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2014 Full Year Results + Strategy Review

Serco Group plc

12 March 2015

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Agenda

PART 1 **FY14 RESULTS**	**OVERVIEW** Rupert Soames, CEO **FY14 FINANCIAL REVIEW** Angus Cockburn, CFO
PART 2 **STRATEGY REVIEW**	**STRATEGY OVERVIEW** Rupert Soames ***BREAK*** **SERCO TRANSFORMATION** Ed Casey, COO **STRATEGY FINANCIALS AND FUNDING** Angus Cockburn **CONCLUDING THOUGHTS** Rupert Soames

Q&A ON FY14 RESULTS AND STRATEGY REVIEW

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FY 2014 Overview

Rupert Soames
Group Chief Executive

Very difficult 2014, now ready to start on road to recovery

- **Revenue, margin and balance sheet charges in line with revised expectations as set out on 10 November 2014**
  - Trading Loss of £632m includes £745m of provisions, impairments and other balance sheet charges
  - Operating loss of £1,317m includes £661m of further exceptional items, largely impairment of goodwill
- **Strategy Review complete; management team in place**
- **Proposed equity Rights Issue of approximately £555m being launched today, fully underwritten**
  - Reduce leverage to 2x Net Debt / EBITDA
  - Ensure strength and flexibility to deliver strategy
- **Lender refinancing agreed, subject to successful completion of the Rights Issue**
- **Guidance for 2015 maintained**

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FY14 Financial Review

Angus Cockburn
Chief Financial Officer

Background to FY14 financials and basis of preparation

Fresh perspective and significant diligence performed as part of the Reviews and Rights Issue process

Improved transparency and disclosure of segments and reporting measures

- Contract and Balance Sheet Review, supported by EY
  - Scoped all contracts, leading to 114 specific and 19 full reviews
  - Covered contract level, divisional and Group balance sheet categories
  - Accounting policies assessed as correct, but tightening for consistent application
- Rights Issue, with workstreams supported by EY and Deloitte
  - Business plans/forecasts
  - Working capital report
- New segmental structure
  - Increase in disclosure
  - More straightforward
- New reporting measures
  - Simpler and much closer alignment with IFRS
  - Equity accounting - Revenue excludes JVs; Trading Profit includes share of JV interest and tax charges
  - Trading Profit - only adjusts for acquisition intangibles and exceptionals

See Appendix for definitions

Income statement – impact of change in measures

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

Trading Profit measure no longer adjusts for JV interest and tax, transaction costs or 'management estimates'

£m	FY14	FY13
Adjusted Revenue	4,753	5,140
Exclude: Serco's share of JV revenue	(798)	(856)
Revenue	**3,955**	**4,284**
Adjusted Operating Profit before review items	138	294
Include: Serco's share of JV interest and tax	(8)	(12)
Include: Transaction-related costs	(1)	(4)
Include: Management estimates of charges related to Government reviews	(16)	(21)
Trading Profit before review items	**113**	**257**
Review items charged to Trading Profit	(745)	-
Trading Profit	**(632)**	**257**

See Appendix for definitions

New segmental structure

Number of segments reported increased from four to six

More straightforward reporting both internally and externally

Closer alignment with IFRS

- **Previously four segments:** three regional frontline services divisions being UK&E (c50% of the Group), Americas and AMEAA and then Global Services containing all BPO services
- **Splitting divisions**
  - Separate UK&E into two more customer-centric divisions: UK Central Government (CG); UK and Europe Local and Regional Government (LRG)
  - Separate AMEAA into two geographical regions for customer proximity and direct reporting into Group: AsPac (principally Australia, New Zealand and Hong Kong); Middle East
- **Transfers**
  - Public sector BPO from Global Services to LRG given common core customer relationships and strategic focus
  - Citizen Services from CG to LRG to have all public sector BPO operations together
  - Transport contracts from LRG to CG to have all transport contracts within a single business unit and UK division
- **Remove intra-Group revenue and profit sharing**, principally AsPac customers with UK CG (eg DIBP) and LRG (eg FSH)

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Revenue – divisional analysis

Organic decline driven principally by DIBP volume reduction of £125m (constant currency), and net contract attrition in UK CG (eg EM)

Adverse FX impact reflects the strengthening of sterling particularly against the Australian and US dollar

Revenue - growth composition

£m	FY13	Organic	(Disposed)/ Acquired	FX	Total	**FY14**
UK CG	1,074	(8%)	(3%)	-	(11%)	962
UK&E LRG	963	+3%	(2%)	(1%)	-	960
Americas	765	(1%)	-	(6%)	(7%)	708
AsPac	871	(9%)	-	(10%)	(19%)	706
Middle East	268	+3%	-	(6%)	(3%)	260
Global Services	343	+9%	+2%	(6%)	+5%	359
Group	**4,284**	**(2.5%)**	**(1.0%)**	**(4.2%)**	**(7.7%)**	**3,955**
2014 v 2013		▼ £107m	▼ £44m	▼ £178m	▼ £329m	

- **Note: Translational FX sensitivity**
  - FY14 £:US$ average rate of 1.65; 1% move = c£7m Revenue (c£0.4m Trading Profit)
  - FY14 £:Aus$ average rate of 1.82; 1% move = c£7m Revenue (c£0.4m Trading Profit)

See Appendix for definitions

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Trading Profit – divisional analysis

Profit impacts: DIBP volume reduction c£20m; contract attrition c£50m (eg EM, US, etc); COMPASS, PECS and corporate renewal cost impacts c£25m; AWE and Northern Rail contract changes c£10m; net other movements c£25m

Adverse FX impact of £13m

Trading Profit and Margin

£m	Before review items					Review items	FY14
	FY13		Change	FY14			
UK CG	115	10.7%	(57)	58	6.0%	(301)	(243)
UK&E LRG	18	1.8%	(15)	3	0.4%	(94)	(91)
Americas	65	8.5%	(22)	43	6.1%	(27)	16
AsPac	78	9.0%	(42)	36	5.0%	(237)	(201)
Middle East	24	9.1%	(5)	19	7.3%	(19)	(0)
Global Services	8	2.3%	(1)	7	1.9%	(30)	(23)
Divisions	308	7.2%	(142)	166	4.2%	(708)	(542)
Corporate	(51)	(1.2%)	(2)	(53)	(1.3%)	(37)	(90)
Group	**257**	**6.0%**	**(144)**	**113**	**2.9%**	**(745)**	**(632)**

- **Note: Margin enhancement of equity accounting**
  - Including JV revenue, FY14 Group margin decreases from 2.9% to 2.4% (FY13: 6.0% to 5.0%)
  - Impact principally UK CG – FY14 margin decreases from 6.0% to 3.5% (FY13: 10.7% to 6.3%)

See Appendix for definitions

Income statement

Contract and Balance Sheet Review drives reported loss for the year

£0.74bn of review items charged to Trading Profit, resulting in a statutory loss before exceptional items

£0.54bn of review items charged as exceptional

£m	FY14	FY13
Trading Profit before review items	**113**	**257**
Review items charged to Trading Profit	(745)	-
Impairment of intangibles arising on acquisition	(12)	-
Amortisation of intangibles arising on acquisition	(12)	(21)
Operating (loss)/profit before exceptionals	**(656)**	**236**
Review items charged as exceptional	(541)	-
Other exceptional items	(120)	(91)
Operating (loss)/profit	**(1,317)**	**145**
Net finance costs	(37)	(37)
(Loss)/profit before tax	**(1,354)**	**108**
Tax on (loss)/profit before exceptional items	(11)	(39)
Tax on exceptional items	18	29
(Loss)/profit after tax	**(1,347)**	**98**

See Appendix for definitions

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Contract and Balance Sheet Review – overview

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 c£100m identified since November, more than offset by lower non-cash impairment of goodwill

See Appendix for definitions

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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 c£100m higher than originally expected

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

Onerous Contract Provisions (OCPs) and related charges

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

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

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

Exceptional items

Goodwill impairment represents c70% of total exceptional charge

Key future cash flow impacts of other exceptional items: £36m DLR pension; £14m GSR lease break (balance of £37m is non-cash impairment)

£m	FY14	FY13
Impact of Reviews charged as exceptional items (per earlier slide)	**(541)**	-
Impairment and related charges re GSR	(37)	(10)
Provision for settlement re DLR pension deficit	(36)	-
Restructuring costs	(33)	(15)
Direct costs re UK Government reviews	(9)	(12)
Net (loss)/gain on disposal of businesses	(5)	19
2013 settlement re UK Government reviews	-	(66)
2013 provisions re UK clinical health contracts	-	(17)
2013 adjustment to deferred consideration	-	10
Other exceptional items	**(120)**	(91)
Total exceptional items	**(661)**	(91)

