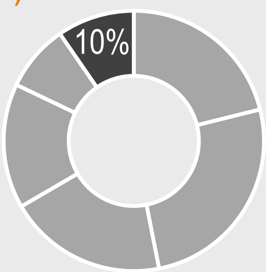
Global Services (discontinued operations)

2015 Revenue

£338m

(£22m)

(6%)



Underlying Trading Profit

£14.3m

+£7.5m

+110%

Sectors: Private Sector Business Process Outsourcing

Performance summary

- Exit substantially concluded: Sale of majority of offshore operations completed on 31 December 2015; smaller Middle East operations to complete later in 2016; exit of remaining UK onshore operations being pursued.
- Constant currency revenue decline: (8%). Driven by managed exit of loss-making contracts in the UK.
- 2016 impact of disposal and exit process: Revenue to reduce by ~£300m+; disposed offshore business contributed £23m in 2015, with the UK onshore business lost £9m; residual operations expected to contribute ~£10m loss given contract losses up to exit and 'stranded' costs.

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Bringing service to life

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Concluding thoughts

Rupert Soames
Group Chief Executive

Summary & Outlook

- Plan has survived 1st contact with the enemy
  - 2015 better than expected; solid balance sheet
  - Stabilisation delivered, now into Transformation
- We have a strong core business delivering public services
  - Strategy of 5 sectors in 4 regions makes sense to us and customers
- Long and occasionally bumpy road ahead
  - Revenue and profit pressures in 2016
    - 2016 revenue reduction from attrition and disposals, with greater pressure on profits given challenge to take cost out in short term
    - Focus has now shifted to operational delivery:
      - » Winning good business
      - » Executing brilliantly
      - » Making Serco a place people are proud to work
      - » Making the business profitable and sustainable

The plan is working; we are doing the right things; we are confident in long term success.

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Questions and Answers

Rupert Soames
Group Chief Executive

Ed Casey
Chief Operating Officer

Angus Cockburn
Chief Financial Officer

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Appendix

Appendix 1 – Notes and definitions

- Revenue is as defined under IFRS, which excludes Serco's share of revenue of its joint ventures. Revenue including that from discontinued operations is shown for consistency with previous guidance.
- Organic revenue growth is the change at constant currency in Revenue after adjusting to exclude the impact of any acquisitions or disposals.
- Reported Trading Profit is defined as IFRS Operating Profit adjusted for (i) amortisation and impairment of intangibles arising on acquisition and (ii) exceptional items. Consistent with IFRS, it includes Serco's share of profit after tax of its joint ventures. Underlying Trading Profit excludes Contract and Balance Sheet Review adjustments (principally OCP releases or charges), the beneficial treatment of depreciation and amortisation of assets held for sale, and other material one-time items such as the profit on early termination of a UK local authority contract that occurred in 2015. Trading Profit measures include that from discontinued operations for consistency with previous guidance.
- Underlying EPS reflects the Underlying Trading Profit measure after deducting pre-exceptional net finance costs (including those for discontinued operations) and related tax effects.
- Trading Cash Flow is the net cash flow from operating activities before exceptional items as shown on the face of the Group's Consolidated Cash Flow Statement and is stated after capital expenditure from tangible and intangible purchases less proceeds of tangible and intangible disposals, adding dividends we receive from joint ventures and adjusting to remove tax payments or receipts.
- Free Cash Flow is Trading Cash Flow after adjusting to add interest received, deduct interest paid, deduct tax payments, and add tax received.
- Change at constant currency is calculated by translating non-Sterling revenue and earnings for the year to 31 December 2015 into Sterling at the average exchange rate for the year to 31 December 2014.
- Pre-tax ROIC is calculated as Trading Profit divided by the Invested Capital balance. Invested Capital assets are: goodwill and other intangible assets; property, plant and equipment; interests in joint ventures; trade and other receivables; and inventories. All other assets are excluded from Invested Capital, being: retirement benefit assets; tax assets; derivative financial instruments; and cash and cash equivalents. Of the total liabilities on the balance sheet, Invested Capital liabilities are trade and other payables. All other liabilities are excluded from Invested Capital being: retirement benefit obligations; tax liabilities; provisions; obligations under finance leases; derivative financial instruments; and loans. Assets and liabilities classified as held for sale are also included in Invested Capital.
- The order book reflects the estimated value of future revenue based on all existing signed contracts, excluding Serco's share of joint ventures. It excludes contracts at the preferred bidder stage and excludes the award of new Indefinite Delivery, Indefinite Quantity (IDIQ) contract vehicles and Multiple Award Contracts (MACs) where Serco are one of a number of companies able to bid for specific task orders issued under the IDIQ or MAC. The value of any task order is recognised within the order book when subsequently won.
- The pipeline of new bid decisions over the next two years is the aggregate value of potential new contracts that are anticipated to be bid in the near term, where annual revenue for each is estimated to be in excess of £10m and where the estimated total contract value of each is capped at £1bn.

