

THIS DOCUMENT AND ANY ACCOMPANYING DOCUMENTS ARE IMPORTANT AND REQUIRE YOUR IMMEDIATE ATTENTION. If you are in any doubt as to the action you should take, you are recommended to seek immediately your own financial advice from your stockbroker, bank manager, solicitor, accountant, fund manager or other appropriate independent financial adviser, who is authorised under the Financial Services and Markets Act 2000 (“FSMA”) if you are resident in the United Kingdom or, if not, from another appropriately authorised independent financial adviser.

This document, which comprises: (i) a circular prepared in accordance with the Listing Rules of the Financial Conduct Authority (the “FCA”) made under section 73A of FSMA for the purposes of the General Meeting convened pursuant to the Notice of General Meeting set out at the end of this document; and (ii) a prospectus relating to the Ordinary Shares prepared in accordance with the Prospectus Rules of the FCA made under section 73A of FSMA, has been approved by the FCA in accordance with section 87A of FSMA and made available to the public in accordance with Rule 3.2 of the Prospectus Rules.

Subject to the restrictions set out below, if you sell or transfer or have sold or otherwise transferred all of your Existing Ordinary Shares (other than ex-rights) held in certificated form before 8.00 a.m. on 31 March 2015 (the “**ex-rights date**”), please send this document together with the accompanying Form of Proxy and any Provisional Allotment Letter (duly renounced), if and when received, as soon as possible to the purchaser or transferee or to the stockbroker, bank or other agent through whom the sale or transfer was effected, for transmission to the purchaser or transferee. **None of these documents should, however, be distributed, forwarded to or transmitted in or into any jurisdiction where to do so might constitute a violation of local securities laws or regulations, including but not limited to the United States and any of the Excluded Territories.** If you sell or transfer or have sold or otherwise transferred only part of your holding of Existing Ordinary Shares (other than ex-rights) held in certificated form before the ex-rights date, you should immediately consult the stockbroker, bank or other agent through whom the sale or transfer was effected and refer to the instructions regarding split applications in Part III (*Terms and Conditions of the Rights Issue*) of this document and in the Provisional Allotment Letter. If you sell or transfer or have sold or otherwise transferred all or some of your Existing Ordinary Shares (other than ex-rights) held in uncertificated form before the ex-rights date, a claim transaction will automatically be generated by Euroclear, which, on settlement, will transfer the appropriate number of Nil Paid Rights to the purchaser or transferee.

SERCO GROUP PLC

(Incorporated under the Companies Act 1985 and registered in England and Wales with registered number 02048608)

Proposed 1 for 1 Rights Issue of 549,265,547 New Ordinary Shares at 101 pence per New Ordinary Share to raise approximately £555 million

and

Notice of General Meeting

BofA Merrill Lynch

Joint Sponsor, Joint Global Coordinator and
Joint Bookrunner

J.P. Morgan Cazenove

Joint Sponsor, Joint Global Coordinator and
Joint Bookrunner

Barclays Bank PLC

Co-Bookrunner

HSBC

Co-Bookrunner

Crédit Agricole CIB

Lead Manager

Rothschild

Financial Adviser

This document does not constitute an offer to sell, or the solicitation of an offer to buy, securities in any jurisdiction where such offer or solicitation would be unlawful. The distribution of this document, the accompanying documents and/or any Provisional Allotment Letter and/or the transfer of Nil Paid Rights or Fully Paid Rights through CREST in jurisdictions outside the UK may be restricted by law and therefore persons into whose possession this document comes should inform themselves about and observe any of those restrictions. Any failure to comply with any of these restrictions may constitute a violation of the securities laws of any such jurisdiction. In particular, subject to certain exceptions, this document and the accompanying documents and any Provisional Allotment Letter should not be distributed, forwarded to or transmitted in or into the United States or any of the Excluded Territories.

The Existing Ordinary Shares have been admitted to the premium listing segment of the Official List of the UKLA, and to trading on the London Stock Exchange's main market for listed securities. Applications will be made for the New Ordinary Shares to be admitted to the premium listing segment of the Official List of the UKLA and to be admitted to trading on the London Stock Exchange's main market for listed securities (together, "**Admission**"). It is expected that Admission will become effective, and that dealings on the London Stock Exchange in the New Ordinary Shares (nil paid) will commence at 8.00 a.m. on 31 March 2015.

The Nil Paid Rights, the Fully Paid Rights, the Provisional Allotment Letters and the New Ordinary Shares are not transferable, except in accordance with, and the distribution of this document is subject to the restrictions set out in paragraph 2.6 of Part III (*Terms and Conditions of the Rights Issue*) of this document. No action has been taken by the Company, the Joint Sponsors or the Underwriters that would permit an offer of the New Ordinary Shares or rights thereto or possession or distribution of this document or any other offering or publicity material or the Provisional Allotment Letters, the Nil Paid Rights or the Fully Paid Rights in any jurisdiction where action for that purpose is required, other than in the United Kingdom.

This document should be read as a whole, including any document incorporated herein by reference. Your attention is drawn to the letter from your Chairman which is set out in Part I (*Letter from the Chairman*) of this document and which contains a recommendation from your Board that you vote in favour of the Resolution to be proposed at the General Meeting referred to below. You should read the entire document and, in particular, the section of this document entitled "*Risk Factors*", which includes a discussion of certain risk factors that should be taken into account when considering the matters referred to in this document.

A notice for the General Meeting to be held at 10.00 a.m. on 30 March 2015 at the offices of Clifford Chance LLP, 10 Upper Bank Street, London E14 5JJ set out at the end of this document. A Form of Proxy for use in connection with the General Meeting is enclosed with this document. Whether or not you intend to attend the General Meeting in person, to be valid, the Form of Proxy should be completed, signed and returned in accordance with the instructions printed on it so as to be received by Serco's registrars, Equiniti, at Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA, as soon as possible, and in any event, no later than 10.00 a.m. on 26 March 2015. If you hold Serco Ordinary Shares in CREST, you may appoint a proxy by completing and transmitting a CREST Proxy Instruction to Serco's Registrars, Equiniti (CREST participant RA19), so that it is received by no later than 10.00 a.m. on 26 March 2015. The completion and return of a Form of Proxy (or the electronic appointment of a proxy) will not preclude you from attending and voting in person at the General Meeting if you wish to do so and are so entitled. Shareholders looking to appoint a proxy online should visit www.sharevote.co.uk and follow the instructions.

The latest time and date for acceptance of, and payment in full for, the New Ordinary Shares by holders of Nil Paid Rights is expected to be 11.00 a.m. on 16 April 2015. The procedures for delivery of the Nil Paid Rights, acceptance and payment are set out in Part III (*Terms and Conditions of the Rights Issue*) of this document and, for Qualifying non-CREST Shareholders only, also in the Provisional Allotment Letter. Qualifying CREST Shareholders should refer to paragraph 2.2 of Part III (*Terms and Conditions of the Rights Issue*) of this document.

Subject, *inter alia*, to the passing of the Resolution, it is expected that Qualifying non-CREST Shareholders (subject to certain exceptions) will be sent a Provisional Allotment Letter on 30 March 2015, and that Qualifying CREST Shareholders (subject to certain exceptions) will receive a credit to their appropriate stock accounts in CREST in respect of the Nil Paid Rights to which they are entitled on 31 March 2015. The Nil Paid Rights so credited in CREST are expected to be enabled for settlement by Euroclear as soon as practicable after Admission. The Underwriters may, in accordance with applicable legal and regulatory

provisions and subject to the Underwriting Agreement, engage in transactions in relation to the Nil Paid Rights, the Fully Paid Rights, the Ordinary Shares and/or related instruments for their own account for the purpose of hedging their commitments under the Underwriting Agreement. Except as required by applicable law or regulation, the Underwriters do not propose to make any public disclosure in relation to such transactions.

Qualifying non-CREST Shareholders should retain this document for reference pending receipt of a Provisional Allotment Letter. Qualifying CREST Shareholders should note that they will receive no further written communication from Serco in respect of the Rights Issue. They should accordingly retain this document for, among other things, details of the action they should take in respect of the Rights Issue. Qualifying CREST Shareholders who are CREST sponsored members should refer to their CREST sponsors regarding the action to be taken in connection with this document and the Rights Issue. Holdings of Ordinary Shares in certificated and uncertificated form will be treated as separate holdings for the purpose of calculating entitlements under the Rights Issue.

J.P. Morgan Securities plc, which conducts its UK investment banking businesses as J.P. Morgan Cazenove, Merrill Lynch International, Barclays Bank PLC, HSBC Bank plc, which are each authorised in the UK by the Prudential Regulation Authority and regulated in the UK by the Prudential Regulation Authority and the FCA, and Crédit Agricole Corporate and Investment Bank, which is authorised by the French Prudential and Resolution Supervisory Authority (“ACP”) and supervised by the ACP and the Autorité des marchés financiers (“AMF”) in France and subject to limited regulation by the FCA and the Prudential Regulation Authority (details about the extent of Crédit Agricole CIB’s regulation by the Prudential Regulatory Authority are available from Crédit Agricole CIB on request), (together, the “Underwriters”), are acting exclusively for Serco and no one else in connection with the Rights Issue and will not regard any other person (whether or not a recipient of this document) as their respective clients in relation to the Rights Issue and will not be responsible to any person other than Serco for providing the protections afforded to clients of the Underwriters, nor for providing advice in relation to the Rights Issue or any other matters referred to herein.

Rothschild, which is authorised by the Prudential Regulation Authority and regulated by the FCA and the Prudential Regulation Authority in the United Kingdom, is acting exclusively for Serco and for no one else in connection with the Rights Issue and will not be responsible to anyone other than Serco for providing the protections afforded to clients of Rothschild nor for providing advice in relation to the Rights Issue.

No representation or warranty, express or implied, is made by Rothschild or the Underwriters as to the accuracy, completeness or verification of the information set forth in this document, and nothing contained in this document is, or shall be relied upon as, a promise or representation in this respect, whether as to the past or the future. Apart from the responsibilities and liabilities, if any, which may be imposed on Rothschild and the Underwriters under FSMA or the regulatory regime established thereunder, none of Rothschild or the Underwriters accepts any responsibility whatsoever for the contents of this document, including its accuracy, completeness or verification or for any other statement made or purported to be made by it, or on its behalf, in connection with Serco, the Nil Paid Rights, the Fully Paid Rights, the New Ordinary Shares or the Rights Issue. Subject to applicable law, each of Rothschild and the Underwriters accordingly disclaims all and any liability whether arising in tort, contract or otherwise (save as referred to above) which it might otherwise have in respect of this document or any such statement.

In making an investment decision, each investor must rely on their own examination, analysis and enquiry of the Company and the terms of the Rights Issue, including the merits and risks involved.

The investors also acknowledge that: (i) they have not relied on Rothschild or the Underwriters or any person affiliated with Rothschild or the Underwriters in connection with any investigation of the accuracy of any information contained in this document or their investment decision; and (ii) they have relied only on the information contained in this document, and that no person has been authorised to give any information or to make any representation concerning the Company or its subsidiaries or the New Ordinary Shares (other than as contained in this document) and, if given or made, any such other information or representation should not be relied upon as having been authorised by the Company, Rothschild or the Underwriters.

Notice to Overseas Shareholders

The Nil Paid Rights, the Fully Paid Rights, the Provisional Allotment Letters and the New Ordinary Shares have not been and will not be registered under the Securities Act, or under any securities laws of any state or

other jurisdiction of the United States, or any relevant laws of any of the Excluded Territories, and may not be offered, sold, taken up, exercised, resold, pledged, renounced, transferred or delivered, directly or indirectly, within the United States (except pursuant to an applicable exemption from or in a transaction not subject to the registration requirements of the Securities Act and in compliance with any applicable securities laws of any state or other jurisdiction of the United States), or any of the Excluded Territories (except pursuant to applicable exemptions). There will be no public offer of the Nil Paid Rights, the Fully Paid Rights, the Provisional Allotment Letters or the New Ordinary Shares in the United States or any of the Excluded Territories.

None of the Nil Paid Rights, the Fully Paid Rights, the Provisional Allotment Letters, the New Ordinary Shares, this document or any other offering document has been approved or disapproved by the US Securities and Exchange Commission, any state securities commission in the United States or any US regulatory authority, nor have any of the foregoing authorities passed upon or endorsed the merits of the Rights Issue or the accuracy or adequacy of this document. Any representation to the contrary is a criminal offence in the United States.

Except as otherwise provided for herein, this document does not constitute an offer of Nil Paid Rights, Fully Paid Rights, Provisional Allotment Letters or New Ordinary Shares to any Shareholder with a registered address in, or who is resident in, the United States or any of the Excluded Territories. This document does not constitute an offer to sell or a solicitation of an offer to buy New Ordinary Shares or to take up entitlements to Nil Paid Rights in any jurisdiction in which such offer or solicitation is unlawful.

The Underwriters may arrange for any New Ordinary Shares not taken up in the Rights Issue to be offered and sold only (i) outside the United States in accordance with Regulation S under the Securities Act or (ii) inside the United States to persons reasonably believed to be “qualified institutional buyers” (“QIB”) within the meaning of Rule 144A under the Securities Act in reliance on an exemption from the registration requirements of the Securities Act. Prospective investors are hereby notified that such sellers of the Nil Paid Rights, Fully Paid Rights, Provisional Allotment Letters or New Ordinary Shares may be relying on the exemption from the registration requirements of the Securities Act provided by Rule 144A.

In addition, until 40 days after Admission, an offer, sale or transfer of the Nil Paid Rights, the Fully Paid Rights, the Provisional Allotment Letters or the New Ordinary Shares within the United States by a dealer (whether or not participating in the Rights Issue) may violate the registration requirements of the Securities Act.

Subject to certain exceptions, neither this document nor any accompanying documents nor any Provisional Allotment Letter will be posted to any person with a registered address in the United States or in any of the Excluded Territories. All Overseas Shareholders and any person (including, without limitation, a nominee, custodian or trustee) who has a contractual or legal obligation to forward this document or any Provisional Allotment Letter, if and when received, or any other document to a jurisdiction outside the United Kingdom should read paragraph 2.6 of Part III (*Terms and Conditions of the Rights Issue*) of this document.

The Company is not subject to the periodic reporting requirements of the Exchange Act. In order to permit compliance with Rule 144A under the Securities Act in connection with resales of the New Ordinary Shares, the Company agrees to furnish upon the request of a Shareholder or a prospective purchaser from any Shareholder the information required to be delivered under Rule 144A(d)(4) of the Securities Act if at the time of such request it is not a reporting company under section 13 or section 15(d) of the Exchange Act and is not exempt from reporting pursuant to Rule 12g3-2(b) thereunder.

All Qualifying Shareholders with a registered address in the United States or any of the Excluded Territories and any person (including, without limitation, a nominee or trustee) who has a contractual or legal obligation to forward this document or any Provisional Allotment Letter to any jurisdiction outside the United Kingdom should read paragraph 2.6 of Part III (*Terms and Conditions of the Rights Issue*) of this document.