See Appendix for definitions

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Tax

Limited tax credit in FY14 despite significant losses; no tax credit recognised on UK review items

Estimated UK tax losses of £723m with a potential value of £145m at 20% tax rate; only £11m currently being recognised, with balance being a contingent asset

- Tax charge of £11m on pre-exceptional loss of £693m
  - £34m deferred tax credit recognised in AsPac; no credit currently being recognised on UK tax losses arising from the Reviews
  - £25m provision for changes in estimates of prior year tax positions
  - £20m charge on Trading Profit and write-off of UK deferred tax assets
- Tax credit of £18m on exceptional losses of £661m
  - Deferred tax credit on GSR impairment and other provisions
  - Limited tax credit associated with other exceptional costs, principally because no credit available on goodwill impairment and no deferred tax credit being recognised on UK tax losses arising
- FY14 effective tax rate on Trading Profit before review items of c30%
- Future years' effective tax rate will continue to be higher to the extent that future UK tax losses are not recognised and reflecting higher standard rates of corporation tax outside of the UK (eg US 38%, Australia 30%)
- The recognition of UK tax losses is based on technical requirements of IAS12

See Appendix for definitions

EPS

Significant impact in FY14 of Contract and Balance Sheet Review

Future focus to be on Statutory EPS measures

	FY14	FY13
Weighted average share count for basic EPS	**521.5m**	**489.0m**
Statutory EPS	**(258.4p)**	**20.1p**
Add back: Impact of exceptional items	123.4p	12.6p
Statutory EPS before exceptional items	**(135.0p)**	**32.7p**
Add back: Impact of acquisition intangibles	4.0p	3.3p
Trading EPS	**(131.0p)**	**36.0p**

See Appendix for definitions

DPS and policy

Board committed to resuming dividend payments and adopting a progressive dividend policy when it is prudent to do so

Decision to take into account underlying earnings, cash flows, leverage and outlook

- Board recommendation not to pay a final dividend for the 2014 financial year
  - DPS for the 2014 year represents the interim dividend of 3.10p (2013: 3.10p interim + 7.45p final)
- Not anticipated that the Board will recommend a dividend in respect of the 2015 financial year
- The Board is committed to resuming dividend payments and adopting a progressive dividend policy when it is prudent to do so, taking into account
  - Underlying earnings, cash flows and balance sheet leverage
  - Requirement to maintain an appropriate level of dividend cover
  - Market outlook

Trading and free cash flow

Free cash flow similar to prior year

Reduction in profit (net of non-cash items) was offset by non-repeat of FY13 working capital outflow together with lower tax and capital expenditure

£m	FY14	FY13
Operating (loss)/profit before exceptionals	**(656)**	**236**
Share of profit of joint ventures	(30)	(47)
Depreciation, amortisation and impairment	141	94
Working capital movement	17	(137)
Non-cash provision and other movements	631	(15)
Tax received/(paid)	-	(19)
Net cash inflow from operating activities	**103**	**111**
Dividends from joint ventures	35	52
Net interest paid	(40)	(38)
Net expenditure on tangible and intangible assets	(36)	(62)
Free cash flow	**62**	**63**
Add-back: tax, as above	-	19
Add-back: net interest, as above	40	38
Trading cash flow	**102**	**120**
Trading Profit before review items	**113**	**257**
Trading cash conversion	***90%***	***47%***

See Appendix for definitions

Free cash to movement in net debt

Closing net debt reduced by £63m in the year

May 2014 placing proceeds offset the other cash outflows, principally dividend payments, exceptional items and foreign exchange movements

Average net debt of c£100m higher than closing net debt

£m	FY14	FY13
Free cash flow	**62**	**63**
Exceptional items	(40)	(103)
Net (acquisition)/disposal of subsidiaries	(5)	22
Placing net proceeds	156	-
Costs associated with the Rights Issue	(4)	-
Purchase of own shares net of option proceeds	2	(15)
Dividends paid	(53)	(52)
Non-controlling dividends paid	-	(1)
New and acquired finance leases	(14)	(23)
Non-recourse loan advances	(7)	(5)
Other movements on investment balances	(4)	-
Foreign exchange	(30)	1
Movement in net debt	**63**	**(113)**
Opening net debt	(745)	(632)
Closing net debt (inc. held for sale)	**(682)**	**(745)**

See Appendix for definitions

Net debt and leverage

Pressure on covenant given EBITDA reduction in year

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

Deferral and change to covenant definition agreed

£m	FY14	FY13
Net debt (inc. held for sale)	(682)	(745)
Less: non-recourse net debt	24	20
Recourse net debt	**(658)**	**(725)**
Less: encumbered cash	(9)	(10)
Other covenant adjustments	9	(12)
Net Borrowings per covenant	**(658)**	**(747)**
Leverage covenant		
EBITDA per covenant and before review items	192	331
Leverage ratio before review items	**3.42x**	**2.25x**

See Appendix for definitions

Balance sheet summary

Principal drivers of the balance sheet movement are the net asset reduction from the £1.3bn impact of the Contract and Balance Sheet Review, partially offset by the increase in net assets from the share placing

£m	FY14	FY13
Goodwill	542	1,271
Other intangible assets	119	186
Property, plant and equipment	38	177
Trade and other receivables	537	842
Inventories	31	49
Interest in joint ventures	2	8
Invested capital assets (before assets held for sale)	**1,269**	**2,533**
Cash and cash equivalents	180	125
Other assets (tax, fin. instruments, ret. benefit assets)	210	151
Total assets (before assets held for sale)	**1,659**	**2,809**
Invested capital liabilities (trade & other payables)	**(612)**	**(678)**
Loans	(797)	(808)
Provisions	(578)	(61)
Other liabilities (finance leases, tax, financial instruments, ret. benefit liabilities)	(83)	(166)
Total liabilities (before liabilities held for sale)	**(2,070)**	(1,713)
Assets held for sale (net)	**345**	-
Net (liabilities)/assets	**(66)**	**1,096**

See Appendix for definitions

Return on invested capital

Invested Capital significantly lower due to Reviews

ROIC based on Trading Loss for FY14 is a significant negative return

ROIC based on Trading Profit before review items would be 11.3%

£m	FY14	FY13
Invested capital assets	1,269	2,533
Invested capital liabilities	(612)	(678)
Assets held for sale (net)	345	-
Invested Capital (IC)	**1,002**	**1,855**
Trading (Loss)/Profit	(632)	257
Trading Profit Before Impact of Reviews	113	257
Pre-tax ROIC:		
Trading (Loss)/Profit / IC	(63.1%)	13.9%
Trading Profit Before Impact of Reviews/IC	11.3%	13.9%

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2014 Strategy Review

Rupert Soames
Group Chief Executive

Our strategy: be a focused B2G business

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

The Elevator Speech

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

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

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Historically, Serco's strategy has been to grow through diversification

The decade to 2010 was a time of bold expansion for Serco, with a series of acquisitions and strong organic growth. Double digit revenue and earnings CAGR.

- **From 2008, conditions in core markets became tougher**
  - Sharp public expenditure cuts in the UK and US in response to global financial crisis; growing sophistication of government contracting, with emphasis on risk transfer; increasing competition attracted by growth rates and margins.
- **In response to this, in 2010 Serco adopted a strategy to further diversify**
  - Build a business process outsourcing capability in the private-sector, to be achieved largely through acquisition
  - Apply skills and assets acquired from private sector BPO into the public sector; leverage Serco footprint, distribution, brand and infrastructure to add value to private sector BPO acquisitions
  - Continue to grow revenues in the public sector market despite hardening conditions
  - Improve the operating efficiency of the business: implement a global SAP platform with a shared services model for IT, Finance and HR

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2010 strategy has not worked as anticipated

Conception

- Serco was not able to add enough value to the private sector BPO businesses it acquired
- Serco's sales and marketing engine was unsuited to selling to private sector clients
- Public sector not as receptive as expected to private sector practices - eg offshoring, whole department outsourcing