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Appendix 2 – 2016 ‘to do’ list

A superb provider of Public Services

The best run business in our sector

	Winning good business	Executing brilliantly	A place people are proud to work	Profitable and sustainable
Theme	Winning good business	Executing brilliantly	A place people are proud to work	Profitable and sustainable
2016 Focus	Rebuild our pipeline	Build capability & efficiency	Energise our people	Strengthen financial performance
	■ Build effectiveness of our CoEs ■ Grow pipeline in key markets ■ Position to win key bids and re-bids ■ Ready to deliver growth in 2018 and beyond	■ Deliver operationally ■ Improve performance of onerous contracts ■ Develop Continuous Improvement ■ Increase cost efficiency ■ Improve quality of shared services	■ Launch Values ■ Make “Serco & Proud of it” come alive ■ Introduce Management Programme ■ Rebuild confidence / sense of momentum	■ Drive down overheads and other non-direct support costs ■ Identify and understand risks and manage them well ■ Minimise cash outflow ■ Make our budgets

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Appendix 3 – costs analysis

£m	FY14	FY15	Change	% Change	FY16e	Change	% Change
Revenue	3,955	3,515	(440)	(11%)	~2,800	~(715)	~(20%)
Underlying Trading Profit	113	96			~50		
Exclude: JVs	(30)	(37)			~(30)		
Underlying Trading Profit ex. JVs	83	59	(24)	(29%)	~20	~(39)	~(66%)
Implied total costs	**(3,872)**	**(3,456)**	**(416)**	**(11%)**	**~(2,780)**	**~(676)**	**~(20%)**
Include: costs offset by OCP utilisation*	(41)	(125)	84		~(90)	~(35)	
Total costs	**(3,913)**	**(3,581)**	**(332)**	**(8%)**	~(2,870)	**~(711)**	**~(20%)**

- Bigger cost challenge in 2016: revenue expected to reduce by ~£0.7bn, or ~20%
- To achieve Underlying Trading Profit of ~£50m, we need the total cost base to also reduce by ~£0.7bn, or ~20%
  - Direct Cost of Sales will volume-adjust for contract attrition and disposal impact by ~£650m
  - Shared service and overheads need to volume adjust as much as possible ie ~£50m+, equivalent to 10%+ reduction

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

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Appendix 4 – cash flow breakdown 1 & breakdown 2

£m	FY15	FY14
Breakdown 1 – depreciation, amortisation and impairment		
Depreciation	28.9	41.8
Amortisation (non-acquisition)	24.1	27.3
Depreciation and amortisation	**53.0**	**69.1**
Impairment of PPE	2.1	22.1
Impairment of intangibles	11.5	26.3
Amortisation of intangibles arising on acquisition	4.9	11.4
Impairment of intangibles arising on acquisition	-	12.3
Total depreciation, amortisation and impairment before exceptional items	**71.5**	**141.2**
Breakdown 2 – other non-cash movements		
Share-based payment expense	9.8	5.4
Loss on disposal of PPE and intangible assets	1.6	0.2
Increase in deferred consideration	-	4.0
FX impact and other non-cash movements	19.2	(0.5)
Other non-cash movements	**30.6**	**9.1**

Appendix 5 – cash flow breakdown 3

£m	FY15	FY14
Breakdown 3 – exceptional costs		
Finance costs re refinancing and early repayment	(31.8)	-
Restructuring, claims and costs related to Strategy Review	(28.4)	(20.9)
Lease break costs on termination of GSR lease	(12.9)	-
UK frontline clinical health	(11.7)	(13.5)
Costs re DLR pension deficit settlement	(8.3)	(2.0)
Rights issue costs moved to reserves on completion	8.4	-
Aborted transaction costs	(1.3)	-
VAT relating to UK Central Government settlement	-	5.8
Costs associated with UK Government reviews	(2.4)	(9.8)
Exceptional items cash costs	**(88.4)**	**(40.4)**

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Appendix 6 – leverage covenant calculation

£m	FY15	FY14
Reported Trading Profit before FY14 Contract and Balance Sheet Review charge	137.6	113.2
Exclude: share of joint venture post-tax profits	(37.0)	(30.0)
Include: dividends from joint ventures	32.5	34.8
Add-back: DA including impairment (excluding acquisition intangibles)	66.6	69.1
Add-back: share-based payments charge	9.8	5.4
Other adjustments (eg pro forma for transactions)	-	-
EBITDA per covenant	**209.5**	**192.5**
Recourse net debt (closing), inc. assets held for sale	(77.5)	(658.2)
Less: encumbered cash and other items	(14.2)	-
Add: rights issue gross proceeds less underwriting	-	543.7
Net borrowings per covenant	**(91.7)**	**(114.5)**
Leverage ratio per covenant (not to exceed 3.5x)	**0.44x**	**0.59x**