NOTICE TO NEW HAMPSHIRE RESIDENTS ONLY

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENCE HAS BEEN FILED UNDER CHAPTER 421B OF THE NEW HAMPSHIRE REVISED STATUTES (“RSA 421 B”) WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF THE STATE OF NEW HAMPSHIRE

THAT ANY DOCUMENT FILED UNDER RSA 421 B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE OF THE STATE OF NEW HAMPSHIRE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE OR CAUSE TO BE MADE TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

Notice to EEA investors

In relation to the EEA States (except for the United Kingdom) that have implemented the Prospectus Directive (each, a “**relevant member state**”), with effect from and including the date on which the Prospectus Directive was implemented in that relevant member state (the “**relevant implementation date**”), no New Ordinary Shares, Nil Paid Rights or Fully Paid Rights have been offered or will be offered pursuant to the Rights Issue to the public in that relevant member state prior to the publication of a prospectus in relation to the New Ordinary Shares, Nil Paid Rights and Fully Paid Rights which has been approved by the competent authority in that relevant member state or, where appropriate, approved in another relevant member state and notified to the competent authority in the relevant member state, all in accordance with the Prospectus Directive, except that with effect from and including the relevant implementation date, offers of New Ordinary Shares, Nil Paid Rights or Fully Paid Rights may be made to the public in that relevant member state at any time under the following exemptions under the Prospectus Directive, if they are implemented in that relevant member state:

- (a) to any legal entity which is a qualified investor, as defined in the Prospectus Directive;
- (b) to fewer than 100, or if the relevant member state has implemented the relevant provisions of the PD Amending Directive, 150 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) in such relevant member states; or
- (c) in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of New Ordinary Shares, Nil Paid Rights or Fully Paid Rights shall result in a requirement for the publication by the Company, the Joint Sponsors or the Underwriters of a prospectus pursuant to Article 3 of the Prospectus Directive.

For this purpose, the expression “an offer of any New Ordinary Shares, Nil Paid Rights or Fully Paid Rights to the public” in relation to any New Ordinary Shares, Nil Paid Rights and Fully Paid Rights in any relevant member state means the communication in any form and by any means of sufficient information on the terms of the Rights Issue and any New Ordinary Shares, Nil Paid Rights and Fully Paid Rights to be offered so as to enable an investor to decide to subscribe for or acquire any New Ordinary Shares, Nil Paid Rights or Fully Paid Rights, as the same may be varied in that relevant member state by any measure implementing the Prospectus Directive in that relevant member state.

Notice to Australian investors

This document does not constitute a disclosure document under Part 6D.2 of the Corporations Act 2001 of the Commonwealth of Australia (the “**Corporations Act 2001 (Cth)**”). Accordingly, this document does not necessarily contain all of the information a prospective investor would expect to be contained in an offering document or which he/she may require to make an investment decision. The offer to which this document relates is being made in Australia in reliance on Class Order 00/183 issued by the Australian Securities and Investments Commission. This document only constitutes an offer in Australia for sale of the Nil Paid Rights, the Fully Paid Rights and the New Ordinary Shares to persons who are Qualifying Shareholders.

As any offer for the issue of the Nil Paid Rights, the Fully Paid Rights and the New Ordinary Shares under this document will be made without disclosure in Australia under Part 6D.2, the offer of those Nil Paid Rights, the Fully Paid Rights and the New Ordinary Shares for resale in Australia within 12 months of their sale may, under section 707(3) of the Corporations Act 2001 (Cth), require disclosure to investors under Part 6D.2 if none of the exemptions in section 708 of the Corporations Act 2001 (Cth) apply to that resale.

This document is intended to provide general information only and has been prepared by the Company without taking into account any particular person’s objectives, financial situation or needs. Recipients

should, before acting on this information, consider the appropriateness of this information having regard to their personal objectives, financial situation or needs. Recipients should review and consider the contents of this document and obtain financial advice (or other appropriate professional advice) specific to their situation before making any decision to accept the offer of the Nil Paid Rights, the Fully Paid Rights and the New Ordinary Shares. This document was prepared under the law and operating rules of a foreign market. The Company is not subject to the continuous disclosure requirements of the Corporations Act 2001 (Cth).

Notice to Bermudian investors

The Nil Paid Rights, the Fully Paid Rights and the New Ordinary Shares may be offered or sold in Bermuda only in compliance with the provisions of the Investment Business Act 2003 of Bermuda which regulates the sale of securities in Bermuda. Additionally, non-Bermudian persons (including companies) may not carry on or engage in any trade or business in Bermuda unless such persons are authorised to do so under applicable Bermuda legislation. Engaging in the activity of offering or marketing the Nil Paid Rights, the Fully Paid Rights and the New Ordinary Shares in Bermuda to persons in Bermuda may be deemed to be carrying on business in Bermuda.

Notice to Canadian investors

If you are a resident of Canada and have received this document without a Canadian supplement attached to the front, you have received this document in error. In order to receive the document prepared for residents of Canada, please go to www.serco.com and select Canada in the drop-down list of countries. In order to participate in the Rights Issue, a resident of Canada (i) must be an “accredited investor” as defined in National Instrument 45-106 Prospectus and Registration Exemptions and either purchasing the New Ordinary Shares as principal for its own account, or deemed to be purchasing the New Ordinary Shares as principal by applicable law, and (ii) must complete and return a Canadian Accredited Investor Representation Letter not later than 11.00 a.m. on 16 April 2015.

Notice to Japanese investors

The Rights Issue has not been and will not be registered under the Financial Instruments and Exchange Law, as amended (the “FIEL”). This document is not an offer of securities for sale, directly or indirectly, of any Nil Paid Rights, Fully Paid Rights or New Ordinary Shares in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or entity organised under the laws of Japan) or to others for reoffer or resale, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan, except pursuant to an exemption from the registration requirements under the FIEL and otherwise in compliance with such law and any other applicable laws, regulations and ministerial guidelines of Japan.

Notice to PRC investors

The Nil Paid Rights, the Fully Paid Rights and the New Ordinary Shares may not be offered or sold directly or indirectly within the PRC. This document or any information contained or incorporated by reference herein relating to the Nil Paid Rights, the Fully Paid Rights and the New Ordinary Shares does not constitute an offer to sell or the solicitation of an offer to buy any securities in the PRC. This document, any information contained herein and the Nil Paid Rights, the Fully Paid Rights and the New Ordinary Shares have not been, and will not be, submitted to, approved by, verified by or registered with any relevant governmental authorities in the PRC and thus may not be supplied to the public in the PRC or used in connection with any offer for the subscription or sale of the Nil Paid Rights, the Fully Paid Rights and the New Ordinary Shares in the PRC.

The Nil Paid Rights, the Fully Paid Rights and the New Ordinary Shares may only be invested by the PRC investors that are authorised to engage in the investment in the unit of the type being offered or sold. Investors are responsible for obtaining all relevant governmental approvals, verifications, licences or registrations (if any) from all relevant PRC governmental authorities, including, but not limited to, the State Administration of Foreign Exchange, the China Securities Regulatory Commission, the China Banking Regulatory Commission, and other relevant regulatory bodies, and complying with all relevant PRC regulations, including, but not limited to, any relevant foreign exchange regulations and/or overseas investment regulations.

Notice to Singapore investors

This document or any written materials issued in connection with the Rights Issue is not a prospectus as defined in the Securities and Futures Act, Chapter 289 of Singapore (the “SFA”). The offer of the Nil Paid Rights, the Fully Paid Rights and the New Ordinary Shares is made in reliance on the offering exemption under section 273(1)(cd) of the SFA. This document and any other document or material in connection with the offer or sale of the Nil Paid Rights, the Fully Paid Rights and the New Ordinary Shares may not be circulated or distributed, nor may the Nil Paid Rights, the Fully Paid Rights and the New Ordinary Shares be offered or sold, whether directly or indirectly, to any person in Singapore other than to a member of the Company pursuant to section 273(1)(cd) of the SFA or otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Notice to investors in Switzerland

The Nil Paid Rights, the Fully Paid Rights and the New Ordinary Shares may not be publicly offered in Switzerland and will not be listed on the SIX Swiss Exchange (“SIX”) or on any other stock exchange or regulated trading facility in Switzerland. This document has been prepared without regard to the disclosure standards for issuance prospectuses under art. 652a or art. 1156 of the Swiss Code of Obligations or the disclosure standards for listing prospectuses under art. 27 ff. of the SIX Listing Rules or the listing rules of any other stock exchange or regulated trading facility in Switzerland. Neither this document nor any other offering or marketing material relating to the Nil Paid Rights, the Fully Paid Rights and the New Ordinary Shares or the Rights Issue may be publicly distributed or otherwise made publicly available in Switzerland.

Neither this document nor any other offering or marketing material relating to the Rights Issue, the Company, the Nil Paid Rights, the Fully Paid Rights and the New Ordinary Shares have been or will be filed with or approved by any Swiss regulatory authority. In particular, this document will not be filed with, and the offer of Nil Paid Rights, Fully Paid Rights and New Ordinary Shares will not be supervised by, the Swiss Financial Market Supervisory Authority FINMA (“FINMA”).

Notice to all investors

Any reproduction or distribution of this document, in whole or in part, and any disclosure of its contents or use of any information for any purpose other than in considering an investment in the Nil Paid Rights, the Fully Paid Rights or the New Ordinary Shares is prohibited. By accepting delivery of this document, each offeree of the Nil Paid Rights, the Fully Paid Rights and/or the New Ordinary Shares agrees to the foregoing.

The distribution of this document and/or the Provisional Allotment Letters and/or any other offering of public materials relating to the Rights Issue and/or the transfer of Nil Paid Rights, Fully Paid Rights and/or New Ordinary Shares in certain jurisdictions may be restricted by law. No action has been taken by Serco or by the Underwriters that would permit an offer of New Ordinary Shares or rights thereto or possession or distribution of this document or any other offering or publicity material or Provisional Allotment Letters, Nil Paid Rights, or Fully Paid Rights, in any jurisdiction where action for that purpose is required, other than in the United Kingdom. Persons into whose possession this document comes should inform themselves about and observe any such restrictions. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction. Pursuant to the requirements of applicable United States securities laws, the documents are not for distribution in the United States. The Nil Paid Rights, the Fully Paid Rights, the Provisional Allotment Letters and the New Ordinary Shares are not transferable except in accordance with, and the distribution of this document is subject to, the restrictions set out in paragraph 2.6 of Part III (*Terms and Conditions of the Rights Issue*) of this document.

No person has been authorised to give any information or make any representations other than those contained in this document or incorporated by reference herein and, if given or made, such information or representations must not be relied upon as having been authorised by Serco, Rothschild or by any of the Underwriters. None of the above take any responsibility for, or can provide assurance as to the reliability of, other information that you may be given. The Company will comply with any obligation to publish a supplementary prospectus containing further updated information required by law or by any regulatory authority but neither the Company, Rothschild nor any of the Underwriters assumes any further obligation to publish additional information. Neither the delivery of this document nor any subscription or sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of Serco since the date of this document or that the information in this document is correct as at any

time subsequent to its date. Without limitation, the contents of Serco's website do not constitute part of this document.

The contents of this document are not to be construed as legal, business or tax advice. None of the Company, Rothschild or the Underwriters, or any of their respective representatives, is making any representation to any purchaser of the Nil Paid Rights, Fully Paid Rights or New Ordinary Shares regarding the legality of an investment in the Nil Paid Rights, Fully Paid Rights and/or New Ordinary Shares by such offeree or purchaser under the laws applicable to such offeree or purchaser. Each prospective investor should consult their own legal adviser, business adviser, financial adviser or tax adviser for legal, business, financial or tax advice.

This document is dated 12 March 2015.

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WHERE TO FIND HELP

If you have any questions relating to this document, and the completion and return of the Form of Proxy or Provisional Allotment Letter, please telephone Equiniti between 8.30 a.m. and 5.30 p.m. (London time) Monday to Friday on 0871 384 2880 from within the UK or +44 121 415 0900 if calling from outside the UK. Calls to the 0871 384 2880 number cost 10 pence per minute (including VAT) plus network extras. Calls to the helpline from outside the UK will be charged at applicable international rates. Different charges may apply to calls from mobile telephones and calls may be recorded and randomly monitored for security and training purposes.

Please note that, for legal reasons, the helpline is only able to provide information contained in this document and information relating to the Company's register of members to persons who do not have registered addresses, or who are resident or located, in the United States or any of the Excluded Territories. The helpline cannot provide advice on the merits of the Rights Issue nor give any financial, legal or tax advice.

In addition, see Part II (*Questions and Answers on the Rights Issue*) of this document for further information.

SUMMARY

Summaries are made up of disclosure requirements known as “Elements”. These Elements are numbered in Sections A — E (A.1 — E.7).

The summary contains all the Elements required to be included in a summary for this type of issuer and securities. Because some Elements are not required to be addressed there may be gaps in the numbering sequence of the Elements.

Even though an Element may be required to be inserted into the summary because of the type of issuer and securities, it is possible that no relevant information can be given regarding the Element. In this case, a short description of the Element is included in the summary with the mention of “not applicable”.

Section A — Introduction and warnings

Element	Disclosure requirement	Disclosure
A.1	Warning	This summary should be read as introduction to this document. Any decision to invest in the securities should be based on consideration of this document as a whole by the investor. Where a claim relating to the information contained in this document is brought before a court, the plaintiff investor might, under the national legislation of the Member States, have to bear the costs of translating this document before the legal proceedings are initiated. Civil liability attaches only to those persons who have tabled the summary including any translation thereof, but only if the summary is misleading, inaccurate or inconsistent when read together with the other parts of this document or it does not provide, when read together with the other parts of this document, key information in order to aid investors when considering whether to invest in such securities.
A.2	Any consents to and conditions regarding use of this document for subsequent resale or final placement of securities by financial intermediaries	Not applicable. No consent has been given by Serco or any person responsible for drawing up this document to use it for subsequent resale or final placement of securities by financial intermediaries.

Section B — Issuer

Element	Disclosure requirement	Disclosure
B.1	Legal name Commercial name	Serco Group plc Serco
B.2	Domicile and legal form of the issuer, legislation under which the issuer operates and country of incorporation	Serco was incorporated and registered in England and Wales on 21 August 1986 under the Companies Act 1985 as a private company limited by shares with registered number 02048608 and with the name Dealmove Limited. On 23 January 1987, it re-registered as a public company limited by shares and on 29 July 1987 it changed its name to Serco Group plc. The registered and head office of Serco is at Serco House, 16 Bartley Wood Business Park, Bartley Way, Hook, Hampshire RG27 9UY. The principal legislation under which Serco operates is the Companies Act 2006 and the regulations made thereunder.