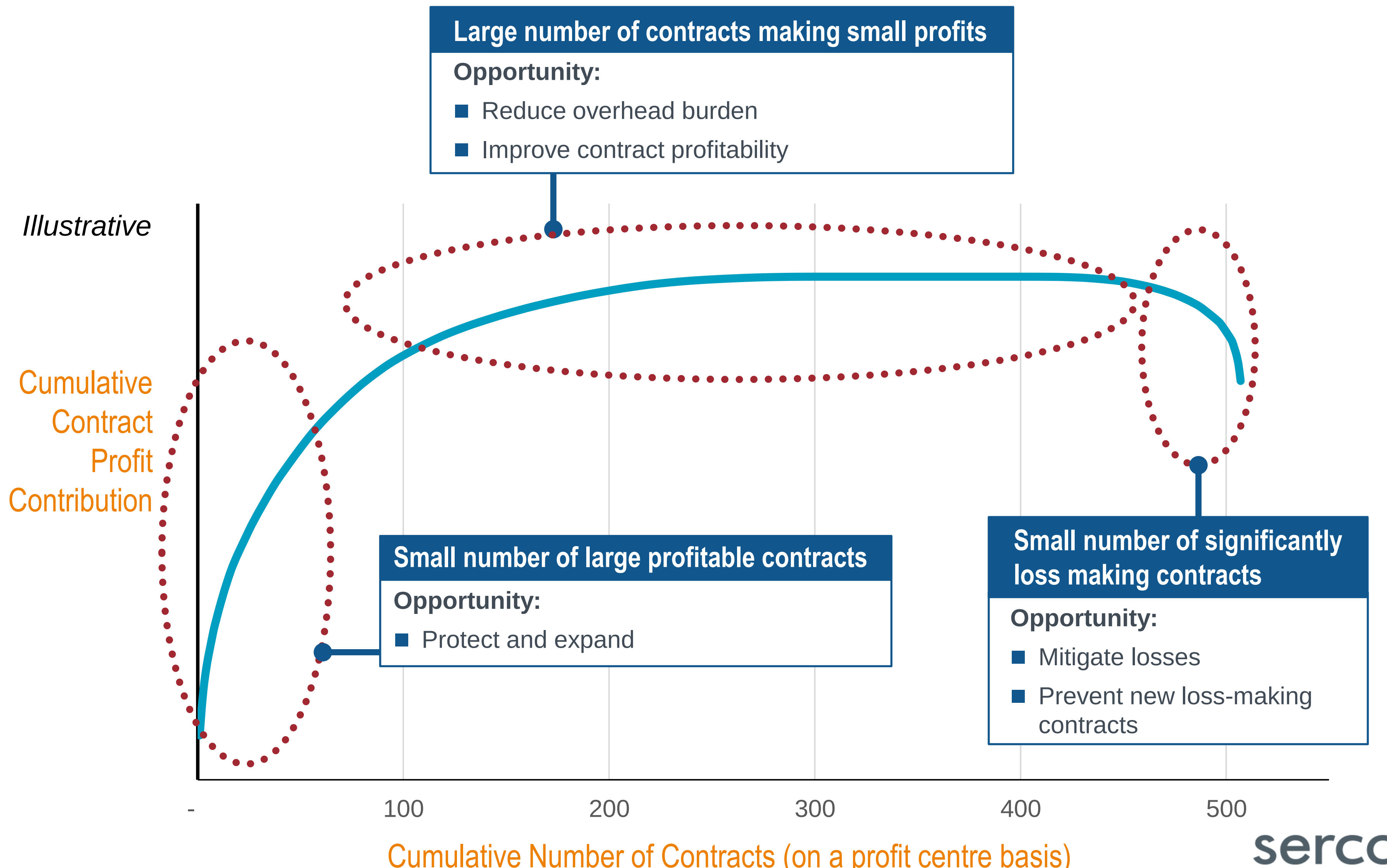
Execution

- Poor integration of private-sector BPO acquisitions
- Insufficiently robust controls on bidding and risk management in some contracts; internal focus on revenue growth rather than risk and returns on capital
- Poorly executed moves into new segments - e.g. clinical healthcare and asylum seeker housing in UK
- Poor implementation of centralised shared services and weak reporting environment

Events

- Electronic monitoring and prisoner escorting contracts debacle in 2013
- Major contracts reduced in volume or margin, lost on re-bid or taken in-house
- Impact of volatility in the number of Illegal Maritime Arrivals in Australia
- Threat of sequestration in US prejudiced long-term projects

Contract portfolio offers opportunity



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Serco faces a number of specific challenges, which are also opportunities

Need to build a solid platform

- Constrained balance sheet
- Loss-making contracts
- Need to strengthen Group-wide reporting and management information

Inefficient processes

- Opportunity to reduce the cost base and make better use of economies of scale

Need to position for growth

- Need to improve business development and risk management
- Need to build talent and capability

Our challenges are in our control and resolvable over time

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Strategy Review criteria and objectives

Criteria - Strategy with greatest opportunity for value creation

- Balancing risk and reward
- Playing to our strengths
- Preference for markets with underlying structural growth
- Preference for simplicity and clarity

Objective - Deliver long-term value to all stakeholders

- To shareholders: sustainable increases in value with an appropriate risk/reward profile
- To customers: excellent, reliable and innovative services
- To colleagues: rewarding careers; interesting and worthwhile work

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Our strategy: be a focused B2G business

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

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

2 Focus on five pillars in four regions

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

3 Exit non-core businesses

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

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

Growing costs: healthcare, ageing population and infrastructure

Voters unwilling to tolerate higher taxation

Public Policy

Rising expectations of service quality

Need to balance public income and expenditure, and reduce debt

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

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We will focus on five pillars across four regions

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

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

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

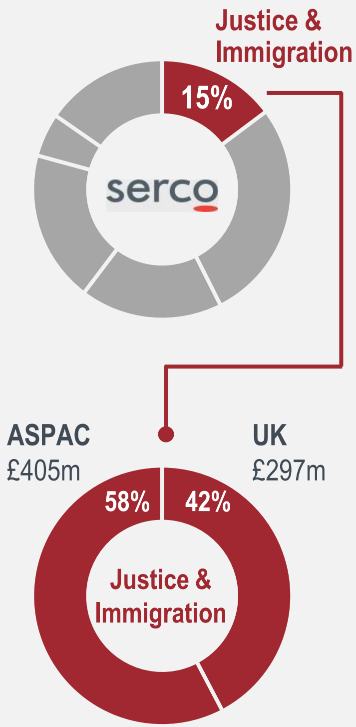
Note: Revenue numbers extracted from management information and have not been audited and include Serco's share of joint ventures. Of the total of £4,753m revenue (including joint ventures), £3,955m is the revenue as defined under IFRS (i.e. excluding joint ventures) and shown in the Group's 2014 Financial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

Justice & Immigration: What we do

Sector overview

2014 Revenues

£702m



What we do	Example contracts
Custodial Services Prison operations and rehabilitation programmes	■ Thameside (UK) ■ Auckland (NZ) ■ Dovegate (UK) ■ Acacia (W. Australia) ■ Wandoo Youth Reintegration (W Australia) ■ Doncaster (UK)
Immigration Detention & Services Detention centre management and support services for immigrants and asylum seekers	■ COMPASS asylum seeker accommodation (UK) ■ Yarl's Wood immigration removal centre (UK) ■ DIBP immigration detention centres (Australia)
Detainee transport and monitoring Tagging, monitoring and escorting services for prisoners, immigrants and asylum seekers	■ Western Australia Custodial Services ■ Prisoner Escorting & Custody Services (UK)

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

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Justice & Immigration: Market positioning

Market overview	Market dynamics[2]	Competitive differentiators
Market growth[1] % 2-5% % of Government spend outsourced: Low Market position ■ Strong in UK & Aus ■ Competitors include: G4S, Sodexo, Mitie GEO	**Large and growing global prison population** ■ 25-30% growth in 15 years ■ Prisoners exceed capacity in 114 countries ■ Australian prisoner growth 10% in 12 months to 10 year high **Private sector operates <20% prisons in UK, Aus, NZ** **Immigration growing around the world** ■ 5 year migration up >20% in a decade ■ UK cost of illegal immigration estimated at £3.7bn pa **Global trend to find alternatives to prison**	■ Operational and commercial innovation – Payment by results/responsible prisoner – Strong community & voluntary partnerships; effective youth re-integration model (Wandoo) – New systems for tracking and reporting in Escorting and Monitoring ■ Expertise and experience – New build PFI/PPP (Thameside, Wiri) – Different models: detention in Australia, community-based in UK – Managing challenging operational and political environments and rapid change in requirements (DIBP) – Escorting and Monitoring in urban (London) and remote (W Australia) environments

1 Addressable market, according to the Directors' current estimates of market growth rates. The Directors expect these rates to vary materially from year-to-year and to be subject to the vagaries of macro-economic and political conditions.
2 World Prison Population List, International Centre for Prison Studies, Penal Reform International, Australian Bureau of Statistics, Wittgenstein Centre, Global Migration Data Sheet 2005-10