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Appendix 7 – interest cover covenant calculation

£m	FY15	FY14
Statutory net finance costs	(32.0)	(36.7)
Exclude: net interest receivable on retirement benefit obligations	(4.9)	(3.1)
Exclude: movement in discount on other debtors	(0.1)	-
Add-back: interest payable on non-recourse loans	-	0.8
Add-back: movement in discount on provisions and deferred consideration	5.6	-
Add-back: costs related to refinancing	-	2.1
Net finance costs for covenant calculation	**(31.4)**	**(36.9)**
EBITDA per covenant (Appendix 4)	**209.5**	**192.5**
Interest cover per covenant (at least 3.0x)	**6.67x**	**5.22x**

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Appendix 8 – Pensions

- Serco sponsor a number of defined benefit pension schemes
  - Non contract specific – not related to specific contracts or franchises, largest of which is main Group scheme (SPLAS)
  - Contract specific – related to specific contract or franchise where the deficit is expected to pass back to the customer or next contractor. Intangible asset is recognised at the start of the contract and amortised over the contract life
- Total net balance sheet asset (after tax) across defined benefit schemes as at 31 Dec 2015 of £95m (31 Dec 2014: £101m) on asset base of £1.3bn
- Over £1.1bn of £1.3bn assets allocated to conservative liability driven investments (LDIs)
- Main Group scheme (SPLAS) has a balance sheet accounting surplus as at 31 Dec 2015 of £127m (31 Dec 2014: £144m) and an estimated actuarial deficit using prudent assumptions of approximately £28m (31 Dec 2014: £5m)
- Most recent triennial full actuarial valuation of SPLAS was a deficit of £24m as at 5 April 2012 (6 April 2009: deficit of £141m); no further one-off contributions were required. Valuation as at 5 April 2015 due to be released in July 2016.

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Appendix 9 – Return on Invested Capital

Reviews significantly lowered Invested Capital, but also result in a Trading Loss for FY14

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

ROIC based on Underlying Trading Profit is ~11%

FY15 on pro forma basis to remove £22m Trading Profit re BPO disposal and on closing IC would be ~10%

£m	FY15	FY14
Invested capital assets	1,283.0	1,268.4
Invested capital liabilities	(567.1)	(611.6)
Assets held for sale (net)	7.3	344.8
Invested Capital (IC)	**723.2**	**1,001.6**
Average IC (2pt for FY15, 1pt for FY14)	862.4	1,001.6
Reported Trading Profit/(Loss)	137.6	(632.1)
Trading (Loss) for rolling 12m	n/a	n/a
Underlying Trading Profit	96.0	113.2
Underlying Trading for rolling 12m	n/a	n/a
Pre-tax ROIC:		
Reported Trading Profit/(Loss) / Average IC	16.0%	(63.1%)
Underlying Trading Profit / Average IC	11.1%	11.3%

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Appendix 10 – Currency rates

	Average rates			Closing rates		
	FY15	HY15	FY14	31 Dec 2015	30 Jun 2015	31 Dec 2014
£:US$	1.53	1.53	1.65	1.47	1.57	1.56
£:Aus$	2.04	1.95	1.82	2.02	2.04	1.91
£:Eur	1.38	1.35	1.24	1.36	1.41	1.29
£:INR	97.99	95.57	100.44	97.60	99.97	98.42

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Appendix 11 – FY14 Contract and Balance Sheet Review

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

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

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

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

Appendix 12 – FY14 Review items

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

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

Cash flow impact ~£100m higher than originally expected

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

Appendix 13 – FY14 OCPs and related charges

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

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

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

Appendix 14 – FY14 background to OCPs 1/2

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

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Appendix 15 – FY14 background to OCPs 2/2

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

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

  - 2015 higher than initial phasing estimates following detailed work on COMPASS volume and cost assumptions and ACPB work schedules
  - 2016 reduction includes end of loss-making contracts such as Suffolk Community Health and NCS
  - Further phasing reductions each year as the rate of loss improves on certain contracts and/or contracts roll-off

- The income statement will reflect the aggregate of
  - Profitable contracts ie ~£90m in 2015
  - Loss-making contracts ie ~£139m in 2015, neutralised by OCP utilisation of ~£139m

- Cash flow will be lower than 2014 given OCP utilisation

- Commitment to report transparently the impact of OCPs

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American Depository Receipt (ADR) program

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

Ticker: SCGPY

Exchange: OTC

CUSIP: 81748L209

ISIN: US81748L2097

Ratio: 1 ADR : 1 Ordinary Share

ADR key benefits

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

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

New York: +1 212 250 9100 **London**: +44 207 547 6500 **Hong Kong**: +852 2203 7854

e-mail: adr@db.com ADR website: www.adr.db.com

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