Section B — Issuer

Element	Disclosure requirement	Disclosure
B.3	Current operations and principal activities	<p>Serco is an international service company predominantly focusing on the public sector where it supports government and other public service providers in the Justice & Immigration, Defence, Transport, Citizen Services and Healthcare sectors.</p> <p>Serco operates through six divisions, five of which provide a broad range of frontline public service operations to customers in five geographic regions (being the UK Central Government, UK & Europe Local & Regional Government, Americas, Asia Pacific and the Middle East divisions) and one provides Business Process Outsourcing services to the private sector globally (being the Global Services division).</p> <p>In the 2014 Financial Year, Serco generated revenue of £3,955 million and a Trading Loss of £632.1 million.</p>
B.4a	Significant recent trends	<p>Challenging trading conditions began to emerge in early 2014, driven partly by the consequential impact on the business of the investigations into Serco's Electronic Monitoring Contract and the PECS Contract with the UK Government which commenced in 2013, and partly by events generally unrelated to these investigations. The Group's business in Australia, the US and the UK all suffered from increased contract and volume attrition in 2013-2014 which weighted towards contracts with historically high margins, and those that were being newly won tended to be at lower margins. In addition, the Australian Immigration Services contract suffered from a significant reduction in revenue and margin as a result of a sharp decline in the volumes of detainees in the second half of 2013. At the same time, being effectively "unawardable" for new UK Central Government contracts for a number of months together with the broader reputational damage arising from the investigations into the Electronic Monitoring Contract and the PECS Contract reduced the Group's ability to replace lost volume with new work and created a significant dislocation in the Group's new business development pipeline. These factors led to a deterioration in the Group's trading performance. Further, as a result of the Contract & Balance Sheet Reviews, Onerous Contract Provisions of £447.1 million have been recognised in the Group's financial statements for the 2014 Financial Year to reflect the estimated level of losses on the loss-making contracts identified. These factors led to a deterioration in the Group's trading performance in 2014, which would have resulted in the Group breaching its financial covenants under its Existing Financings in 2015, had the Group not obtained amendments and waivers which are conditional upon the Company completing the Rights Issue and using the proceeds to pay down amounts outstanding under its borrowings.</p> <p>Further progress, developments and uncertainties during 2015 — such as improving underlying contract performances, implementing cost efficiencies, rebidding existing contracts, winning new work and the volumes actually achieved on certain highly volume-related contracts, the forthcoming general election and potential change in Government in the UK, further impacts from the EM/PECS Investigations and, in the US, the outcome of the legal challenge to the US Affordable Care Act under review by the US Supreme Court — will continue to shape the outcome for 2015.</p> <p>Trading in January 2015 has been in line with the Directors' expectations and, there has been no significant change in the trading or financial position of the Serco Group since 31 December 2014, the date to which Serco's audited 2014 Financial Statements were prepared.</p>

Section B — Issuer

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B.5	Group description	Serco is the parent company of the Serco Group, which predominantly focuses on the public sector where it supports government and other public service providers in the Justice & Immigration, Defence, Transport, Citizen Services and Healthcare sectors.																																																																						
B.6	Major shareholders	<p>As at the Latest Practicable Date, the Company had been notified under the Disclosure and Transparency Rules of the following direct and indirect substantial interests in the issued Ordinary Shares of the Company:</p> <table border="1"> <thead> <tr> <th><u>Shareholders</u></th> <th><u>Number of Existing Ordinary Shares</u></th> <th><u>Approximate percentage of existing issued share capital %</u></th> <th><u>Number of Ordinary Shares following the Rights Issue⁽¹⁾</u></th> <th><u>Approximate percentage of issued share capital following the Rights Issue⁽¹⁾ %</u></th> </tr> </thead> <tbody> <tr> <td>Invesco Limited</td> <td>54,814,057</td> <td>9.98</td> <td>109,628,114</td> <td>9.98</td> </tr> <tr> <td>GIC Private Limited</td> <td>35,174,408</td> <td>6.40</td> <td>70,348,816</td> <td>6.40</td> </tr> <tr> <td>MSDC Management, L.P.</td> <td>30,624,946</td> <td>5.58</td> <td>61,249,892</td> <td>5.58</td> </tr> <tr> <td>Artisan Partners Limited Partnership, Artisan Investments GP LLC, Artisan Partners Holdings LP, and Artisan Partners Asset Management Inc.</td> <td>27,664,689</td> <td>5.04</td> <td>55,329,378</td> <td>5.04</td> </tr> <tr> <td>Morstan Nominees Limited</td> <td>25,179,410</td> <td>4.58</td> <td>50,358,820</td> <td>4.58</td> </tr> <tr> <td>BlackRock Inc.</td> <td>25,063,146</td> <td>4.56</td> <td>50,126,292</td> <td>4.56</td> </tr> <tr> <td>FIL Limited</td> <td>24,486,010</td> <td>4.46</td> <td>48,972,020</td> <td>4.46</td> </tr> <tr> <td>AXA S.A.</td> <td>24,379,602</td> <td>4.44</td> <td>48,759,204</td> <td>4.44</td> </tr> <tr> <td>FMR LLC</td> <td>24,268,859</td> <td>4.42</td> <td>48,537,718</td> <td>4.42</td> </tr> <tr> <td>Newton Investment Management Limited</td> <td>23,600,721</td> <td>4.30</td> <td>47,201,442</td> <td>4.30</td> </tr> <tr> <td>Ruane, Cunniff & Goldfarb Inc.</td> <td>22,254,335</td> <td>4.05</td> <td>44,508,670</td> <td>4.05</td> </tr> <tr> <td>Lancaster Investment Management LLP</td> <td>22,013,379</td> <td>4.01</td> <td>44,026,758</td> <td>4.01</td> </tr> <tr> <td>Woodford Investment Management LLP</td> <td>16,719,030</td> <td>3.04</td> <td>33,438,060</td> <td>3.04</td> </tr> </tbody> </table> <p>(1) Assuming each major Shareholder takes up its rights to New Ordinary Shares in full and that there is no exercise of options or awards under the Serco Employee Share Schemes between the date of this document and the completion of the Rights Issue.</p> <p>As at the Latest Practicable Date, save as disclosed in this Element, the Company is not aware of any interest (within the meaning of the Disclosure and Transparency Rules) which is notifiable under the Disclosure and Transparency Rules. The Company is not aware of any person or persons who, directly or indirectly, acting jointly with others or acting alone, exercised or could exercise control over the Company. The Company is not aware of any arrangements the operation of which may, at a subsequent date, result in a change in control of the Company.</p> <p>None of the Company's major Shareholders has now, or will following the Rights Issue have, different voting rights from other holders of Ordinary Shares.</p> <p>The Company is not aware of any person who immediately following Admission directly or indirectly, jointly or severally, will own or could exercise control over the Company.</p>	<u>Shareholders</u>	<u>Number of Existing Ordinary Shares</u>	<u>Approximate percentage of existing issued share capital %</u>	<u>Number of Ordinary Shares following the Rights Issue⁽¹⁾</u>	<u>Approximate percentage of issued share capital following the Rights Issue⁽¹⁾ %</u>	Invesco Limited	54,814,057	9.98	109,628,114	9.98	GIC Private Limited	35,174,408	6.40	70,348,816	6.40	MSDC Management, L.P.	30,624,946	5.58	61,249,892	5.58	Artisan Partners Limited Partnership, Artisan Investments GP LLC, Artisan Partners Holdings LP, and Artisan Partners Asset Management Inc.	27,664,689	5.04	55,329,378	5.04	Morstan Nominees Limited	25,179,410	4.58	50,358,820	4.58	BlackRock Inc.	25,063,146	4.56	50,126,292	4.56	FIL Limited	24,486,010	4.46	48,972,020	4.46	AXA S.A.	24,379,602	4.44	48,759,204	4.44	FMR LLC	24,268,859	4.42	48,537,718	4.42	Newton Investment Management Limited	23,600,721	4.30	47,201,442	4.30	Ruane, Cunniff & Goldfarb Inc.	22,254,335	4.05	44,508,670	4.05	Lancaster Investment Management LLP	22,013,379	4.01	44,026,758	4.01	Woodford Investment Management LLP	16,719,030	3.04	33,438,060	3.04
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B.7	Historical key financial information	<p>Selected historical financial information relating to the Company for the 2014 and 2013 Financial Years has been extracted without material adjustment from Serco Group's 2014 Financial Statements. Selected financial information for the 2012 Financial Year has been extracted from Serco Group's 2013 Financial Statements adjusted as necessary to be consistent with the format of presentation used in the 2014 Financial Statements and to reflect the 2012 impact of the restatement of certain financial instruments identified in the 2014 Financial Statements with regards to hedge accounting. Prospective investors should review the following selected financial information together with the whole of this document and any documents incorporated by reference herein and should not rely on the selected financial information below.</p> <p><i>Consolidated income statement</i></p> <table border="1"> <thead> <tr> <th style="text-align: left;"><u>For Financial Year</u></th> <th style="text-align: right;"><u>2014</u></th> <th style="text-align: right;"><u>2013</u> <u>(restated)</u></th> <th style="text-align: right;"><u>2012</u> <u>(restated)</u></th> </tr> <tr> <th></th> <th colspan="3" style="text-align: center;"><u>£ million</u></th> </tr> </thead> <tbody> <tr> <td>Revenue</td> <td style="text-align: right;">3,955.0</td> <td style="text-align: right;">4,284.2</td> <td style="text-align: right;">4,056.8</td> </tr> <tr> <td>Cost of sales</td> <td style="text-align: right;"><u>(4,019.7)</u></td> <td style="text-align: right;"><u>(3,788.9)</u></td> <td style="text-align: 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<td>Organic revenue growth per cent.</td> <td style="text-align: right;">(2.5)</td> <td style="text-align: right;">6.9</td> <td style="text-align: right;">0.3</td> </tr> <tr> <td>Trading (Loss) / Profit</td> <td style="text-align: right;">(632.1)</td> <td style="text-align: right;">257.4</td> <td style="text-align: right;">310.7</td> </tr> <tr> <td>Trading (loss) / profit margin per cent.</td> <td style="text-align: right;">(16.0)</td> <td style="text-align: right;">6.0</td> <td style="text-align: right;">7.7</td> </tr> <tr> <td>Trading EPS (p)</td> <td style="text-align: right;">(131.0)</td> <td style="text-align: right;">36.0</td> <td style="text-align: right;">44.2</td> </tr> <tr> <td>Return on invested capital per cent.</td> <td style="text-align: right;">N/A</td> <td style="text-align: right;">13.9</td> <td style="text-align: right;">17.3</td> </tr> </tbody> </table> <p>There has been no significant change in the trading or financial position of the Serco Group since 31 December 2014, the date to which Serco's last Audited Financial Statements were prepared.</p>	<u>For Financial Year</u>	<u>2014</u>	<u>2013</u> <u>(restated)</u>	<u>2012</u> <u>(restated)</u>		<u>£ million</u>			Revenue	3,955.0	4,284.2	4,056.8	Cost of sales	<u>(4,019.7)</u>	<u>(3,788.9)</u>	<u>(3,576.5)</u>	Gross profit	(64.7)	495.3	480.3	Administrative expenses				General and administrative expenses	(597.4)	(285.0)	(232.1)	Exceptional (loss)/profit on disposal of subsidiaries and operations	(5.4)	19.2	5.6	Other exceptional operating items	(656.1)	(109.7)	(5.0)	Other expenses—amortisation and impairment of intangibles arising on acquisition	(23.7)	(21.4)	(24.1)	Share of profits in joint ventures, net of interest and tax	<u>30.0</u>	<u>47.1</u>	<u>62.5</u>	Operating (loss)/profit	<u>(1,317.3)</u>	<u>145.5</u>	<u>287.2</u>	Operating (loss)/profit before exceptional items	<u>(655.8)</u>	<u>236.0</u>	<u>286.6</u>	Investment revenue	6.2	5.2	6.4	Exceptional other gain	—	—	51.1	Finance costs	<u>(42.9)</u>	<u>(42.4)</u>	<u>(48.6)</u>	(Loss)/profit before tax	<u>(1,354.0)</u>	<u>108.3</u>	<u>296.1</u>	Tax on (loss)/profit before exceptional items	(11.1)	(38.7)	(45.5)	Tax on exceptional items	<u>18.0</u>	<u>28.8</u>	<u>6.5</u>	Tax credit/(charge)	<u>6.9</u>	<u>(9.9)</u>	<u>(39.0)</u>	(Loss)/profit for the year	<u>(1,347.1)</u>	<u>98.4</u>	<u>257.1</u>	Attributable to:				Equity owners of the Company	(1,347.3)	98.4	256.5	Non-controlling interests	0.2	—	0.6	Earnings per share (EPS)				Basic EPS	(258.4p)	20.1p	52.2p	Diluted EPS	(258.4p)	19.7p	51.0p	Non IFRS financial KPIs:				Organic revenue growth per cent.	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Section B — Issuer

Element	Disclosure requirement	Disclosure																																																																						
B.8	Key pro forma financial information	<p>Selected key Unaudited Pro Forma Financial Information is set out below. The statement of net assets has been prepared on the basis set out in the notes below to illustrate the impact of the Rights Issue, the repayment of debt under the Facility Agreement and the US Private Placement Notes and the amendments to the Group's Existing Finance Agreements on the net assets of the Serco Group as at 31 December 2014 as if they had taken place at that date.</p> <p>The unaudited pro forma statement of net assets has been prepared for illustrative purposes only and, by their nature, address a hypothetical situation and do not, therefore, represent the Serco Group's actual financial position or results.</p> <p>The unaudited pro forma financial information does not take into account trading of the Serco Group subsequent to the period end balance sheet date of 31 December 2014.</p> <p><i>Selected unaudited pro forma net assets statement</i></p> <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 60%;"></th> <th style="width: 15%; text-align: center;">Serco Group as at 31 December 2014⁽¹⁾</th> <th colspan="2" style="width: 15%; text-align: center; border-bottom: 1px solid black;">Adjustments</th> <th style="width: 10%;"></th> </tr> <tr> <th></th> <th></th> <th style="text-align: center;">Rights Issue⁽²⁾</th> <th style="text-align: center;">Repayment of debt and amendment of debt facilities⁽³⁾</th> <th style="text-align: center;">Total</th> </tr> <tr> <th></th> <th></th> <th colspan="2" style="text-align: center; border-bottom: 1px solid black;">£ million</th> <th></th> </tr> </thead> <tbody> <tr> <td>Non-current assets</td> <td style="text-align: right;">926.7</td> <td style="text-align: center;">—</td> <td style="text-align: center;">—</td> <td style="text-align: right;">926.7</td> </tr> <tr> <td>Current assets</td> <td style="text-align: right;">732.5</td> <td style="text-align: right;">527.8</td> <td style="text-align: right;">(440.0)</td> <td style="text-align: right;">820.3</td> </tr> <tr> <td>Assets classified as held for sale</td> <td style="text-align: right;">564.7</td> <td></td> <td></td> <td style="text-align: right;">564.7</td> </tr> <tr> <td>Total assets</td> <td style="text-align: right;">2,223.9</td> <td style="text-align: right;">527.8</td> <td style="text-align: right;">(440.0)</td> <td style="text-align: right;">2,311.7</td> </tr> <tr> <td>Current liabilities</td> <td style="text-align: right;">(871.4)</td> <td style="text-align: center;">—</td> <td style="text-align: center;">—</td> <td style="text-align: right;">(871.4)</td> </tr> <tr> <td>Liabilities directly associated with assets classified as held for sale</td> <td style="text-align: right;">(219.9)</td> <td style="text-align: center;">—</td> <td style="text-align: center;">—</td> <td style="text-align: right;">(219.9)</td> </tr> <tr> <td>Non-current liabilities</td> <td style="text-align: right;">(1,198.8)</td> <td style="text-align: center;">—</td> <td style="text-align: right;">413.6</td> <td style="text-align: right;">(785.2)</td> </tr> <tr> <td>Total liabilities</td> <td style="text-align: right;">(2,290.1)</td> <td style="text-align: center;">—</td> <td style="text-align: right;">413.6</td> <td style="text-align: right;">(1,876.5)</td> </tr> <tr> <td>Net (liabilities)/assets</td> <td style="text-align: right;">(66.2)</td> <td style="text-align: right;">527.8</td> <td style="text-align: right;">(26.4)</td> <td style="text-align: right;">435.2</td> </tr> <tr> <td>Net debt⁽⁴⁾</td> <td style="text-align: right;">(658.2)</td> <td></td> <td></td> <td style="text-align: right;">(156.8)</td> </tr> <tr> <td>Net debt to Consolidated EBITDA ratio⁽⁵⁾</td> <td style="text-align: right;">3.4</td> <td></td> <td></td> <td style="text-align: right;">0.8</td> </tr> </tbody> </table> <p>Notes:</p> <p>(1) The net assets of the Serco Group as at 31 December 2014 have been extracted without adjustment from Serco Group's 2014 Financial Statements, as incorporated by reference in Part VI (<i>Historical Financial Information Relating to the Serco Group</i>) of this document.</p> <p>(2) Adjustment to reflect the net proceeds of the Rights Issue receivable by the Company of approximately £527.8 million (being gross proceeds of £554.8 million less estimated fees relating to the Rights Issue of approximately £27 million, excluding VAT).</p> <p>(3) Adjustments to reflect:</p> <p style="margin-left: 20px;">(a) part utilisation of the net proceeds of the Rights Issue for the repayment of the Group's Revolving Credit Facility (£185 million drawn as at 31 December 2014) and part repayment of the US Private Placement Notes (£225 million);</p> <p style="margin-left: 20px;">(b) approximately £30 million fees and expenses in connection with the repayment of the Group's borrowings and the amendments to the Existing Finance Agreements; and</p> <p style="margin-left: 20px;">(c) the write-off of £3.4 million of unamortised finance costs in relation to the Existing Financings.</p> <p>(4) Based on consolidated total net borrowings (as defined for covenant purposes).</p> <p>(5) Based on the 2014 reported Consolidated EBITDA of £192.5 million.</p>		Serco Group as at 31 December 2014 ⁽¹⁾	Adjustments					Rights Issue ⁽²⁾	Repayment of debt and amendment of debt facilities ⁽³⁾	Total			£ million			Non-current assets	926.7	—	—	926.7	Current assets	732.5	527.8	(440.0)	820.3	Assets classified as held for sale	564.7			564.7	Total assets	2,223.9	527.8	(440.0)	2,311.7	Current liabilities	(871.4)	—	—	(871.4)	Liabilities directly associated with assets classified as held for sale	(219.9)	—	—	(219.9)	Non-current liabilities	(1,198.8)	—	413.6	(785.2)	Total liabilities	(2,290.1)	—	413.6	(1,876.5)	Net (liabilities)/assets	(66.2)	527.8	(26.4)	435.2	Net debt⁽⁴⁾	(658.2)			(156.8)	Net debt to Consolidated EBITDA ratio⁽⁵⁾	3.4			0.8
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Section B — Issuer