Justice & Immigration: Strategy

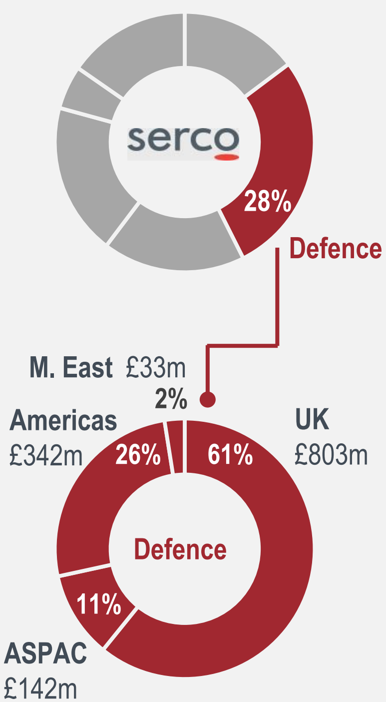
UK & EUROPE Strong	ASPAC Strong	AMERICAS Exploring
■■ Retain a leading position ■■ Build innovative solutions in core markets and surrounding services		■ Monitor and explore opportunities to leverage Group expertise in immigration
■ Build case for higher levels of private sector involvement in custodial estate ■ Improve underperforming contracts	■ Grow through new Justice opportunities (QL, NSW, WA), and transport and monitoring ■ Explore BPO adjacencies (case management, visa processing, community integration)	

Defence: What we do

Sector overview

2014 Revenues

£1,321m inc JV



What we do

Base and Operational Support
Full service life cycle support to military bases, operations, acquisitions and programmes

Engineering and Information Services
Engineering, installation and maintenance of complex systems and networks

Maritime Services
Operations and maintenance support to military vessels in UK & Australia

Example contracts

- Defence Academy Campus Integrator (UK)
- RAF Valley (UK)
- Army Career and Alumni Program (US)
- Price fighter (US)
- Defence Business Services (UK)

- Brize Norton (UK)
- Skynet 5 (UK)
- Sea Enterprise (US)
- Consolidated Afloat Networks and Enterprise Services (US)

- Future Provision of Marine Services (UK)
- Armidale Class Patrol Boats (Aus)

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

Defence: Market positioning

Market overview	Market dynamics[2]	Competitive differentiators
Market growth[1] % 4-6% % of Government spend outsourced: Medium Market position ■ Strong in UK, North America and Australia ■ Competitors include: Babcock, BAE, QinetiQ	**Pressure on defence spending to reduce costs** ■ UK MoD spending expected to decline in real terms from about £41 billion in 2010/11 to about £34 billion in 2015/16 ■ US defence spending expected to decline to 4.6% of GDP by 2015 from 5.7% in 2011 **Shift in procurement dynamics** ■ Lowest cost technically acceptable and small business set aside in US ■ Shift to horizontals and trade groups in UK **Large and liquid market** **Highly competitive**	■ Expertise and experience – Strong track record of reference contracts – Experience of high security programmes – Ability to deliver high levels of regulatory compliance – Large, experienced field technician workforce – Deep knowledge and understanding of customer mission – End-to-end programme management from design through to operate-and-maintain ■ Ability to provide breadth and integration – Broad portfolio of support services available with subject matter expertise – Capability to integrate across multiple service lines – Platform & technology agnostic ■ Competitive cost structure in US

1 Addressable market, according to the Directors' current estimates of market growth rates. The Directors expect these rates to vary materially from year-to-year and to be subject to the vagaries of macro-economic and political conditions.
2 Public Expenditure Statistical Analysis 2014 HMT, USGovernmentspending.com

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Defence: Strategy

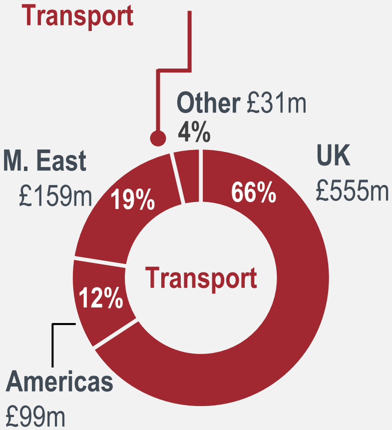
UK & EUROPE Strong	AMERICAS Strong	MIDDLE EAST Foundation	AUSTRALIA Strong
■ Build pipeline of major opportunities ■ Strengthen engineering proposition ■ Improve underperforming contracts	■ Grow in existing framework contracts and similar opportunities ■ Target expansion in Army welfare and Naval systems	■ Build on early success in training and base logistics support ■ Look to export UK and US capabilities to Middle East	■ Improve performance on ACPB ■ Look to export UK and US capabilities to Australia & New Zealand

Transcport: What we do

Sector Overview

2014 Revenues

£845m



What we do

What we do	Example Contracts
Rail and Ferries Full service management of light and heavy rail systems	▪ Dubai Metro ▪ Northern Rail (UK) ▪ Mersey Rail (UK) ▪ Caledonian Sleeper (UK) ▪ Northern Isles Ferries (UK)
Road Traffic Management Delivery of traffic and transport management services	▪ Virginia DoT (US) ▪ Georgia DoT (US) ▪ Hong Kong transport operations
Air Traffic Control Full service delivery of aircraft navigation services	▪ Dubai (DXB and DWC) ▪ Sharjah ▪ Baghdad ▪ FAA Towers (US) ▪ Scatsca (UK)

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

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Transport: Market positioning

Market Overview

Market growth[1] %

6-8%

% of Government spend outsourced:

Low - Medium

Market position

- Strong in Rail & ATC, especially in Middle East; first mover advantage in US
- Competitors include: First Group, Go Ahead/Keolis, DB Arriva, URS

Market dynamics[2]

Population growth and urbanisation driving growth in global rail, road congestion and air passenger traffic

Rail new build growing primarily in Middle East, ASPAC and Americas

- Global rail travel projected to double by 2050

Highly competitive market in rail with downward pressure on margins

Emerging market for road traffic management in US

- Pipeline of 50 transit systems under consideration

Little competition in air traffic control, low penetration and low growth

Competitive differentiators

- Experience and expertise
  - Outstanding operational track record
  - Strong capabilities in large scale staff recruitment and mobilisation
  - Expertise in early rail operator involvement
  - Strong pool of subject matter experts
  - Experience of knowledge transfer and training
- Breadth of operational proposition
  - Only major operator combining road and IT management
  - Solution provider independent of OEMs
  - Proprietary solutions and automated service delivery
  - Ability to draw on wider global capability
- Experience in various performance-based commercial models

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

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

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Transport: Strategy

UK Strong	AMERICAS Foundation	MIDDLE EAST Strong	AUSTRALIA Exploring
■ Maintain position in existing sectors through operational performance ■ Focus on continuous improvement and best practice in UK to support overseas growth	■ Build and grow from strong early-mover position in Intelligent Traffic Systems ■ Build pipeline in ITS and urban rail	■ Consolidate regional leadership in ATC and rail through rebids ■ Target new build rail opportunities	■ Identify and win entry project, based on global experience

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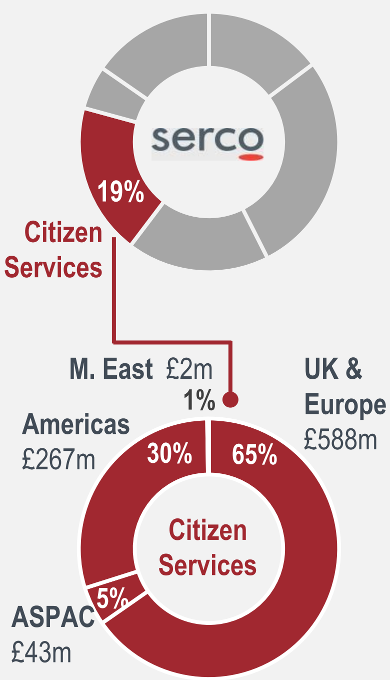
Citizen Services: What we do

Sector overview

2014 Revenues

£899m



What we do	Example Contracts
Citizen Contact Front & middle office case management services for Government programmes	■ Centers for Medicare and Medicaid Services (US) ■ Hertfordshire Council (UK) ■ UCAS contact centre (UK) ■ Driver Evaluation Services (Canada)
Middle & Back Office Services Internal process management of records, data and employee service	■ Glasgow Access (UK) ■ Australian Tax Office ■ Service Center Operations Support Services II (US) ■ Patent Application Support (PG-PUBS) (US) ■ Federal Retirement Thrift Investment Board (US)
Employment and Skills Services Providing better outcomes for jobseekers and apprentices	■ Work Programme (UK) ■ National Citizen Services (UK)

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

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Citizens' Services: Market positioning

Market Overview	Market dynamics	Competitive differentiators
Market growth[1] % 5-7% % of Government spend outsourced: Low Market position ■ Strong in UK Local Government, building presence in UK Central Government ■ Competitors include: Capita, BT, CGI	**Increasing demand for high quality integrated citizen services** **Local Government expenditure reductions leading to a wider range of services considered for private sector** **Ageing population and new programmes (Care Bill, Affordable Care Act) add pressure** **Demand for joined up services from citizens** **Drive to service needs via digital channels**	■ Expertise and experience – User centric design processes supported by subject matter experts – Ability to recruit and mobilise large numbers of staff – Record of performance for critical customers (CMS, DHS, DOJ in US) – Subject matter experts in policy delivery (Health, Immigration, etc.) ■ Breadth of operational proposition – Able to provide multi-channel customer contact – Ability to integrate various services behind a single point of contact – Strong relationships and experience of working with SMEs and voluntary sector partners – Experience of outcome based contract models ■ Cost competitive pricing structure

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

Citizens' Services: Strategy

UK
Strong

- Build position in local authorities
- Widen offer
- Focus on Work Programme and building strong complex case-management pipeline

AMERICAS
Strong

- Build on success of contracts such as Affordable Care Act, Patents Office and DES to build wider eligibility, case management and contact centre opportunities

ASPAC
Foundation

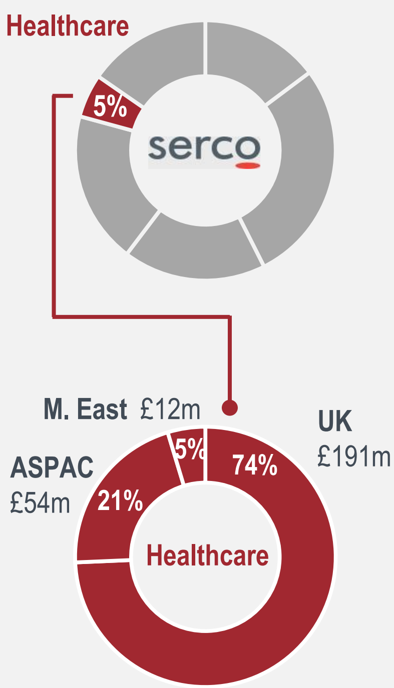
- Codify best practice from UK and US
- Monitor welfare programmes in Australia

Healthcare: What we do

Sector overview

2014 Revenues

£256m



What we do	Example contracts
Non-Clinical Support Services Full service offering covering all non-clinical aspects of support to acute hospitals	- Norfolk & Norwich hospital (UK) - Fiona Stanley hospital (Australia) - Forth Valley hospital (UK) - East Kent Hospitals (UK) - Dr. Sulaiman Al Habib Hospitals (Saudi Arabia)
Clinical Support Clinical solutions in community health and pathology	- Suffolk Community Healthcare (UK) - Guys & St. Thomas' Pathology JV (UK)
Patient Contact and Administration Management of patient journey and experience alongside BPO in Healthcare environment	- No current contracts – emerging market

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

Healthcare: Market positioning

Market overview	Market dynamics[2]	Competitive differentiators
Market growth[1] % 6-8% % of Government spend outsourced: Medium (US) Low (elsewhere) Market position ■ Leading operator of PFI projects in UK and Australia ■ Competitors include: Sodexo, Carillion, ISS	**Hospitals running under severe budgetary pressure** ■ UK NHS expected to face funding gap of up to £30 billion by 2021/22 ■ 80% of UK acute trusts in deficit in 2014-15 ■ Administrative costs ~25% of total US hospital expenditure **Middle East demand for hospitals increasing** ■ Fast growing population, growing demand for high quality healthcare **Mature and competitive market for single service FM** **Few players able to provide integrated, full service support** **Emerging market for full service support to new build hospitals**	■ Expertise and experience of new build PFI/PPP (UK, ASPAC) ■ Approach based on improving patient journey and experience ■ Market leading example of full service delivery (Fiona Stanley Hospital, Perth) ■ Ability to bring wide range of services from logistics through healthcare to BPO ■ Combination of process reengineering with healthcare expertise ■ BPO support and contact centre experience

1 Addressable market, according to the Directors' current estimates of market growth rates. The Directors expect these rates to vary materially from year-to-year and to be subject to the vagaries of macro-economic and political conditions.
2 Monitor, “Closing the NHS Health Funding Gap”, Monitor quarterly report June 2014

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Healthcare: Strategy

UK Strong	AMERICAS Exploring	MIDDLE EAST Foundation	AUSTRALIA Foundation
■ Improve underperforming contracts ■ Exit poor performing clinical segment ■ Focus on building innovative and efficient non-clinical services	■ Explore market entry opportunities for non-clinical	■ Target new hospital market ■ Develop non-clinical support proposition ■ Build pipeline	■ Build off success of Fiona Stanley to generate pipeline

Encouraging number of development opportunities across the portfolio

Significant development opportunities (cells shaded green): Justice & Immigration – Americas, Australia & New Zealand; Transport – Americas, Middle East; Citizen Services – Australia & New Zealand; Healthcare – UK & Europe, Americas, Middle East.

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

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

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The plan in a nutshell

Our Ambition

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

2014
Stabilise plan

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

2015-17
Transform & rebuild margins

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

2018-20
Thereafter grow revenues

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

Planned Outcome

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

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Conclusion - Serco has a bright future

We have a strong core business providing public services

- £4bn of revenues; present in the largest public sector services markets
- Trusted supplier of critical services across a broad range of activities
- We are well-placed to provide what the public sector needs
- Customers value what we do, and how we do it

Our challenges are within our power to resolve

- People, people, people
- Management, management, management

By resolving those challenges we can deliver growth and increase value

- To shareholders: growing and sustainable value
- To customers: innovative, reliable services which deliver more and better for less
- To colleagues: rewarding and interesting careers

The secret of success

- Accurate analysis of the current position – we think we have done it
- A good strategy – we think we have got it
- Executed immaculately – we think we can do it

But . . . . it will take time, progress will not be smooth, and we will need to adapt to events and keep portfolio under review

Bringing service to life

Strategy Implementation

Ed Casey
Chief Operating Officer

Our strategy: be a focused B2G business

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

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

2 Focus on five pillars in four regions

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

3 Exit non-core businesses

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

Reducing costs and using scale will lead to margin improvement

Actions underway or complete

- Strategic review provided roadmap
- Establishment of powerful transformation team (PMO)
- Rationalisation of BUs and delayering
- Property rationalisation
- Centralisation and rationalisation of functional support
- Increased controls over contractors, consultants and new hires
- Reductions in discretionary spend

Actions planned

- Centralisation and rationalisation of functional support
- Enhanced use of shared services
- Better use of procurement scale
- New models for Finance, HR and IT to maximise scale benefits and improve efficiency
- Continuous improvement in contracts

Markers of success

- Target 2015 in-year cost base reduction of £20m (gross) from operating model changes flowing from strategy review[1]
- Improve our margins towards 5-6%

"Such actions are targeted to drive £20 million of gross savings in the Group's 2015 cost base and such amount has been taken into account in the Profit Forecast

Improved BD and risk management will lead to better growth

Actions underway or complete

- Updated and strengthened management system including bid governance
- Lowered threshold, broadened criteria and earlier involvement of Investment Committee
- General Counsel appointed
- Weekly divisional bid reviews by Divisional leadership not committees
- Bid process revised: formal sign offs and checklists
- BD investment focused on chosen pillars

Actions planned

- Greater proportion of investment in front end business development
- Refreshed and strengthened account management
- Implementation of sector networks to build competitive advantage
- Development of strong sector propositions and global evidence base
- New collateral to support new strategy and chosen segments and propositions

Markers of success

- Growth in pipeline over next three years
- Improved win rates over next three years
- Fewer loss-making contracts
- Better returns for risks taken on

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Improved management information leads to better management

Actions underway or complete

- Monthly reviews undertaken at Divisional and Executive levels looking at balanced business metrics to assess underlying performance
  - Business Development, pipeline and key bids
  - Performance to customer contractual commitments
  - Identification and mitigation of operational issues
  - People metrics – turnover and engagement
- Customer visibility of same operational information
- Monthly reviews continuing to improve as template developed through experience
- Shifting focus to risk-reward

Markers of success

- Better visibility for management
- Stronger controls and governance
- Improved visibility for customers

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Building talent and capability will energise the company

Actions underway or complete

- Seven new appointments to Exec Committee including
  - UK CG CEO
  - UK LRG CEO
  - General Counsel
- Five new appointments to Board in 2014
- Extensive training undertaken
  - Contract managers
  - BD and bidding
  - Value Based leadership
  - Serco Management System
- Monthly review of employee engagement activities

Actions planned

- Contract level training for continuous improvement
- Development of a Leadership Academy
- Rebuild underway of leadership pipeline
- Redesigned reward strategy for leaders
- Investment in systems, structures and processes to identify and share best practice and sector knowledge

Markers of success

- Strong leadership teams
- Reduced turnover of key staff
- Improved employee engagement
- Deep capability in Continuous Improvement