Element	Disclosure requirement	Disclosure
B.9	Profit forecast or estimate	<p>The Serco Directors have today re-issued guidance, that, before the impact of disposals, their current expectations for the 2015 Financial Year are Adjusted Operating Profit of around £100 million, Trading Profit of around £90 million and EBITDA (as defined for covenant purposes) of around £160 million (collectively, the “Profit Forecast”).</p> <p>The Profit Forecast has been properly compiled on the basis of the assumptions stated below and on a basis consistent with the accounting policies of the Serco Group, which are in accordance with IFRS and are those which Serco anticipates will be applicable to the 2015 Financial Year. In the Profit Forecast, Trading Profit is defined as IFRS operating profit adjusted to exclude (i) amortisation and impairment of intangibles arising on acquisition and (ii) exceptional items. In addition to Adjusted Operating Profit and EBITDA (as defined for covenant purposes) which were previously used and therefore need to be reported on, the Profit Forecast is expressed in terms of Trading Profit rather than profit before tax or the previously used metrics, as the Directors believe this new metric is simpler and more transparent, and therefore more helpful to investors. EBITDA (as defined for covenant purposes) is provided to help investors assess the Serco Group’s leverage as calculated for covenant purposes.</p> <p>The Serco Directors have prepared the Profit Forecast on the basis of (i) the audited 2014 Financial Statements; (ii) the unaudited management accounts of the Group in the first month of the 2015 Financial Year; (iii) the projected financial performance of the Group in accordance with Serco’s new strategy for the remaining 11 months of the 2015 Financial Year, which is considerably longer than the forecasting period covered by profit forecasts typically included in prospectuses; (iv) no disposals taking place during the 2015 Financial Year; and (v) completion of the Rights Issue (and associated refinancing) taking place.</p> <p>While the Serco Directors have provided their best estimate (on the basis set out above and the assumptions set out below) for the Group’s Adjusted Operating Profit, Trading Profit and EBITDA (as defined for covenant purposes) for the 2015 Financial Year, it is inevitable that the degree of uncertainty relating to the Profit Forecast and the assumptions is greater than in the case of a typical profit forecast that covers a shorter forecasting period. The Profit Forecast should therefore be read in this context and construed accordingly.</p> <p>In addition, as stated above, the Profit Forecast has been prepared on the assumption that no disposals take place during the 2015 Financial Year. Serco intends to dispose of a number of businesses that are not core to its future strategy. If any of the Proposed Disposals complete during the 2015 Financial Year, it is expected that this would result in a reduction in the Group’s profits (as compared with the Profit Forecast) for the 2015 Financial Year and, depending on the business being disposed of and the timing of the disposal, such reduction may be material.</p> <p>The Serco Directors have prepared the Profit Forecast on the basis of the following assumptions:</p> <p>Factors outside the influence or control of the Serco Directors</p> <p>During the 2015 Financial Year:</p> <ul style="list-style-type: none"> • There will be no change to current prevailing global (and in particular, the regions in which Serco operates) macroeconomic and political conditions during the year ending 31 December 2015 which is material in the context of the Profit Forecast;

Section B — Issuer

Element	Disclosure requirement	Disclosure
		<ul style="list-style-type: none"> • There will be no deterioration in the Serco Group’s relationship with any key customers which is material in the context of the Profit Forecast; • There will be no change in market conditions within the global outsourcing industry in relation to either customer demand or competitive environment which is material in the context of the Profit Forecast; • The announcement of the proposed Rights Issue (and associated refinancing) will not result in any change in the Serco Group’s obligations to clients or its ability to negotiate new business, resolve contract disputes or retain key management which is material in the context of the Profit Forecast; • There will be no change in the euro, US dollar, Indian rupee or Australian dollar exchanges rates compared with the average foreign exchange rates assumed in the Profit Forecast which is material in the context of the Profit Forecast; • There will be no change in inflation, interest or tax rates in the Serco Group’s principal markets compared with Serco’s budgeted estimates which is material in the context of the Profit Forecast; • There will be no change in the Serco Group’s labour costs, including medical and pension and other post-retirement benefits, driven by external parties or regulations which is material in the context of the Profit Forecast; • There will be no adverse event that will have an impact on the Serco Group’s financial performance which is material in the context of the Profit Forecast; • There will be no change in legislation or regulatory requirement that impacts on the Serco Group’s operations or the accounting principles and standards to which it is subject which is material in the context of the Profit Forecast; and • There will be no change in control of the Serco Group. <p>Factors within the influence or control of the Serco Directors</p> <p>During the 2015 Financial Year:</p> <ul style="list-style-type: none"> • The Serco Group’s current and new contract negotiations, bids and rebids will conclude substantially as the Serco Directors would reasonably expect based on Serco’s past experience; • The Serco Group does not carry out any acquisitions or disposals, or enter into, terminate or vary any joint venture, which is material in the context of the Profit Forecast (taking into account any potential related transaction or abortive costs); • The level of contract-related provisions reflected in the 2014 Financial Statements appropriately covers future losses under the relevant contracts; • No other issue which is material in the context of the Profit Forecast, beyond those issues that are already known to the Serco Directors at the current time, will arise in respect of the Serco Group’s contracts; and • There will be no change in the current key management (including managers of key business units) of the Serco Group.

Section B — Issuer

Element	Disclosure requirement	Disclosure
B.10	Description of the nature of any qualifications in the audit report on the historical financial information	Not applicable. The audit reports on the historical financial information incorporated by reference into this document are not qualified.
B.11	Insufficient working capital	Not applicable. The Company is of the opinion that, taking into account the net proceeds of the Rights Issue and the bank and other facilities available to the Serco Group, the working capital available to the Serco Group is sufficient for its present requirements, that is, for at least the 12 months following the date of publication of this document.

Section C — Securities

Element	Disclosure requirement	Disclosure
C.1	Type and class of securities	Serco is proposing to offer 549,265,547 New Ordinary Shares of two pence each at 101 pence per New Ordinary Share pursuant to the Rights Issue. When admitted to trading, the New Ordinary Shares will be registered with ISIN number GB0007973794 and SEDOL number 0797379. The ISIN number for the Nil Paid Rights is GB00BW9HGS54 and the ISIN number for the Fully Paid Rights is GB00BW9HGT61.
C.2	Currency of the securities issue	Pound sterling.
C.3	Number of shares issued and value per share	As at the Latest Practicable Date the Company has in issue 549,265,547 fully paid Ordinary Shares of two pence each.
C.4	Description of the rights attached to the securities	The New Ordinary Shares will be issued credited as fully paid and will rank <i>pari passu</i> in all respects with the Existing Ordinary Shares in issue at the time they are issued, including in relation to any dividends or other distributions declared, made or paid with a record date falling after the date of allotment and issue of the New Ordinary Shares. Subject to any special rights, restrictions or prohibitions as regards voting for the time being attached to any Ordinary Shares (for example, in the case of joint holders of a share, the only vote which will count is the vote of the person whose name is listed before the other voters on the register for the share), Shareholders shall have the right to receive notice of and to attend and vote at general meetings of Serco. Subject to the provisions of the Companies Act 2006, Serco may from time to time declare dividends and make other distributions on the Ordinary Shares. Shareholders are entitled to participate in the assets of Serco attributable to their shares in a winding-up of Serco or other return of capital, but they have no rights of redemption.
C.5	Description of any restrictions on the free transferability of the securities	There are currently no restrictions on the free transferability of the Ordinary Shares.
C.6	Admission to trading of the securities	Applications will be made to the UKLA and to the London Stock Exchange 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 London Stock Exchange's main market for listed securities respectively. It is expected that Admission will become effective on 31 March 2015 and that dealings in New Ordinary Shares will commence, nil paid, at 8.00 a.m. on that date.

Section C — Securities

Element	Disclosure requirement	Disclosure
C.7	Dividend policy	<p>Serco paid a total dividend of 10.10 pence per share for the 2012 Financial Year and 10.55 pence per share for the 2013 Financial Year. Serco paid an interim dividend of 3.10 pence per share for the 2014 Financial Year.</p> <p>As announced on 10 November 2014, the Board has recommended that no final dividend for the 2014 Financial Year be paid. The Board recognises that dividends are seen as an important component of equity returns by many Shareholders. The Board is committed to resuming dividend payments and a progressive dividend policy when it is prudent to do so. The Directors' decision as to when to declare a dividend and the amount to be paid will take into account the Group's underlying earnings, cash flows and balance sheet leverage, the requirement to maintain an appropriate level of dividend cover and the market outlook at the time. It is not anticipated that the Board will recommend any dividend in respect of the 2015 Financial Year.</p>

Section D — Risks

Element	Disclosure requirement	Disclosure
D.1	Key information on the risks specific to the issuer or its industry	<ul style="list-style-type: none"> • The Serco Group is a party to a number of contracts that are expected to result in material losses for which the Serco Group has recorded Onerous Contract Provisions. If these provisions are not sufficient to cover the losses ultimately incurred under such contracts, if further provisions for such contracts are required in the future or if the costs of fulfilling other contracts to which any member of the Serco Group is a party exceed the actual or expected economic benefit under such contracts, this may result in lower returns, further provisions and economic, reputational and other associated impacts. • If the Rights Issue does not proceed and the Group is unable to obtain further waivers of its financial covenants under the Revolving Credit Facility, the Receivables Financing Agreement and the US Note Purchase Agreements, and is unable to avoid a breach of its financial covenants or cross-defaults through the successful implementation of one or more funding alternatives, shareholders are at risk of losing all or a substantial amount of their investment in the Group and the Group is at risk of not being able to continue as a going concern. • Members of the Serco Group are under investigation by the Serious Fraud Office, which could lead to significant financial penalties, debarment from UK Government contracting and the re-opening of a settlement agreement with the UK Government. • The Serco Group depends and will continue to depend heavily on large contracts with a relatively limited number of major government customers and other public sector bodies and agencies for a substantial proportion of its revenue, some of which expired in 2014 or are subject to contract expiration, rebidding, contract extension or renegotiation in 2015. If such customers decrease the amount of business they undertake with any member of the Serco Group for any reason, or if the relationship with such customers were impaired or if the Serco Group sustains damage to its reputation or is subject to negative publicity, the Serco Group could lose business across its customer base and face significant economic damage. • The Serco Group is subject to risks associated with bidding for and entering into contracts (most of which are multi-year and/or fixed price contracts), including correctly assessing and agreeing pricing terms that provide for a level of return on the contract appropriate to the risks involved, accurately anticipating the costs of performance,

Section D — Risks

Element	Disclosure requirement	Disclosure
		<p>employee requirements and other obligations, evaluating contractual and operational risks, and the risks of potential early termination or change of scope of contracts by customers.</p> <ul style="list-style-type: none"> • Failure to meet contractual performance criteria, either directly or through subcontractors, could result in the cancellation of a contract, claims for loss, or compensation arrangements under the contract being triggered; could lead to reputational damage; and could have an adverse effect on the ability to win any new bids or future rebids for work. • The Serco Group’s contracts with national and local governments and public sector bodies and agencies or major commercial customers may contain unfavourable provisions that may be onerous for the Serco Group. • The Serco Group may fail to effectively implement its new strategy of exiting the private sector to focus on “B2G” business. • The Serco Group’s projected financial information is based upon a number of assumptions that are inherently subject to significant business, operational, economic and other risks, and therefore may differ materially from actual results and should not be unduly relied on by investors. • The Serco Group is subject to risks and uncertainties associated with changes in government policies, budget priorities and regulatory or political constraints or attitudes, in particular those relating to the provision of public services, maintaining and improving public infrastructure, immigration, health, the criminal justice system, defence, and the attitude to outsourcing of services and activities to the private sector, particularly in the UK, Europe, Australia, the Middle East and the US. • Adverse economic conditions in its operating markets, political developments or other factors outside the Serco Group’s control may adversely affect the Serco Group’s business, financial condition and results of operations. • The Serco Group operates in politically and socially sensitive sectors and its activities are therefore subject to a high degree of political and social scrutiny. Failure to satisfy the requirements or targets set by government clients, or to meet the expectations of the public, could have an adverse effect on the Serco Group’s reputation, business and operations. In addition, adverse publicity in these sectors, either generally or experienced by other service providers, could have an adverse impact on the public perception of the Serco Group. • As a contractor with national and local governments, public sector bodies and agencies and government-regulated customers, the Serco Group is subject to procurement rules and regulations and procurement delays that may increase the Serco Group’s bidding, performance and compliance costs and could have an adverse impact on the Serco Group’s business, financial condition, results of operations or prospects. • The Serco Group has recognised substantial impairments of the carrying value of goodwill and other assets, and may recognise additional impairments in the future, which could adversely affect its financial condition and results of operations.