Exit non-core businesses through divestment

Private Sector BPO

- 2014 Revenue £359m
- Information memorandum issued early January for offshore, India Domestic and other territories
- Current strong level of interest
- Options for remaining part of the business (primarily UK onshore private sector) still under consideration – disposal preferred course although some contracts will be run-out or handed back

Other Non-Core Businesses

- UK Environmental & Leisure Businesses (2014 Revenue: £145m)
  - Process well advanced
  - Customers currently being consulted on novation of contracts
- GSR (2014 Revenue: £58m)
  - Confirmatory diligence complete and definitive documentation being negotiated

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Our strategy: be a focused B2G business

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- Ability to build international scale

3 Exit non-core businesses

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

Bringing service to life

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Strategy Financials and Funding

Angus Cockburn
Chief Financial Officer
Serco Group plc

Agenda

- Strengthening the Finance function
- Outlook and Guidance
- OCPs future impact
- Funding strategy, Rights Issue and refinancing
- Focus on sustainable shareholder value creation

Strengthening the Finance function

- Beginning to change the emphasis and role of Finance as a function
  - Strong financial control environment
  - Key enabler to better understanding business performance
- Management accounts produced from contract to division to Group
  - In process of automating through existing SAP system
- No change in accounting policies, but more prudent and consistent interpretation and application going forward
- Improvements made to budgeting and Divisional Performance Review (DPR) processes
  - Single data warehouse model
- Kicked off end-to-end finance transformation project
  - Will address every process from contract to Group

2015 revenue outlook

- 2015 revenue forecast – pre disposals – of c£3.5bn (2014: £4.0bn)
  - 10 November 2014 forecast of c£4bn was based on Adjusted Revenue, with definition change to Revenue now removing share of JVs; no material change in underlying assumptions
- 2015 forecast net reduction of 10-15%, driven by
  - Contract attrition of c10%, around half from DLR and NPL
  - Volume reduction impact estimated at c5-10%, around half from DIBP
  - New/expanded contract growth ‘banked’ of c5%
- 2015 forecast other assumptions
  - Secure revenue ‘at risk’ where it requires rebid or extension (c5% of 2015 forecast)
  - Achieve a broadly normal proportion of in-year incremental revenue from task orders, project work, etc (c10-15% of forecast)
  - Limited other growth anticipated from in-year wins or expansions, given weak pipeline
- Businesses anticipated to be disposed of had annual revenue of c£560m in 2014; forecasts will require adjustment to reflect timing of disposals
- Forecast based on current FX rates; no material change versus FY14 average

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Revenue visibility and 'build'

- Opening order book value represents the expected revenues from existing signed contracts
- Rebids/extensions of existing contracts due during the year represent revenue that is at risk until secured with a signed contract
- In-year incremental revenue comes from
  - In-year work won and delivered from task orders, projects, etc
  - Incremental volumes beyond order book amounts
  - Any in-year contribution from new contracts signed during the year

£bn	2014a	2015f
Order book value (start of year, ex JV)	£3.1bn	81%
Rebids/extensions secured or to secure	£0.3bn	19%
In-year incremental	£0.6bn	
Total revenue	£4.0bn	£3.5bn

- 2014 shows the actual revenue 'build'
- 2015 forecast shows the order book visibility of 81% (versus 79% for 2014) with balance to come from securing rebids/extensions and other in-year revenue
- Total order book at the start of 2015 of £12.6bn

2015 Trading Profit outlook

- 2015 Trading Profit forecast – pre disposals – of c£90m, c2.5% margin (2014: £113m, 2.9% margin, before review items)
  - 10 November 2014 forecast of c£100m was based on AOP, with definition change now including JV interest and tax costs
- 2015 forecast driven by
  - Adverse £70m+ impact from net attrition/volume reductions (with DIBP again the single biggest factor)
  - £54m of contract losses within 2014 Trading Profit will have losses in 2015 offset by OCP utilisation
- Forecasts will require adjustment to reflect timing and structure of disposals
- Forecast based on current FX rates; no material change versus FY14 average

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Evaluating the contracts with 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 c£600m reflects a (23%) contract loss margin, improving in 2016
- The equivalent aggregate loss that these contracts made in 2014 was £95m. Only £54m of this was within 2014’s £113m Trading Profit before review items, as
  - £27m of loss was charged as write-down of in-year accrued income (ACPB)
  - £12m of loss was recognised within exceptionals (UK clinical health)
  - £2m of loss was offset by utilisation of provisions established prior to 2014

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Evaluating the contracts with 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 c£90m in 2015
  – Loss-making contracts ie c£139m in 2015, neutralised by OCP utilisation of c£139m

- Cash flow will be lower than 2014 given OCP utilisation

- Commitment to report transparently the impact of OCPs

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2015 Free Cash Flow outlook

- 2015 Free Cash Flow forecast – pre disposals – forecast to be an outflow c£150m (2014: £62m inflow)
- 2015 forecast driven by
  - Adverse impact of lower Trading Profit/cash inflow from profitable contracts
  - Adverse impact of greater Trading Loss/cash outflow from loss-making contracts (neutralised in the P&L by OCP utilisation, but not in the cash flow)
  - Adverse impact of further unwind of historical cash management actions around statutory balance sheet dates
  - Adverse impact of higher Capex and a return to cash tax payments
- Initiatives in place to improve cash flow forecasting
- As with Revenue and Trading Profit, adjustment would be required for the timing and structure of disposals
- Negative net cash outflow of £150m-200m (pre equity raise and disposal proceeds) given free cash outflow together with cash cost of exceptional items

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2015 – other modelling assumptions

- Further exceptional costs likely regarding costs of completing Strategy Review and the implementation of further restructuring programmes; refinancing fees
- Net finance costs (pre-exceptionals)
  - c£35m (2014: £37m)
  - Pre disposals consideration but assuming net proceeds of c£528m from the proposed Rights Issue
  - Reflects lower average net debt post the Rights Issue but higher blended coupon
  - Also includes higher movement in discount on provisions
- Tax
  - Future years effective tax rate will continue to be higher to the extent that future UK tax losses are not recognised and reflecting higher standard rates of corporation tax outside of the UK
  - Estimated 2015 effective tax rate c40% on Trading Profit
- Weighted average number of shares
  - Assuming the issue of c549m new shares from the proposed Rights Issue, shares for basic EPS would increase from 2014's 521.5m to c940m in 2015, annualising to c1,098m the year after

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Outlook beyond

Revenue

- 2015 forecast of £3.5bn, pre-disposals
- 2016: no formal guidance, given adjustment for disposals, etc; challenges remain given time required to rebuild currently weak pipeline; further rebids to secure
- Beyond: progress on returning over the longer term to sector growth rates of 5-7%

Trading Profit

- 2015 forecast of c£90m, pre-disposals
- 2016: no formal guidance; continues to be challenging; JV contribution reduces with end of Northern Rail; time required to rebuild pipeline and implement efficiency initiatives
- Beyond: progress on returning over the longer term to sector margins of 5-6%

Free cash flow

- 2015 forecast of c£150m outflow, pre-disposals
- 2016: improvements in the OCP'd contracts positive to cash
- Beyond: further improvements from OCP'd contracts running off, improved day-to-day working capital controls and forecasting, and improvements in profitability

Refinancing

- Negotiations with private placement noteholders and lending banks complete
  - Maintained 100% support
  - Extended RCF maturity from 2017 to 2019 + 1 year extension option
  - Maintained private placement maturity profile out to 2024
  - Maintained current financial covenants and increased flexibility
- Make whole payments, arrangement fees and other costs of c£30m
- Limited increase in pricing
  - Blended note coupon c5% (from c4%)
  - RCF all-in drawn rate: c2.6% (from c2.5%)
- Debt agreement contingent on successful completion of the Rights Issue
- December 2014 covenant test to be delivered before 31 May 2015 on a pro forma post Rights Issue basis and excluding review items

Covenants

- Two key financial covenants unchanged
  - Net debt/EBITDA <3.5 times
  - EBITDA/Interest cover >3 times
- EBITDA continues to follow statutory profit definition, ie includes the credit to the income statement from OCP utilisation; net borrowings will though reflect the cash outflow on OCP-related contracts
- Flexibility further increased, including
  - Any future OCP will have the charge spread aligned with the cash profile