Section D — Risks

Element	Disclosure requirement	Disclosure
		<ul style="list-style-type: none"> • The Serco Group is subject to litigation, inquiries or investigations that could divert management time and resources and result in penalties, fines, sanctions, variation or revocation of permissions and authorisations, suspension or debarment from doing business with the relevant government customer, reputational damage or loss of goodwill. • Failure to deliver stable and secure IT systems and to combat cyber and other security risks to information and physical sites could adversely affect the ability of the Serco Group to perform current contracts and to win future contracts and in the event of a breach of security could lead to business disruption and reputational damage. • The Serco Group has a decentralised organisational structure and therefore may experience incidents of regional or local managers not complying with the Serco Group’s policies, accounting irregularities, accounting misstatements or breaches of local legislation, or may fail to successfully monitor contract performance, implement future compliance policies, update existing control procedures and related policies or maintain efficient and reliable IT systems, any of which could, individually or collectively, have a material adverse effect on its business, results of operations or financial condition. • The Serco Group’s success depends on the continued service and performance of its highly qualified and experienced senior management and business development teams. The continuing success of the Serco Group relies on its ability to plan for management succession and to attract, train and retain qualified and experienced management.
D.3	Key information on the risks specific to the securities	<ul style="list-style-type: none"> • The market price of the Ordinary Shares has been and may continue to be highly volatile, and the market price of the Ordinary Shares may decline and may not reflect the underlying asset value of the Serco Group. • The market price for Ordinary Shares may decline below the Issue Price and Shareholders may not be able to sell Ordinary Shares at a favourable price after the Rights Issue. • Shareholders who do not take up their rights in full will experience dilution in their ownership.

Section E — Offer

Element	Disclosure requirement	Disclosure
E.1	Net proceeds and costs of the issue	<p>The total net proceeds of the Rights Issue are expected by the Company to amount to approximately £528 million. The total costs, charges and expenses (including fees and commissions) (exclusive of recoverable VAT) payable by the Company in connection with the Rights Issue amount to approximately £27 million. The Company intends to pay for all expenses arising from, or in connection with, the Rights Issue. There are therefore no expenses to be charged by the Company to Shareholders who take up their rights in the Rights Issue.</p>

Section E — Offer

Element	Disclosure requirement	Disclosure
E.2a	Reasons for offer and use of proceeds	<p>The reason for the Rights Issue is to allow the Group to reduce its debt to an appropriate level while it implements its revised strategy under which it will focus on providing services to government clients in its principal markets and dispose of non-core businesses. An “appropriate level” is one which will give Serco’s customers the confidence they need to commit to signing long-term contracts with Serco, taking into account the potential volatility of earnings, and which will enable the Group to invest in growing the business.</p> <p>Proceeds from the Rights Issue will be used primarily to reduce the Group’s net debt. Of the expected approximate £528 million of net proceeds from the Rights Issue, up to £450 million is expected to be applied to reduce the Group’s borrowings under its Facility Agreement (£225 million or, if less, the amount then drawn) and the US Private Placement Notes (£225 million), with the balance (after approximately £30 million of fees and expenses are paid in connection with the reduction of the Group’s borrowings and the amendments to the Existing Finance Agreements) to be used by the Group for general corporate purposes.</p>
E.3	Terms and conditions of the offer	<p>Pursuant to the Rights Issue, the Company is proposing to offer 549,265,547 New Ordinary Shares by way of Rights to Qualifying Shareholders at the Issue Price of 101 pence per New Ordinary Share payable in full on acceptance by no later than 11.00 a.m. on 16 April 2015. The Issue Price represents a discount of approximately:</p> <ul style="list-style-type: none"> (a) 51.1 per cent. to the Closing Price of 206 pence per Ordinary Share on 11 March 2015, the last Business Day before the publication of this document; (b) 34.3 per cent. to the theoretical ex-rights price based on the Closing Price of 154 pence per Ordinary Share on 11 March 2015. <p>The Rights Issue will be made on the basis of 1 New Ordinary Share for every 1 Existing Ordinary Share registered in the name of each Qualifying Shareholder at the close of business on the Record Date.</p> <p>Under the Rights Issue, the New Ordinary Shares will be offered by way of Rights to all Qualifying Shareholders (other than, subject to certain exceptions, Qualifying Shareholders with a registered address, or who are resident or located, in the United States or any of the Excluded Territories). Subject to certain exceptions, Shareholders with a registered address, or who are resident or located, or otherwise believed to be in the United States or any Excluded Territories, will not be entitled to participate in the Rights Issue.</p> <p>The Rights Issue is fully underwritten by the Underwriters pursuant to the Underwriting Agreement.</p> <p>The Rights Issue is conditional upon, amongst other things:</p> <ul style="list-style-type: none"> (a) the Resolution being passed at the General Meeting; (b) the Underwriting Agreement having become unconditional in all respects (save for the condition relating to Admission) and not having been terminated in accordance with its terms prior to Admission; and (c) Admission becoming effective by not later than 8.00 a.m. on 31 March 2015 (or such later time and/or date, being not later than 2 April 2015, as the parties to the Underwriting Agreement may agree). <p>The latest time and date for acceptance and payment in full under the Rights Issue is expected to be 11.00 a.m. on 16 April 2015.</p>

Section E — Offer

Element	Disclosure requirement	Disclosure
E.4	Material interests	Not applicable. There are no interests (including conflicts of interest) known to the Company which are material to the Rights Issue.
E.5	Name of person selling securities / lock-up agreements	Not applicable. The Rights Issue is comprised of New Ordinary Shares being issued by the Company.
E.6	Dilution	Qualifying Shareholders who take up their <i>pro rata</i> entitlement in full will suffer no dilution to their interests in the Company. Shareholders who do not, or are not permitted to (for example, because they are Qualifying Shareholders with registered addresses, or who are resident or located, in the United States or any of the Excluded Territories), take up any of their rights to subscribe for the New Ordinary Shares will suffer an immediate dilution of 50 per cent. in their interests in the Company.
E.7	Expenses charged to the investor	Not applicable. Qualifying Shareholders will not be charged expenses by the Company in respect of the Rights Issue.

RISK FACTORS

Any investment in the New Ordinary Shares, the Nil Paid Rights and/or the Fully Paid Rights is subject to a number of risks. Shareholders and prospective investors should consider carefully the factors and risks associated with any investment in the New Ordinary Shares, the Nil Paid Rights and/or the Fully Paid Rights, the Serco Group's business and the respective industries in which they operate, together with all other information contained in this document and all of the information incorporated by reference into this document, including, in particular, the risk factors described below.

A number of factors affect the operating results, financial condition and prospects of the Serco Group. The risks described below are based on information known at the date of this document and are not an exhaustive list or explanation of all risks which investors may face when making an investment in the New Ordinary Shares, the Nil Paid Rights and/or the Fully Paid Rights and should be used as guidance only. Additional risks and uncertainties, which are currently unknown to Serco or that Serco does not currently consider to be material, may materially affect the business of the Serco Group and could have material adverse effects on the business, financial condition, results of operations and prospects of the Serco Group. If any, or a combination of, the following risks actually materialise, the business, reputation, financial condition, operating results and prospects of the Serco Group and the share price of the Company could be materially and adversely affected and Shareholders may lose all or part of their investment.

Prospective investors should note that the risks relating to the Serco Group, its industries and the New Ordinary Shares, the Nil Paid Rights and the Fully Paid Rights summarised in the section of this document headed "Summary" are the risks that the Directors and the Company believe to be the most essential to an assessment by a prospective investor of whether to make an investment in the New Ordinary Shares, the Nil Paid Rights and/or the Fully Paid Rights. However, as the risks which the Serco Group faces relate to events and depend on circumstances that may or may not occur in the future, prospective investors should consider not only the information on the key risks summarised in the section of this document headed "Summary" but also, among other things, the risks and uncertainties described below.

Prospective investors should review this document carefully and in its entirety (together with any documents incorporated by reference into it) and consult with their professional advisers before subscribing for or acquiring any New Ordinary Shares, Nil Paid Rights and/or Fully Paid Rights. For the avoidance of doubt, nothing in this section constitutes a qualification of the working capital statement contained in paragraph 11 of Part X (Additional Information) of this document.

1. RISKS RELATING TO THE BUSINESS AND INDUSTRY IN WHICH THE SERCO GROUP OPERATES

RISKS RELATED TO EXISTING CONTRACTS

- 1.1** *The Serco Group is a party to a number of contracts that are expected to result in material losses for which the Serco Group has recorded Onerous Contract Provisions. No assurance can be given that these provisions will be sufficient to cover the losses ultimately incurred under such contracts, that further provisions for such contracts will not be required in the future or that the costs of fulfilling other contracts to which any member of the Serco Group is a party will not exceed the actual or expected economic benefit under such contracts resulting in further Onerous Contract Provisions*

Members of the Serco Group are party to a number of contracts that are multi-year, fixed price, carry strict performance conditions and/or contain volumetric or other risks relating to original bid assumptions that have proven incorrect and the Serco Group expects to result in losses, as a result of which the Serco Group has determined the contracts to be onerous. In the second half of 2014 there were several contracts where operational issues and/or discussions with customers resulted in the Group substantially revising upwards its estimates of the costs to complete its obligations under such contracts or lowering its revenue expectations.

In September 2014 the Serco Group engaged Ernst & Young LLP to assist it in identifying contracts held by the Group which were loss-making. As a result of this process, 133 contracts were reviewed, accounting for approximately 50 per cent. of the Group's targeted annual revenue for the 2015 Financial Year, of which 19 were subject to detailed review. Approximately 50 contracts, accounting for targeted aggregate contract revenue of approximately £600 million for the 2015 Financial Year, were identified as loss-making over the remaining life of each such respective contract. Estimated future losses across the remaining life of such contracts amounted to £447.1 million. Five of the loss-making contracts identified are expected to account for approximately 75 per cent. of the losses to the Group over the remaining life of such contracts.

Onerous Contract Provisions of £447.1 million (including UK frontline exceptional provisions) have been recognised in the Group's financial statements for the 2014 Financial Year to reflect the estimated level of losses of these loss-making contracts.

No assurance can be given that the Onerous Contract Provisions that the Group has recorded will be sufficient to cover the losses ultimately incurred under the contracts for which provisions have been made or that further provisions for such contracts will not be required in the future or that the costs of fulfilling other contracts to which any member of the Serco Group is a party will not exceed the actual or expected economic benefit under such contracts resulting in the need for Onerous Contract Provisions for such contracts. Inevitably, the review of contracts was carried out at a specific point in time and with the information available at that time, which may not prove to have been entirely accurate or complete. Further, the review was limited in scope and did not cover all possible circumstances on all contracts under which losses could in the future possibly be incurred. Contracts that have not been reviewed may in future become loss-making; and losses on contracts that have been reviewed may turn out to be worse if, for example, the review was based on information which is subsequently superseded or revised in light of any further review work undertaken or circumstances under the contract change. The Onerous Contract Provisions that have been made are management's best judgement at the time of the review. The Onerous Contract Provisions are subject to change if additional information comes to light in the future. If additional Onerous Contract Provisions and/or increased costs need to be recognised in the future, this may result in lower returns and economic, reputational and other impacts associated with onerous contracts, which could materially adversely affect the business, financial condition, results of operations and prospects of the Serco Group.

If any of Serco's material contracts became loss-making, and an Onerous Contract Provision covering multiple years of future losses under such contract becomes necessary, such a provision might have a significant impact on a single year's operating profits, as can be seen from the results for 2014, where Trading Profits were reduced by £433.4 million due to Onerous Contract Provisions identified in the Contract & Balance Sheet Reviews.

The single largest revision of estimates involves the contract with the Australian Defence Materiel Organisation for the maintenance of the Royal Australian Navy's Armidale Class Patrol Boats ("ACPB"). Following structural cracks identified on one of the patrol boats, the Group commissioned a further engineering-led report which was completed in January 2015. The report confirmed the presence of similar corrosion and cracking on the other vessels, the remediation of which would require major work. As a result, based on the findings of this report, the loss of one patrol boat out of the fleet as a result of a fire and combined with limited progress on additional cost recovery from its customer, the Serco Group has re-estimated the costs of rectification and maintenance through to the scheduled end of the contract in 2022. The Serco Group recorded an Onerous Contract Provision for this contract as at 31 December 2014 of £135.6 million and also recognised related impairments and charges of £60.0 million in 2014. For more information regarding the Group's Onerous Contract Provisions, see paragraph 3.5 in Part V (*Operating and Financial Review of the Serco Group*) of this document.

1.2 *Members of the Serco Group are under investigation by the Serious Fraud Office, which could lead to significant financial penalties, debarment or the re-opening of a settlement agreement with the UK Government*

In November 2013, the UK's Serious Fraud Office announced that it had opened an investigation, which remains ongoing, into the Group's Electronic Monitoring Contract entered into between Serco Limited and the Ministry of Justice through which Serco Limited provided electronic monitoring services to persons subject to bail or other court orders. The Group is cooperating fully with the Serious Fraud Office's investigation which is still in the early stages and it is not possible to predict the outcome, however, in the event that the Serious Fraud Office decides to prosecute, the range of possible adverse outcomes is any one or a combination of the following: (i) that the Serious Fraud Office prosecutes the individuals involved; (ii) that the Serious Fraud Office prosecutes the Serco Group entities involved; or (iii) that the Serious Fraud Office and the relevant Serco Group entities enter into a deferred prosecution agreement (the consequences of which are described further below).

If the Serious Fraud Office decides to prosecute the individuals involved then it is possible that contracting authorities take the view that the Serco Group should be subject to discretionary debarment from future contracts with UK Government entities.

If the Serious Fraud Office decides to prosecute the Serco Group entities involved, potential outcomes are that (a) the Serco Group entities involved defend the action successfully, or (b) the Serco Group entities involved are convicted, resulting in financial penalties and mandatory debarment from pre-qualifying for future contracts with UK Government entities. Under the “self-cleaning” provisions of the Public Contract Regulations 2015, any such Serco entity could provide evidence to the relevant contracting authority to demonstrate its reliability as public contractor with the UK Government despite the conviction. If such contracting authority considers such evidence to be sufficient, such Serco entity would not be excluded from a contract bid or rebid.

If any Serco Group entity enters into a deferred prosecution agreement with the Serious Fraud Office, potential outcomes could include significant financial penalties and discretionary debarment from pre-qualifying for future contracts with UK Government entities. Such debarment would be at the discretion of a contracting authority to which the relevant Serco Group entity submits a pre-qualification questionnaire for any given bid or rebid.

Any discretionary debarment could be removed if the Group was able, under the “self-cleaning” provisions of the Public Contract Regulations 2015, to provide sufficient evidence to a contracting authority to demonstrate its reliability as a public contractor with the UK Government.

It is possible that further actions beyond those being implemented under the Corporate Renewal Programme may need to be taken by the Group to remove any mandatory or discretionary debarment, or that such debarment will not be removed for a significant period of time.

If the Group faces any criminal convictions, debarment consequences or enters into a deferred prosecution agreement, any such outcome could result in significant fines and have a material adverse impact on the Groups ability to contract with the UK Government and its reputation which would, in turn, materially adversely affect its business, financial condition, results of operations and prospects.

In addition, a criminal conviction of a Serco entity or of one or more of the Group’s current or former employees would allow the Ministry of Justice to re-open the £64.3 million settlement agreed in respect of certain issues arising under the Electronic Monitoring Contract. This settlement is described in more detail in Risk Factor 1.21 below. In such circumstances, the UK Government may seek additional payments from Serco.

Upon any such conviction or possibly following entry into a deferred prosecution agreement, the Group would be subject to enhanced scrutiny with respect to its other contracts with the UK Government, including potential designation as a “High Risk” supplier by the Cabinet Office, which could result in the UK Government reducing the additional work given to the Group under its existing UK Government contracts and requiring the Group to undertake certain further organisational actions to remove such designation. Following such conviction, the UK Government could potentially also terminate certain contracts it has with the Group.