Facilities

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

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

Funding strategy and leverage

- Capital structure medium term leverage target of 1-2x net debt to EBITDA (based on covenant definition) to ensure strength and flexibility to delivery turnaround
- Increased need for a strong balance sheet given
  - Clear message from our customers that they are looking for Serco to emerge with a very strong funding position
  - Greater outflow and risks related to OCP contracts (£139m projected outflow in 2015)
- Starting point: net debt per covenant definition of £658m at 31 December 2014, but
  - Greater cash outflow now anticipated for 2015, driven by OCP'd contracts and further unwind of year-end net debt versus average net debt; net cash outflow pre Rights Issue and any disposals of £150-200m
- 2015 assessment therefore based on £800m+ average net debt
- EBITDA per covenant definition of c£160m forecast for 2015
- Proposed Rights Issue net proceeds of c£528m necessary to appropriately reduce leverage to around 2x target
- Proceeds from planned disposals, together with medium term recovery in profitability and cash conversion, expected to further reduce leverage to the lower end of target range
- Strong capital structure from which to build Serco's future

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Rights Issue details

- Size
  - Gross proceeds of approximately £555m, expected net proceeds of c£528m
  - Fully underwritten
- Structure
  - Shareholders are granted transferable subscription entitlements (“Rights”)
  - Applications will be made to the UKLA and to the LSE for the New Ordinary Shares (nil and fully paid) to be admitted to the premium listing segment of the Official List and to trading on the LSE main market for listed securities respectively
- Terms
  - 1 for 1 issue of new shares at 101p per share
  - Discount to Theoretical Ex-Rights Price (“TERP”) of 34.3% based on closing price of 206p of Serco’s Ordinary Shares on the LSE at 11 March 2015
  - Shareholder approval required at general meeting

Expected timetable

12 Mar 2015	■ Announcement of the Rights Issue ■ Publication of Prospectus ■ Start of GM notice period
26 Mar 2015	■ Record date
30 Mar 2015	■ General Meeting
31 Mar 2015	■ Dealing in Rights Issue shares (nil paid) commences
16 Apr 2015	■ Rights Issue closes
17 Apr 2015	■ Take-up announced ■ Dealing in new shares commence

Focus on sustainable shareholder value creation

- Quality core - a more focused business with a clear strategic direction
  - While challenging 2015 and likely to remain so in 2016, customer demand and Serco's strong positioning should support a market-driven return to growth and recovery in margins
  - Additional self-help on cost efficiencies a key component of margin recovery
- Loss-making contracts a key management focus and will have a reducing drag
  - Income statement impact neutralised by OCP
  - Balance sheet OCP 'liability' reduces each year
  - Cash performance improves with performance recovery and/or run-off
- Established a clear focus on ROIC, risk-adjusted for internal hurdles
- Exit of non-core businesses to support focus on B2G strategy implementation
- Sustainable financing and capital structure being established

Path to longer term recovery of good growth, at the right margin, driven by an unwavering focus on appropriate risk/return metrics

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Concluding thoughts

Rupert Soames
Group Chief Executive

Conclusion - Serco has a bright future

We have a strong core business providing public services

- £4 bn of revenues; present in the largest public sector services markets
- Trusted supplier of critical services across a broad range of activities
- We are well-placed to provide what the public sector needs
- Customers value what we do, and how we do it

Our challenges are within our power to resolve

- People, people, people
- Management, management, management

By resolving those challenges we can deliver growth and increase value

- To colleagues: rewarding and interesting careers
- To customers: innovative, reliable services which deliver more and better for less
- To shareholders: growing and sustainable value

The secret of success

- Accurate analysis of the current position – we think we have done it
- A good strategy – we think we have got it
- Executed immaculately – we think we can do it

But . . . . it will take time, progress will not be smooth, and we will need to adapt to events and keep portfolio under review

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Questions and Answers

Rupert Soames
Group Chief Executive

Appendix

Appendix 1 – Notes and definitions

- Trading Profit is defined as statutory Operating Profit before i) amortisation and impairment costs of intangibles arising on acquisitions, and ii) exceptional items.
- Trading Cash Flow is the net cash flow from operating activities before exceptional items as shown on the face of the Group's Consolidated Cash Flow Statement and is stated after capital expenditure from tangible and intangible purchases less proceeds of tangible and intangible disposals, adding dividends we receive from joint ventures and adjusting to remove tax payments or receipts.
- Free Cash Flow is Trading Cash Flow after adjusting to add interest received, deduct interest paid, deduct Tax payments, and add Tax received.
- Serco previously reported Adjusted Revenue and Adjusted Operating Profit. Adjusted Revenue included Serco's share of joint venture revenue. Adjusted Operating Profit included Serco's share of joint venture operating profit (ie before interest and tax costs) and was before amortisation and impairment costs of intangibles arising on acquisitions, transaction-related costs and exceptional items. It was also before management's estimate of one-off costs incurred in relation to the UK Government reviews and related activities.
- Change at constant currency is calculated by translating non-Sterling revenue and earnings for the year to 31 December 2014 into Sterling at the average exchange rate for 2013.
- Organic revenue growth is the change at constant currency in Revenue after adjusting to exclude the impact of any acquisitions or disposals.
- Pre-tax ROIC is calculated as Trading Profit divided by the Invested Capital balance. Invested Capital assets are: goodwill and other intangible assets; property, plant and equipment; interests in joint ventures; trade and other receivables; and inventories. All other assets are excluded from Invested Capital, being: retirement benefit assets; tax assets; derivative financial instruments; and cash and cash equivalents. Of the total liabilities on the balance sheet, Invested Capital liabilities are trade and other payables. All other liabilities are excluded from Invested Capital being: retirement benefit obligations; tax liabilities; provisions; obligations under finance leases; derivative financial instruments; and loans. Assets and liabilities classified as held for sale are also included in Invested Capital.
- The order book reflects the estimated value of future revenue based on all existing signed contracts, excluding Serco's share of joint ventures. It excludes contracts at the preferred bidder stage and excludes the award of new Indefinite Delivery, Indefinite Quantity (IDIQ) contract vehicles and Multiple Award Contracts (MACs) where Serco are one of a number of companies able to bid for specific task orders issued under the IDIQ or MAC. The value of any task order is recognised within the order book when subsequently won.
- The pipeline of new bid decisions over the next two years is the aggregate value of potential new contracts that are anticipated to be bid in the near term, where annual revenue for each is estimated to be in excess of £10m and where the estimated total contract value of each is capped at £1bn.

Appendix 2 – Reportable segment reconciliations

£m	UK CG	UK&E LRG	Americas	Asia Pacific	Middle East	Global Services	Corp Costs	**Group**
Reconciliation 1 – 2014 revenue								
Adjusted Revenue, old segments	*Old UK&E 2,402.8*		708.7	*Old AMEAA 938.9*		702.9	-	4,753.3
Separate UK&E and AMEAA	1,545.0	857.8	708.7	670.7	268.4	702.9	-	4,753.3
Remove intra-Group contract shares	(33.9)	(61.7)	-	105.9	(8.0)	(2.3)	-	-
Transfer public sector BPO contracts	-	341.3	-	-	-	(341.3)	-	-
Transfer of Citizen Services	(106.7)	106.7	-	-	-	-	-	-
Transfer transport contracts	251.9	(251.9)	-	-	-	-	-	-
Exclude share of JV revenue	(694.9)	(32.4)	(0.6)	(70.4)	-	-	-	(798.3)
Revenue	**961.4**	959.8	**708.1**	**706.0**	**260.4**	359.3	**-**	**3,955.0**

See Appendix for definitions

Appendix 2 – Reportable segment reconciliations

£m	UK CG	UK&E LRG	Americas	Asia Pacific	Middle East	Global Services	Corp Costs	**Group**
Reconciliation 2 – 2014 profit								
Adjusted Op Profit, old segments	*Old UK&E*	*84.3*	43.2	*Old AMEAA*	*51.1*	8.3	(49.3)	137.6
Separate UK&E and AMEAA	61.9	22.4	43.2	28.1	23.0	4.3	(49.3)	137.6
Remove intra-Group contract shares	(7.2)	(0.4)	-	8.5	(3.9)	3.0	-	-
Transfer public sector BPO contracts	-	4.4	-	-	-	(4.4)	-	-
Transfer of Citizen Services	(2.0)	2.0	-	-	-	-	-	-
Transfer transport contracts	14.7	(14.7)	-	-	-	-	-	-
Adjusted Operating Profit	**67.4**	**13.7**	**43.2**	**36.6**	**19.1**	**6.9**	**(49.3)**	**137.6**
Share of JV interest and tax	(6.7)	(0.1)	-	(1.1)	-	-	-	(7.9)
Transaction-related costs	-	-	-	-	-	-	(0.9)	(0.9)
Management estimates Gov. Reviews	(2.7)	(10.2)	-	-	-	-	(2.7)	(15.6)
Trading Profit before review items	**58.0**	**3.4**	**43.2**	**35.5**	**19.1**	**6.9**	**(52.9)**	**113.2**
Review items	(300.8)	(93.8)	(26.7)	(237.1)	(19.3)	(30.3)	(37.3)	(745.3)
Trading Profit	**(242.8)**	**(90.4)**	**16.5**	**(201.6)**	**(0.2)**	**(23.4)**	**(90.2)**	**(632.1)**

See Appendix for definitions

Appendix 2 – Reportable segment reconciliations

£m	UK CG	UK&E LRG	Americas	Asia Pacific	Middle East	Global Services	Corp Costs	**Group**
Reconciliation 3 – 2013 revenue								
Adjusted Revenue, old segments	*Old UK&E 2,624.8*		765.3	*Old AMEAA 1,049.5*		700.4	-	5,140.0
Separate UK&E and AMEAA	1,713.8	911.0	765.3	763.0	286.5	700.4	-	5,140.0
Remove intra-Group contract shares	(120.4)	(30.3)	-	191.9	(18.6)	(22.6)	-	-
Transfer public sector BPO contracts	-	334.3	-	-	-	(334.3)	-	-
Transfer of Citizen Services	(70.6)	70.6	-	-	-	-	-	-
Transfer transport contracts	218.2	(218.2)	-	-	-	-	-	-
Exclude share of JV revenue	(666.4)	(104.4)	(0.7)	(84.3)	-	-	-	(855.8)
Revenue	**1,074.6**	**963.0**	**764.6**	**870.6**	**267.9**	**343.5**	**-**	**4,284.2**

See Appendix for definitions

Appendix 2 – Reportable segment reconciliations

£m	UK CG	UK&E LRG	Americas	Asia Pacific	Middle East	Global Services	Corp Costs	Group
Reconciliation 2 – 2013 profit								
Adjusted Op Profit, old segments	*Old UK&E*	*163.8*	65.1	*Old AMEAA*	*83.4*	27.4	(46.0)	293.7
Separate UK&E and AMEAA	136.0	27.8	65.1	51.9	31.5	27.4	(46.0)	293.7
Remove intra-Group contract shares	(17.5)	(3.9)	-	28.2	(7.0)	0.2	-	-
Transfer public sector BPO contracts		14.2	-	-	-	(14.2)	-	-
Transfer of Citizen Services	(2.6)	2.6	-	-	-	-	-	-
Transfer transport contracts	19.0	(19.0)	-	-	-	-	-	-
Adjusted Operating Profit	**134.9**	**21.7**	**65.1**	**80.1**	**24.5**	**13.4**	**(46.0)**	**293.7**
Share of JV interest and tax	(9.6)	(0.1)	-	(1.9)	-	-	(0.2)	(11.8)
Transaction-related costs	-	-	-	-	-	-	(3.5)	(3.5)
Management estimates Gov. Reviews	(10.7)	(3.8)	-	-	-	(5.6)	(0.9)	(21.0)
Trading Profit before review items	**114.6**	**17.8**	**65.1**	**78.2**	**24.5**	**7.8**	**(50.6)**	**257.4**
Review items	-	-	-	-	-	-	-	-
Trading Profit	**114.6**	**17.8**	**65.1**	**78.2**	**24.5**	**7.8**	**(50.6)**	**257.4**

See Appendix for definitions

Appendix 3 – cash flow breakdown 1 & breakdown 2

£m	FY14	FY13
Breakdown 1 – depreciation, amortisation and impairment		
Depreciation	42	48
Amortisation	27	25
Depreciation and amortisation	**69**	**73**
Impairment of PPE	22	-
Impairment of intangibles	27	-
Amortisation of intangibles arising on acquisition	11	21
Impairment of intangibles arising on acquisition	12	-
Total depreciation, amortisation and impairment before exceptional items	**141**	**94**
Breakdown 2 – non-cash movements		
Increase/(decrease) in provisions	473	(11)
Impairment of working capital items	149	-
Share-based payment expense	5	3
Loss on disposal of intangible assets	-	1
Increase in deferred consideration	4	-
Other non-cash movements	-	(8)
Non-cash provision and other movements	**631**	**(15)**

See Appendix for definitions

Appendix 3 – cash flow reconciliation 3 & breakdown 4

£m	FY14	FY13
Reconciliation 3 – free cash flow reconciliation		
‘Adjusted’ free cash flow as previously defined	79	85
Include: cash transaction-related costs	-	(3)
Include: cash costs of management estimation of charges re UK Govt reviews	(17)	(9)
Include: directly reimbursed capital expenditure, previously adjusted for	-	(10)
‘Trading’ free cash flow	**62**	**63**
Breakdown 4 – exceptional costs		
Settlement relating to UK Government reviews	-	(66)
VAT relating to UK Central Government settlement	6	(6)
Costs associated with UK Government reviews	(10)	-
UK frontline clinical health	(13)	-
Restructuring and costs related to reviews	(21)	(12)
Special pension contribution	-	(20)
Costs re DLR pension deficit settlement	(2)	-
Exceptional items cash costs	**(40)**	**(103)**

See Appendix for definitions

Appendix 4 – leverage covenant calculation

£m	FY14	FY13
Trading Profit Before Impact of Contract and Balance Sheet Review	113	257
Exclude: share of joint venture post-tax profits	(30)	(47)
Include: dividends from joint ventures	35	52
Add-back: depreciation and amortisation (excluding acquisition intangibles)	69	72
Add-back: share-based payments charge	5	3
Other adjustments (eg pro forma for transactions)	-	(6)
EBITDA for covenant calculation	**192**	**331**
Recourse net debt (closing), inc. assets held for sale	(658)	(725)
Less: encumbered cash	(9)	(10)
Other covenant adjustments	9	(12)
Net debt for covenant calculation (before pro forma for Rights Issue)	**(658)**	**(747)**
Leverage ratio excluding impact of Contract and Balance Sheet Review	**3.42x**	**2.25x**

See Appendix for definitions

Appendix 5 – interest cover covenant calculation

£m	FY14	FY13
Statutory net finance costs	(37)	(37)
Exclude: net interest receivable on retirement benefit obligations	(3)	(2)
Exclude: movement in discount on other debtors	-	(1)
Add-back: interest payable on non-recourse loans	1	1
Add-back: movement in discount on provisions and deferred consideration	-	1
Net finance costs for covenant calculation	**(39)**	**(38)**
EBITDA for covenant calculation (Appendix 3)	**192**	**331**
Interest cover excluding impact of Contract and Balance Sheet Review	**4.9x**	**8.8x**

See Appendix for definitions

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Appendix 6 – FY14 balance sheet movements

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

See Appendix for definitions

Appendix 6 – FY13 restatement (background)

- 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.

Appendix 7 – FY13 restatement (impact)

£m	Previous	Derivatives	Hedges	Restated
Revenue	4,288.1	(3.9)	-	4,284.2
Operating profit	143.8	(3.9)	5.6	145.5
Net finance costs	(37.2)	-	-	(37.2)
Profit before tax	**106.6**	**(3.9)**	**5.6**	**108.3**
Tax	(11.2)	1.3	-	(9.9)
Profit for the year	**95.4**	**(2.6)**	**5.6**	**98.4**
Earnings per share	19.5p	(0.5p)	1.1p	20.1p
Memo: Previous Adjusted measures				
Adjusted Revenue	5,143.9	(3.9)	-	5,140.0
Adjusted Operating Profit before review items	292.0	(3.9)	5.6	293.7
Adjusted Profit Before Tax	254.4	(3.9)	5.6	256.1
Adjusted Earnings per share	39.5p	(0.5p)	1.1p	40.1p

See Appendix for definitions

Appendix 8 – Pensions

- Serco sponsor a number of defined benefit pension schemes
  - Non contract specific – not related to specific contracts or franchises, largest of which is main Group scheme (SPLAS)
  - Contract specific – related to specific contract or franchise where the deficit expected to pass back to the customer or next contractor. Intangible asset is recognised at the start of the contract and amortised over the contract life
- Total net balance sheet asset (after tax) across defined benefit schemes as at 31 Dec 2014 of £101m (31 Dec 2013: £43m) on asset base of £1.5bn
- Over £1.2bn of £1.5bn assets allocated to conservative liability driven investments (LDIs)
- Main Group scheme (SPLAS) has a balance sheet accounting surplus as at 31 Dec 2014 of £144m (31 Dec 2013: £64m) and an estimated actuarial deficit using prudent assumptions of approximately £5m (31 Dec 2013: £13m deficit)
- 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

Appendix 9 – Currency rates

	Average rates			Closing rates		
	FY14	HY14	FY13	31 Dec 2014	30 Jun 2014	31 Dec 2013
£:US$	1.65	1.67	1.56	1.56	1.71	1.66
£:Aus$	1.82	1.82	1.61	1.91	1.81	1.85
£:Eur	1.24	1.21	1.17	1.29	1.25	1.20
£:INR	100.44	101.24	91.24	98.42	102.84	102.45

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