1.3 *The Serco Group depends and will continue to depend heavily on large contracts with a relatively limited number of major government customers and other public sector bodies and agencies for a substantial proportion of its annual revenue, some of which expired in 2014 or are subject to contract expiration, rebidding, contract extension or renegotiation in 2015*

For the 2014 Financial Year, the Group’s top twenty contracts with public sector customers by revenue made up 42 per cent. of the Group’s total revenue (calculated on a basis including joint ventures). 8 per cent. of the annual revenue for the 2014 Financial Year generated from such top twenty public sector contracts expired in 2014 and 3 per cent. is subject to contract expiration or rebidding or contract extension negotiation in 2015. Most of the Serco Group’s customers are large, complex organisations, many of them national and local governments and other public sector bodies or commercially owned entities in sectors subject to governmental funding, oversight or regulation. Historically, the Serco Group has derived a substantial proportion of its revenue from contracts with government customers or other public sector bodies or agencies in the UK, Australia, the Middle East and the US, and the Serco Group expects that such customers and contracts will continue to account for a significant proportion of the Serco Group’s total revenue for the foreseeable future. In the 2014 Financial Year, the Serco Group generated approximately 83 per cent. of its total revenue from government customers and other public sector bodies and agencies in these four markets.

If such government or other public sector customers were to decrease the amount of business they undertake with any member of the Serco Group for any reason, or if the Serco Group’s reputation or

relationship with them were impaired, the Serco Group's business, financial condition or operating or financial results would be materially adversely affected.

In addition, in order to enter into and perform contracts with many of its customers, the Serco Group needs to obtain and retain the necessary eligible status, approvals, consents and/or licences required by laws or regulations or the relevant invitation to tender or contract from the relevant government body or department. The loss, expiration, suspension, cancellation or termination of any of these contracts for any reason, or failure to obtain or retain the necessary eligible status, approvals, consents and/or licences to contract with such major customers or to meet the established criteria for obtaining or retaining the contract, could have a material adverse effect on the Serco Group's future results of operations and financial condition. The Group has multiple contracts with a single customer, particularly with the US and UK Governments, and as such a default on one contract may also result in a cross-default with respect to another contract with that same customer. Such defaults or failure to comply with regulations or criteria applicable to a contract could result in sanctions imposed by such government customers, the Group may be prevented from bidding on or suspended or even debarred from bidding or rebidding on new or existing contracts with such customers. Furthermore, a decrease in the amount of business undertaken with these customers, for any reason, could result in an adverse effect on the Serco Group's business, financial condition or operating or financial results.

Further, governments generally have significant purchasing and bargaining power with suppliers and may use that power to seek to amend or renegotiate existing contracts in their favour, or be willing only to award contracts on terms less favourable to contractors, including the Serco Group, than historically may have been the case (including but not limited to the ability to cancel contracts without notice or on short notice without cause). Over recent years, there have been significant advances in public sector bidding and contracting, particularly in the UK, with governments seeking to transfer substantially more operational risk to service providers such as Serco.

The Serco Group's largest single customers are the UK and US Governments, which have taken action to encourage new entrants into the market for the provision of business to government services; these policies may give preference to small and medium-sized businesses and social enterprises, which can put the Serco Group at a competitive disadvantage. By way of example, in the United States, in recent years, the Group has not been able to rebid or bid for contracts that it previously had been eligible to compete for due to the adoption of procurement rules reserving some contracts for certain types of suppliers such as small businesses, or veteran or minority-owned businesses. Since most of the services provided by the Group involve the provision of labour rather than technology, the Group's offerings are open to competition from smaller companies.

Failure to win material bids or renew material contracts (or renew such contracts on less favourable terms) could restrict growth opportunities for the future or have an adverse impact on the Serco Group's business, financial condition and results of operations.

1.4 *The Serco Group's business, results of operations and reputation could be affected by failing to meet contractual performance criteria either directly or through subcontractors*

The Serco Group's success depends on its ability to meet the contractual requirements it has entered into with its customers. In respect of a substantial number of contracts, the Serco Group employs subcontractors or is a member of a contracting consortium. The Serco Group is, therefore, reliant not only on the performance of its own employees but also relies on the performance of its subcontractors and consortium partners and, in particular, that they fulfil their obligations in a timely and satisfactory manner and in full compliance with applicable terms and conditions.

Failure to meet the performance criteria of a contract could result in:

- the cancellation of a contract, claims for loss, or compensation arrangements under the contract being triggered;
- reputational damage; and/or
- an adverse effect on the ability to win any new bids or future rebids for work.

In addition, the Serco Group is generally subject to specific procurement requirements, which may, in effect, limit the subcontractors which the Serco Group may use. If any of these subcontractors fails to meet its obligations, the Serco Group may not have readily available alternatives.

Furthermore, some of the Serco Group's subcontractors or consortium partners may be affected by periods of economic slowdown or recession, which could impair their ability to meet their obligations. In the event of the Serco Group experiencing a subcontractor or consortium partner problem, the Serco Group may be unable to complete in a timely or satisfactory manner its contractual obligations to its customers, which could result in additional costs in addressing such a problem, termination of contracts and damage to its reputation and relationships with its customers. Any of these events could have a negative impact on the Serco Group's results of operations and financial condition.

1.5 The Serco Group is involved in joint ventures over which it shares control or does not have control

The Serco Group generates a portion of its revenue through participation in joint ventures, and is likely to continue to generate a portion of its revenue from joint ventures in the future.

Joint ventures in which the Serco Group is not a controlling shareholder accounted for £37.9 million of the Group's Operating Profits in the 2014 Financial Year. Members of the Serco Group exercise varying degrees of control in the joint ventures to which they are a party. While members of the Serco Group seek to participate only in arrangements in which their interests are aligned with those of their co-parties and agents, the risk of poor performance by the other parties or agents or disagreement between parties or agents is inherent in any joint venture and, as regards decision-making, particularly in those arrangements which require unanimity. Any such material disagreements or poor performance on the part of the other parties to the arrangement could materially adversely affect the Serco Group's investment in the joint venture as well as the Group's ability to perform its obligations under such joint ventures, which could have a material adverse effect on its reputation, business, results of operations, financial condition and prospects.

The Group's material joint ventures include its 50:50 per cent. joint ventures with Abellio in relation to Merseyrail, operating rail services in and around Liverpool and Birkenhead, and Northern Rail, which provides services to more than 500 stations in Merseyside, Greater Manchester and West and South Yorkshire, and its investment in AWE Management Limited ("AWE ML") in which the Serco Group has a 33 per cent. shareholding, alongside Lockheed Martin Inc. and Jacobs Inc. The Northern Rail joint venture is due to terminate at the end of the current franchise period in 2016. Should the Group encounter any disagreements with its joint venture partners or terminate any of its existing joint ventures, the Group may have difficulties entering into new joint venture arrangements, or renegotiating existing arrangements, with these or other joint venture partners.

The activities and management of these joint venture businesses are regulated by shareholder agreements, the terms of which are subject to renegotiation amongst the shareholders. Any renegotiations of the terms of the joint ventures, changes in control or reductions in the Serco Group's ownership in its joint venture activities could have a negative effect on the Group's business, results of operations, financial condition and prospects.

The Group often relies on third-party agents, primary bidders, and other partners, when bidding on certain joint venture or other opportunities, particularly in the Middle East, where partnering with a local agent or operator may be required or has a competitive advantage, and increasingly in the US, where new procurement rules favour bids from small and medium-sized suppliers as the primary bidders. When partnering with such agents, bidders and partners, the Group is exposed to reputational, financial, legal and operational risks involved with such party's actions in the course of a bid or performance of a contract.

RISKS RELATED TO THE GROUP'S STRATEGY

1.6 The Serco Group will be adversely affected and is at risk of not being able to continue as a going concern if the Rights Issue does not proceed

In the event that the Rights Issue does not complete, the Serco Group is at risk of not being able to continue as a going concern as discussed below.

The Serco Group has agreed with the lenders under the Group's Facility Agreement and Receivables Financing Agreement (together, the "**Lenders**") and the holders of the US Private Placement Notes (the "**Noteholders**") to make certain amendments to the terms of the Facility Agreement, the Receivables Financing Agreement and the US Note Purchase Agreements (collectively, the "**Existing Finance Agreements**", and the facilities made available under them the "**Existing Financings**"), which will become effective once the Serco Group receives the net proceeds of the Rights Issue and confirms that it will apply the net proceeds of the Rights Issue to pay down a portion of the amounts outstanding under the Revolving Credit Facility and the US Private Placement Notes.

In the event that the Rights Issue does not proceed, however, the Serco Group will be unable to pay down amounts outstanding under the Revolving Credit Facility and the US Private Placement Notes. Furthermore, if the Rights Issue does not proceed, the amendments will not become effective as they are conditional upon the Group receiving the net proceeds of the Rights Issue and confirmation by the Company that it will pay down £225 million under the US Note Purchase Agreements and £225 million (or, if less, the amount then drawn) under the Facility Agreement from such proceeds. In these circumstances, although the Group still expects to be able to meet the financial covenant tests under its Existing Finance Agreements on 31 May 2015 in respect of the 2014 Financial Year:

- unless further waivers or amendments are granted by the Lenders, the Group expects that it would breach its financial covenant tests in respect of the 12 months ending 30 June 2015 under the Facility Agreement and the Receivables Financing Agreement when they are tested 90 days after 30 June 2015, which would trigger a cross-default under the US Note Purchase Agreement; and
- even if such breach of the Facility Agreement and the Receivables Financing Agreement does not occur, unless further amendments or waivers are granted by the Noteholders, the Group would still breach its financial covenant tests in respect of the 12-months ending 30 June 2015 under the US Note Purchase Agreements when they are tested 120 days after 30 June 2015, under the terms of the temporary amendment to the US Note Purchase Agreements entered into with Noteholders in December 2014, which would in turn trigger a cross-default under the Revolving Credit Facility and the Receivables Financing Agreement. See *“Operating and Financial Review of the Serco Group—Funding Strategy and Changes in the Group’s Indebtedness”*.

Following any such breach of financial covenants or cross-default, the Lenders or Noteholders (as applicable) would be entitled to demand the accelerated repayment in full of any amounts outstanding under the relevant Existing Finance Agreements, including any interest due and the payment of a “make-whole amount” payable to Noteholders under the US Note Purchase Agreements, and the Group does not expect that it would have the funds available to repay such amounts at that time. In such circumstances, in the absence of being able to successfully agree or implement any alternatives as discussed below, the Group would be unable to continue as a going concern.

As a result, if the Rights Issue does not proceed and the Amended Agreements do not become effective, the Group would first seek to negotiate further waivers of its financial covenants under the Existing Finance Agreements with the Lenders and Noteholders in order to avoid any such breach of financial covenants and cross-default. However, the Group may be unable to obtain such waivers from the Lenders and Noteholders either at all or without significant cost to the Group. Indeed, the Directors believe that such waivers might only be granted by the Lenders and Noteholders at a significant cost to the Group and that the Lenders and Noteholders would potentially demand to have significant involvement in the Group’s business and operations and require the Group to undertake further disposals, as described below, which could adversely affect implementation of the Group’s new strategy or result in the Group changing its strategy. Any such waivers would likely subject the Group to additional fees or impose more onerous obligations on the Group. Without the proceeds of the Rights Issue, any covenant waivers under, or any other amendments of, the Existing Finance Agreements would only be a short-term solution that would not fundamentally address the Group’s balance sheet and capitalisation issues.

Should the Lenders or Noteholders not grant to the Group further waivers of its financial covenants under the Existing Finance Agreements or should the Group not be able secure such waivers on commercially acceptable terms, the Group could seek alternative long-term committed debt facilities to replace the Revolving Credit Facility and enable the repayment of its US Private Placement Notes, including the “make-whole amount”. The terms of any such facilities, if available at all, would likely be significantly more expensive and onerous than those which currently apply to the Existing Finance Agreements and would apply, if the Rights Issue proceeds, to the Amended Agreements. If alternative committed debt facilities could not be secured on commercially acceptable terms or at all, the Group could try to secure other forms of funding, such as through a new equity restructuring, most likely with private capital investors or a conversion by the Group’s lenders of existing debt into equity, which may result in a significant dilution of existing shareholders’ equity interest in Serco. The Group could take action to effect disposals of further assets not already considered for disposal as part of the Group’s new strategy, such as the disposal of one of the Group’s divisions or the sale of the Group’s profitable material contracts (to the extent the Group’s customers and contract terms would permit such disposal) to facilitate a reduction of the debt drawn down under the Group’s committed facilities. However, the Existing Finance Agreements restrict the Group’s ability to make any such disposals and the Group would need to receive the approval

of the Lenders and Noteholders to further amend the Existing Finance Agreements, which could be withheld.

If the Rights Issue does not proceed and the Group is unable to obtain further waivers of its financial covenants under the Existing Finance Agreements, and is unable to avoid a breach of such financial covenants or cross-default through the successful implementation of one or more of the alternatives described above, then the Lenders and Noteholders under the Existing Finance Agreements may demand the accelerated repayment in full of any amounts outstanding thereunder, in which case shareholders could lose all or a substantial amount of the value of their investment in the Group.

1.7 The Serco Group's new strategy may not be successful

Serco's strategy focuses on core competencies, built up over the past 30 years, as an established provider of services to governments and other public service providers around the world. At its core, Serco is a "B2G" business with a diverse portfolio of service offerings in Justice & Immigration, Defence, Transport, Citizen Services (Public sector BPO) and Healthcare across the UK, US, Australia and the Middle East, which are markets in which governments engage private companies in the provision of public services. Increasing its focus on being a "B2G" supplier operating in a number of countries will require Serco to embark on a programme of change, which will include becoming smaller and more focused in order to re-enter a period of profitable growth.

While the Directors strongly support the new strategy, there can be no guarantee that the new strategy will work as intended due to any number of internal and external factors which might imperil its successful implementation, including, amongst others, changes in the economic, political or competitive environment, the discovery of further damaging issues with the Group's existing contracts, a failure by the Group to change and develop its processes, capabilities and systems fast enough, or a failure to reduce costs or secure the necessary internal changes in culture and accountability. Furthermore, even if the strategy is successfully implemented, the strategy may not achieve its intended results, due to, amongst other factors, an inability to achieve the intended cost-saving targets; and efficiency improvements; a failure to develop a pipeline of new work or contracts (whether due to insufficient opportunities where acceptable margins are achievable, competition or otherwise); a failure to effectively differentiate capabilities or demonstrate the appropriate capabilities to win a fair share of new contract bids; a failure to effect the intended disposals; a failure to make the disposals on favourable terms; or the possibility that exiting the private sector to focus on "B2G" business may produce insufficient opportunities for the Group, any of which could have a material adverse effect on the Serco Group's business, results of operations, financial condition and prospects.

The cost to the Serco Group of implementing the Serco Group's revised strategy may be significant and there is no guarantee that the new strategy will be successful or will achieve the desired outcome. The budget for the new strategy will be funded by cash flows from the Group's business performance, to the extent such cash flows are positive, with the full amount or remainder, depending on such cash flows, to be met through draw-downs on the Group's amended Revolving Credit Facility. Failure to execute key aspects of the Serco Group's revised strategy, or addressing successfully any unexpected risks or any events that lead to higher than anticipated costs, could have a material adverse effect on the Serco Group's business, results of operations, financial condition and prospects.

1.8 The Serco Group has recognised substantial impairments of the carrying value of goodwill and other assets, and may recognise additional impairments in the future, which could adversely affect its financial condition and results of operations

The Serco Group recorded an impairment of goodwill of £466 million as at 31 December 2014, £284.8 million of which related to the Global Services division, £80.5 million of which related to the UK & Europe Local & Regional Government division and £100.7 million of which related to the Americas division. The Serco Group also recorded other impairments, separate from the contract reviews, of £127.7 million as at 31 December 2014, the majority of which related to an impairment of receivables balances of £61.9 million which arose in the year following changes to customer positions in 2014.

As at 31 December 2014, the remaining goodwill recognised on the Serco Group's consolidated statement of financial position was £820.6 million which arose from the Group's past acquisitions, the most material of which were Intelenet Global Services, SI International, IT Net plc and RCI. £279.1 million of goodwill has been classified as assets held for sale leaving £541.5 million reported as goodwill on the Group's balance sheet for the 2014 Financial Year. The valuation of goodwill is complex and typically requires a

high level of judgement. The goodwill acquired in business combinations is allocated, at acquisition, to the cash-generating units (“CGUs”) that are expected to benefit from that business combination. The Serco Group tests goodwill annually for impairment or more frequently if there are indications that goodwill might be impaired. The annual impairment test is performed immediately prior to the year-end based on financial plans approved by senior management covering a five-year period. The recoverable amount of each CGU is based on “value-in-use” calculations derived from these plans. The plans include a terminal value based on the projections for the final year of that plan, with a growth rate assumption applied to subsequent periods. The results of the impairment test are further reviewed after the year end in light of any significant changes in the environment. The key assumptions affecting the CGUs within each operating segment are short-term growth rates, terminal growth rates and discount rates. If the Serco Group’s assumptions are for any reason not met or change, the value of goodwill may need to be written off. There can be no assurance that the Serco Group’s current or future assumptions are correct and impairments of goodwill caused by, for example, a decrease in expected cash flows, deterioration in market conditions, adverse changes in actual or expected operational performance or external parameters such as changes in interest rates, could require the Serco Group to record impairment charges that could have a material adverse effect on its reported results of operations or financial condition.

1.9 *Disposals and other corporate transactions undertaken by the Serco Group may not take place or realise expected benefits and may involve retained or unanticipated liabilities*

As set out in paragraph 10 of Part I (*Letter from the Chairman*), the Serco Group expects to undertake a series of disposals of the following selected businesses and to focus on operating in a smaller number of core markets. Businesses which are being considered for disposal include the Group’s Environmental and Leisure businesses in the UK, the Great Southern Rail business in Australia, and the majority of its private sector BPO business. These disposal processes are at various stages of progression and the precise timing for, terms of, and proceeds to be raised from, each potential disposal have yet to be determined. These disposals are subject to execution and regulatory risk and may fail to materialise, and the proceeds received from them may not reflect values that management believes are achievable and/or may cause substantial accounting losses (particularly if the disposals are done in difficult market conditions), each of which may result in the Serco Group failing to raise additional capital and achieve the anticipated enhancement to its capital position. Preparation of businesses for disposal, and the disposal process more generally, may divert management time and attention from the operation of the business in the ordinary course and may be disruptive to the business. A failure to effect such disposals, or a lengthy disposal negotiation process, may also result in the loss of key managers and employees of these businesses during the negotiation process and divert the management’s attention away from the day-to-day operations of the business and result in reduced business and financial performance. The Group also faces the risk that existing or potential customers of the Group’s businesses for which disposals have been announced limit their work with the Serco Group due to the uncertainty surrounding the future of such business.

Disposals may result in business disruptions that cause loss of customers or valued employees. Following any such disposals, the Group will remain subject to breach of representation or warranty claims made under the terms of the disposal agreements, which may be expensive to defend or otherwise expose the Group to high financial penalties. The Serco Group also faces material costs incurred in connection with the disposals of any of the Group’s businesses, including, amongst others, bank advisory, legal and financial advisory fees. If the Serco Group is unable to manage such risk effectively, the benefits anticipated as a result of such transactions may not be realised, which may have a material adverse effect on its business, results of operations or financial condition.

1.10 *The projected financial information included in this document may differ materially from actual results and investors should not place undue reliance on it*

The financial projections set forth in this document, including the Profit Forecast provided in paragraph 7 of Part I (*Letter from the Chairman*) and Annex I (*Profit Forecast of the Serco Group*), and paragraph 3.2 of Part IV (*Information on the Serco Group*), are the Serco Group’s current estimate of the Group’s financial performance for the 2015 Financial Year and beyond.

The Serco Directors have prepared the Profit Forecast on the basis of (i) the audited 2014 Financial Statements; (ii) the unaudited management accounts of the Group in the first month of the 2015 Financial Year; (iii) the projected financial performance of the Group in accordance with Serco’s new strategy for the remaining 11 months of the 2015 Financial Year, which is considerably longer than the forecasting

period covered by profit forecasts typically included in prospectuses; (iv) no disposals taking place during the 2015 Financial Year; and (v) completion of the Rights Issue (and associated refinancing) taking place.

While the Serco Directors have provided their best estimate (on the basis and the assumptions set out Annex I of this document) for the Group's Adjusted Operating Profit, Trading Profit and EBITDA (as defined for covenant purposes) for the 2015 Financial Year, it is inevitable that the degree of uncertainty relating to the Profit Forecast and the assumptions is greater than in the case of a typical profit forecast that covers a shorter forecasting period. The Profit Forecast should therefore be read in this context and construed accordingly.

In addition, as stated above, the Profit Forecast has been prepared on the assumption that no disposals take place during the 2015 Financial Year. As described in paragraph 10 of Part I (*Letter from the Chairman*) of this document, Serco intends to dispose of a number of businesses that are not core to its future strategy. If any of the Proposed Disposals complete during the 2015 Financial Year, it is expected that this would result in a reduction in the Group's profits (as compared with the Profit Forecast) for the 2015 Financial Year and, depending on the business being disposed of and the timing of the disposal, such reduction may be material.

For profit forecasts, the Prospectus Directive requires the Serco Group, among other things, to disclose the principal assumptions on which it has based the forecast and to include a report prepared by its independent auditors on such forecasts and assumptions. The Serco Group's independent auditors have confirmed that in their opinion the forecast has been properly compiled on the basis stated, and that the basis of accounting used for the profit forecast is consistent with the accounting policies of the Serco Group. The Serco Group has prepared its financial forecast in accordance with the applicable requirements of the Prospectus Directive.

The financial forecast and guidance included in this document are based upon a number of assumptions (including the success of the Serco Group's business strategies), which are inherently subject to significant business, operational, economic and other risks, many of which are outside of the Serco Group's control. Accordingly, such assumptions may change, potentially materially, or the expected effects of these assumptions may not materialise at all. In addition, unanticipated events may adversely affect the actual results that the Serco Group achieves in future periods whether or not its assumptions relating to the 2015 Financial Year or future periods otherwise prove to be correct. As a result, its actual results may vary materially from these projections and investors should not place undue reliance on them.

1.11 The Serco Group is subject to the risks associated with a decentralised organisational structure

The decentralised organisational structures of the Serco Group contain an element of operational risk, as the Serco Group delegates considerable operational autonomy and responsibility to its divisions, and within its divisions to line managers. While the Serco Group has group-wide controls in place and has over the past 12 months made improvements to its management systems to enhance these controls (including enhancements to its financial reporting systems and controls), there can be no assurance that the Serco Group will not experience incidents of regional or local managers not complying with the Serco Group's policies, accounting irregularities, accounting misstatements or breaches of local legislation, or that it will realise the expected benefits of the improvements and enhancements to its systems or controls or successfully monitor contract performance, implement future compliance policies, update existing control procedures and compliance policies and maintain efficient and reliable IT systems, any of which could, individually or collectively, have a material adverse effect on its business, results of operations or financial condition.

RISKS RELATED TO GOVERNMENT CUSTOMERS

1.12 The Serco Group's contracts with national and local governments and public sector bodies and agencies or major commercial customers may contain unfavourable provisions

The Serco Group's contracts with national and local governments and public sector bodies and agencies or major commercial customers with significant bargaining power contain provisions, and are subject to laws and regulations, that give such customers contractual rights and remedies, some of which may be unusual in typical commercial contracts, which can be onerous for the Serco Group. These provisions may include, without limitation: uncapped liabilities, uncapped and onerous volume provisions, onerous key performance indicators, cross-default provisions, provisions with respect to liquidated damages, onerous remediation or maintenance costs and obligations, the right for a customer to step in and take over the

assets and/or the management of a contract, to claim extensive costs in the event of termination and to terminate contracts at will, in whole or in part, without notice or on short prior notice, without cause or for default based on performance and without compensation.

In addition, the contracts with national or local governments, public sector bodies or agencies, regulated customers and major commercial customers often require “open book accounting” whereby the customer has the right to receive detailed information on the financial performance of individual contracts, even when they have been subject to competitive tendering and have fixed prices. Since some contracts result in better margins than others, there is the risk that customers will use this information to renegotiate the Group’s more profitable contracts, and extend the Group’s unprofitable ones, with the effect that the Group’s overall margins will decrease.

If any of the Serco Group’s contracts are terminated other than for default, the relevant member(s) of the Serco Group would generally be entitled to payments for allowable costs and may receive some allowance for profit on the work performed. If a contract is terminated for default, the Serco Group could be exposed to significant liability for damages or other compensation and it could have a negative impact on its ability to obtain future contracts and orders. Furthermore, on contracts for which the relevant member of the Serco Group is a subcontractor or a member of a contracting consortium and not the sole prime contractor, customers could terminate the prime contractor project agreement irrespective of the relevant member of the Serco Group’s performance.

If significant terms (such as pricing) of certain of the Serco Group’s contracts or subcontracts are modified or if certain of the Serco Group’s contracts or subcontracts are terminated by such customers and the Serco Group is unable to win new contracts to offset the lost revenue, or if the Group has to pay damages or other compensation for failure to comply with or deliver under a contract, the Serco Group’s business, financial condition or results of operations could be materially adversely affected.

1.13 *The Serco Group is subject to the risk of reduced public sector expenditure levels and budgets, elections, and changes in policies, including policies on immigration, defence, justice, health and outsourcing, in the UK, Europe, Australia, the Middle East and the US*

A major proportion of the Serco Group’s customers are governments and governmental agencies, primarily in the UK, Europe, Australia, the Middle East and the US. Many of them rely to a greater or lesser extent on public funding. These customers may be affected by financial, budgetary, regulatory, political constraints or governmental policy which could have a significant impact on the size, scope, type, timing and duration of contracts and orders placed by them and, therefore, on the level of business which the Serco Group will derive from such customers.

A substantial part of the Serco Group’s business is therefore dependent on, and susceptible to changes in, government policies, budget priorities and regulatory or political constraints or attitudes, in particular those relating to the provision of public services, maintaining and improving public infrastructure, immigration, the UK’s strategic nuclear deterrent, the criminal justice system, and the attitude to outsourcing of services and activities to the private sector, any of which could have a significant impact on the number, size, scope, type, timing and duration of contracts and orders under them and, therefore, on the level of business that the Serco Group may win. Such factors could also result in a suspension, cancellation, termination or non-renewal of existing contracts, including in respect of joint ventures. For example, from time to time the Government reviews the arrangements for the management of the UK’s strategic nuclear programme, and is currently doing so. Under the terms of the Group’s joint venture to manage AWE ML, and because of the critical nature of the programme to UK national security, the Government has extensive powers to change the arrangements at short notice. If the Government does so, it could result in an unfavourable renegotiation or the termination of the UK Government’s contractual arrangements with the Serco Group or AWE ML and could have a material adverse effect on the business, results of operations or financial condition of the Serco Group.

As an outsourcing service provider to governments, the Serco Group is subject to risks and uncertainties associated with periodic changes in central governments following national elections, in particular in the UK, Australia, the Middle East and the US, whence the Serco Group derives a majority of its revenue.

The results of elections and the consequences for the Serco Group following such elections cannot be predicted with certainty. Changes in governmental policy, regulations and budget priorities following elections may have an adverse effect on the Serco Group’s business, operations, financial condition and results of operations. For example, uncertainty surrounding the outcome of the UK general election

scheduled for 7 May 2015 and the impact that the result could have on the UK, as well as ongoing efforts by the UK to renegotiate EU treaties or a potential withdrawal of the UK from the EU (or even uncertainty around such withdrawal) may also have an adverse effect on the Serco Group's business and results of operations. While the Group's existing UK Central Government contracts are unlikely to be affected by the outcome of the UK general election in May 2015, the forthcoming elections could result in (i) fewer public sector bidding opportunities being made available by the UK government, impacting the Group's long-term pipeline of opportunities or (ii) a new UK government implementing policy changes to lower the overall level of private sector outsourcing over the long term. If either or both of these outcomes were to occur following the UK general election, they could have a material adverse effect on the Group's business, results of operation or financial condition as UK Central Government contracts account for approximately a quarter of the Group's total revenue.

Government policy changes and public spending constraints are potentially material risks for the Serco Group as they could result in decisions not to, or no longer to, outsource services or activities or use contractors; delays in placing work; cancellation, abandonment or significant reduction in the scope of activities; pressure on pricing or margins; withdrawal of projects; the bringing back "in-house" of services; early termination of contracts; lower contract spend than anticipated; or adoption of less favourable contracting models. One area where changes in government policy and geopolitics have impacted the Group's business is in the Group's contract to provide onshore facilities to house asylum seekers in Australia. As a result of geopolitical changes, Australia has been subject to a sharp increase in the number of immigrants arriving by sea in recent years. However, a new policy aimed at reducing the flow of new arrivals implemented by the Australian Government in 2013 resulted in a dramatic reduction in the number of boats arriving, and, in 2014, the number of new immigrants arriving by sea was reduced to a few hundred. As a result, the number of detainees in the Group's care substantially decreased in the 2014 Financial Year. The Group's contract was also retendered in 2014, and this factor, combined with the reduction in volume, resulted in a material reduction in the profitability of such contract. As a consequence, the Group expects the contribution that this contract makes to the Group to be significantly lower in the 2015 Financial Year than it was in the 2013 Financial Year.

Due to the nature of the industry and the global reach of its operations, the Serco Group incurs, and expects to continue to incur, substantial costs and expenditures, and commits a significant amount of management time and resources, to comply with increasingly complex and restrictive laws and regulations. Changes in such laws and regulations may constrain the Serco Group's ability to provide services to customers or increase the costs of providing such services. Furthermore, a failure to comply with applicable laws and regulations could result in substantial fines, claims relating to violations of social, labour or other legislation or revocation of licences, which could have a material adverse effect on the business, results of operations or financial condition of the Serco Group.

There is also a risk that certain governments or authorities will nationalise some services that the Serco Group provides, or will introduce laws or regulations with which the Serco Group will be unable to comply. Failure or an inability to comply with such new or amended laws or regulations may adversely affect the Serco Group's revenue and profitability.

1.14 *Factors outside the Serco Group's control, including adverse economic conditions or political developments, may adversely affect the Serco Group's business, financial condition and results of operations, and these adverse economic conditions may continue in certain markets*

The Serco Group's results of operations are materially affected by changes and volatility in global macroeconomic conditions generally, and particularly in the UK, Australia, the Middle East and the US, given the importance of these markets to the business, operations, financial condition and results of operation of the Serco Group. In the 2014 Financial Year, the Serco Group generated approximately 48 per cent. of its total revenue in the UK, approximately 17 per cent. in Australia, approximately 17 per cent. in the US, with the balance in other countries. Adverse changes or volatility in macroeconomic conditions in the UK, Australia, the Middle East and/or the US may be influenced by a wide variety of factors, including:

- concerns over the slow rates of growth in the global economy and, in particular, the impact of austerity measures in major developed economies and slowing rates of growth in emerging markets;
- high levels of sovereign debt;
- inflationary or deflationary threats;

- extensive use of macroeconomic and monetary policy tools by governments, central banks and other institutions, and uncertainty about future actions;
- the solvency of financial institutions; and
- the failure of governments to agree upon, and implement, necessary fiscal, monetary and regulatory reforms.

Ongoing uncertainty over future fiscal and monetary policy, particularly within the EU, could continue to further disrupt global markets, including equity markets. This may have a material adverse impact on the Serco Group's financial condition due to general market volatility.

Further instability affecting one or more Member States, or concerns over the future of the EU and its institutions, could have a destabilising effect on financial institutions located in, or otherwise operating in, the EU. Moreover, if one or more Member States were to require additional financial support or if sovereign credit ratings decline further, yields on the sovereign debt of certain countries may increase, the cost of borrowing could increase and credit may become more limited. Additionally, the possibility of capital market volatility spreading through a highly integrated and interdependent banking system remains elevated.

The Americas division is also subject to the US Government's further implementation of the Budget Control Act (Sequestration), which could further impact on the Group's contracting efforts with the US Federal Government. For the 2014 Financial Year, 81 per cent. of the Americas division's revenue was generated through contracts with US Government customers. Any significant reductions in future budget appropriations following the recent elections or the 2016 presidential election could affect the America division's growth plans, which could, in turn, affect the Group's business, operations, financial condition and results of operation.

Periods of economic upheaval could also result in sudden government actions such as imposition of capital, price or currency controls, or changes in legal and regulatory requirements, which could have potentially adverse consequences.

1.15 *The Serco Group operates in politically and socially sensitive sectors and its activities are therefore subject to a high degree of public scrutiny. Failure to satisfy the requirements or targets set by the government, or meet the expectations of the public, would have an adverse effect on the Serco Group's reputation, business and operations. In addition, adverse publicity in these sectors, either generally or experienced by other service providers, could have an adverse impact on the public perception of the Serco Group*

The Serco Group operates in sectors which attract a high degree of political and social attention, such as immigration, criminal justice, healthcare and defence. Significant controversy can be provoked by government outsourcing of politically or socially sensitive services (for example, health services in the UK) or the government taking an active role in markets which have previously been the preserve of private players (for example, the US Affordable Care Act). Additionally, government policies within these sectors, can often be controversial and receive extensive media coverage. As a result, the Group's performance under a contract within these socially sensitive sectors is subject to a high level of media scrutiny. Any minor defects or perceived defects in the Group's performance under these contracts could be used by the media as evidence of the inappropriateness of outsourcing such services in general or to the Group specifically, which could have a negative effect on the Group's reputation, business and operations. Irrespective of the Group's performance under a contract within these sectors, the Group can suffer reputational harm from its mere involvement in assisting with the implementation or enforcement of policies in these sectors.

In addition, the performance of other players can undermine confidence in the sector more generally; for example, the negative publicity faced by ATOS in the UK as a result of its performance of disability assessments. The Group can attract significant commentary, often hostile, for participating in these markets. If the performance of a contract attracts adverse political attention, governments can react in unpredictable ways and this may lead to contracts being unilaterally terminated or varied to the disadvantage of the Group. For example, during the 2014 Financial Year, 20 per cent. of annual revenue and 22 per cent. of Trading Profit in the Americas division, accounting for 3.6 per cent. of the Group's total annual revenue was generated through a contract governed by and entered into pursuant to the US Affordable Care Act. The Directors believe that any legislative repeals, including any affecting the Group's existing contract, are unlikely to succeed before the next presidential elections in November 2016. However, any material amendments or attempts to repeal the US Affordable Care Act by subsequently

elected administrations and officials following the November 2016 presidential elections could have a significant impact on the Group's ability to operate, maintain and receive payment under this contract in the long term. Furthermore, the US Supreme Court has recently agreed to hear another constitutional challenge to the US Affordable Care Act with respect to insurance subsidies received by a majority of individuals enrolled in the US Affordable Care Act. The US Supreme Court's decision with respect to such subsidies is expected by June 2015. Should the US Supreme Court find such insurance subsidies as currently provided under the US Affordable Care Act to be unconstitutional, premiums would likely become unaffordable for many insurance participants, with the likely outcome that many such individuals would drop their insurance coverage as provided under the US Affordable Care Act. While the timing and speed of such potential un-enrolment is currently unknown, should the number of participants in insurance programs offered pursuant to the US Affordable Care Act materially fall, revenues under the contract would decline and the US Government could seek to stop payments under the Group's contract or terminate it completely.

1.16 *As a contractor with national and local governments, public sector bodies and agencies and government-regulated customers, the Serco Group is subject to procurement rules and regulations and procurement delays*

As a contractor with governments and government-regulated customers, members of the Serco Group must comply with specific procurement regulations and other requirements, which can change from time to time. These requirements, although customary when entering into contracts with public sector bodies, increase the Serco Group's bidding, performance and compliance costs. If procurement requirements or "eligibility to bid" criteria change, its eligibility to bid for such contracts may be affected or the costs of bidding for or complying with such contracts could increase and have a negative effect on the Serco Group's financial condition and results of operations.

Failure to comply with or satisfy bid criteria, procurement rules and regulations could result in reductions in the number or value of contracts to be awarded to the Serco Group, the Serco Group not being allowed to participate in future tenders, or contract modifications or terminations, any or all of which could have an adverse effect on the financial condition and results of operations of the Serco Group. Failure to comply with these rules and regulations or meet the relevant criteria could lead to members of the Serco Group being unable to contract with the public sector body concerned either at all or for a period of time, and could negatively impact the Serco Group's reputation and ability to procure future public sector work in the future.

In addition, public sector projects may require relevant approvals from either national or local government ministers or senior civil servants, national or local government departments or other public sector bodies or agencies. It is possible that, due to difficulties in obtaining such approvals, projects may be delayed before procurement has started, during the tender stage, or during the period between being appointed as the preferred bidder and execution of final contracts. Delays in awarding public contracts may also arise from challenges to the award of the contracts by competitors. These matters are beyond the Serco Group's control and any resulting delays could have an adverse impact on the Serco Group's business, financial condition, results of operations or prospects.

Like all businesses contracting with national or local government departments or other public sector bodies or agencies, the Serco Group faces additional risks of challenge related to public sector customer compliance with procurement, state aid, *intra vires* and other legal requirements for the validity of such customer's actions, which could have an adverse impact on the Serco Group's business, financial condition, results of operations or prospects.

For example, the Americas division currently holds a top secret facility security clearance. Given that Serco Group plc is not a US entity, the Americas division operates under a Special Security Agreement ("SSA") with the US Department of Defence. The SSA is designed to effectively insulate Serco's Americas division from foreign ownership, control, and influence, including Serco's unauthorised access to classified information and controlled unclassified information. A failure to meet the requirements or breach of the SSA could result in Serco losing its top secret facility security clearance, amongst other legal consequences and fines, as well as potential debarment from US Government contracts, which in turn could have a materially adverse impact on the Americas division's business operations and financial results.

RISKS RELATED TO CONTRACT BIDS AND REBIDS

1.17 *The Serco Group is subject to risks associated with bidding for and entering into contracts (most of which are multi-year and/or fixed price contracts), including correctly assessing and agreeing pricing terms that provide for a level of return on the contract appropriate to the risks involved, accurately anticipating the costs of performance, employee requirements and other obligations, evaluating contractual and operational risks, and the risks of potential early termination or change of scope of contracts by customers*

The profitability of the Serco Group's contracts depends upon the Serco Group's ability to price contracts in such a way that they represent value for money in the eyes of the customer and are competitive against other companies, whilst also taking into consideration all the factors which may affect profitability, and subsequently successfully manage both day-to-day and long-term operations under these contracts.

Most contracts undertaken by the Group are multi-year, and bidding for them typically requires the Serco Group to make judgements on likely future revenue and costs. Many factors may influence these, some of which will be unknowable at the time of bidding for and entering into the contract. In addition, the Serco Group's contracts may include performance-related measures for services, with related penalties for non-performance, which can severely impact the profitability of a contract. By way of example, the Group's contract for prisoner escort services has performance criteria which measure the Group's ability to transport prisoners between prisons and courts, and to deliver them against strict timelines. However, the Group's ability to do so is dependent on the timely availability of prisoners at either end, and the nature and extent of traffic, neither of which are within the Group's control; reduction in staff at prisons or courts, or a decision by the authorities to have road works on the routes taken by the prison vans may unavoidably result in the Group breaching performance conditions, which can result in penalties or contract termination. If these types of risks are not adequately taken into account at the time of bidding, the Group may be adversely affected. Likewise, fixed-price contracts lasting several years require the Group to make estimates on wage and other cost inflation and face certain volumetric and other operational, performance and decreased demand risks. In the case of contracts to replace in-house services or existing service providers, the contract may involve the transfer of existing employees to the Serco Group and the integration of such employees into the Serco Group's workforce and, in some circumstances, the requirement to change employees' terms and conditions under their employment contracts. All of these factors can increase the risk associated with these contracts and adversely impact the profitability of the contracts. Some sectors that the Serco Group operates in, such as BPO, are intensely price competitive, which can result in thin margins under certain contracts, where even small increases in costs relative to the assumptions in the bid materially impact profit. The Serco Group may not be able to accurately predict the costs and accurately identify or quantify all the risks associated with these contracts, the complexity of the services or the costs of terminating such contracts, which may result in lower than expected margins or losses under these contracts or the loss of customers, any or all of which may have a material adverse effect on the Serco Group's business, results of operations, financial condition or prospects.

Multi-year and fixed price contracts expose the Serco Group to the risks of:

- increases in costs attributable to such contracts beyond those anticipated and provided for such contracts at the time they are entered into;
- being bound to perform contracts that have been inaccurately priced and/or based on inaccurate forecasts of operating and other costs of performance or costs of terminating such contracts; and
- increases in costs that are not met through corresponding attributable increases in revenue from such contracts, unless and to the extent that under the contract such increases can be taken into account in revising pricing through periodic benchmarking and/or market testing or otherwise.

Breach of contract performance conditions could result in:

- the cancellation of a contract, penalties, claims for loss or compensation arrangements under the contract being triggered; and
- reputational damage resulting in an adverse effect on the ability to win any future rebids for work.

The Serco Group may be subject to increases in its operating costs, the scale and origin of which may be difficult to predict during bidding and contract negotiations. The Serco Group is also affected by inflationary increases in salaries, wages, benefits and other administrative costs. While the Serco Group aims to increase its prices to offset increases in operating costs, it may not be successful in doing so.

The majority of the Serco Group's contracts also have a stated term and, in some cases, termination clauses permitting the customer to cancel the contract at the customer's discretion following the expiration of an agreed notice period. There can be no assurances that customers will not exercise their rights to terminate their contracts prior to expiration or that the Serco Group will be successful in securing new contracts with customers as such contracts expire or in mitigating risks arising from such termination. The majority of the Serco Group's contracts do not provide the Serco Group with the right to terminate the contract and thus, even in circumstances where the bid assumptions are materially different from the outcome, the Serco Group will have to continue to deliver services under such contract.

In addition, the Serco Group can also be exposed to unforeseen changes in the scope, pricing or volumes of existing contracts that may occur as a result of changes in the general business or political landscape of the Serco Group's customers, or as a result of changes in "end customer" behaviour, such as technology shift and process automation in the BPO sector, whereby the Serco Group's customers who were utilising the Group's call centres to service their own customers are increasingly seeking to adopt web-based self-service tools for such customers. The potential effects of these risks may increase in relation to larger contracts. Such early termination of contract and/or change of scope by customers would result in lower than expected margins or losses under these contracts, which may have a material adverse effect on the Serco Group's results of operations, financial condition or prospects.

1.18 *Failure to realise the pipeline of opportunities and to secure bids and rebids can involve significant wasted costs, missed opportunities for growth and loss of revenue*

A significant number of the Serco Group's contracts with government customers and other public sector bodies and agencies, including renewals and extensions of previous contracts, are awarded through formal competitive bidding processes. The realisation of the pipeline of opportunities for new bids and rebidding for existing contracts can involve a lengthy and costly bidding process. Bid and rebid success rates determine how much of the pipeline of opportunities is realised and turned into profitable business and how much existing business is retained. Bidding for large and complex contracts is time-consuming (it can take many months or even run into years) and is expensive, as can be mobilising on new contract wins. Also, by their nature, large, longer-term contracts are irregular and relatively infrequent in coming to market. In addition, there is often a long period between a successful competition tender offer and entering into definitive contractual documentation and financial close, and in some cases financial close may not occur. The Serco Group may also face competition in the bidding process either from existing competitors or new market entrants, and expense, delay or loss of awarded contracts if their competitors protest or challenge awards of contracts to them.

Unsuccessful major bids or rebids could involve significant bid costs and may affect the strategic objectives of the Serco Group. The inability to secure a major new contract could represent a significant missed opportunity for growth, and losing rebids on existing contracts could lead to loss of significant existing revenue and profit streams. If the Serco Group fails to realise pipeline opportunities, particularly having invested time and money in the bidding process, there could be a material adverse affect on the business, financial condition, results of operations and prospects of the Serco Group.

1.19 *The Serco Group cannot guarantee that it will subsequently recognise as revenue the amounts that it values in its order book*

Serco's contract portfolio contains predominantly long-term service contracts—typically between three and five years and ranging up to 30 years in length. The Group values this base of long-term contracted work as the Group's order book, which is defined as the estimated value of future revenue based on all existing signed contracts. The order book is calculated as an aggregate of an estimated revenue value for each separate signed contract. However, the Group's order book is not a projection of future revenue. Even where an individual contract is ascribed a value in the Group's order book, the Group has no assurance that the Group will later be able to realize the related order book value as revenue. The Group may fail to recognise some or all of the related revenue for a number of reasons, including:

- changes in the volume of demand or input costs for services under the contract;
- breach of contract by the Group;
- breach of contract by a customer;
- governmental restrictions, including changes in policies, budgets and priorities, revocations of required governmental approvals and nationalisation of services, which occur after the date as at which the Group calculates its order book, or are imposed before such date without the Group's knowledge; and

- cancellation or termination of contracts on grounds of force majeure or convenience, or the occurrence of any condition subsequent that results in cancellation or termination of a contract, after the date as at which the Group calculated its order book.

In addition, a significant portion of the Group's order book relates to services that the Group expect to perform over the course of multiple financial years. The ultimate scope, value and timing of performance of such services is often uncertain as at the date on which the Group calculates the order book value of such contract and, even when already determined at that time, may become subject to change thereafter. As a result, the relevant order book amount may not be a meaningful indicator of the related revenue in any given accounting period.

For these reasons, investors should not place undue reliance on the Group's order book figures. In particular, investors should not use the Group's order book to form estimates of the Group's future revenue streams.

For more information on the Group's order book, see Part V (*Operating and Financial Review of the Serco Group*).

1.20 ***The Serco Group has contracts which are essential to national security which have particularly complex risk profiles***

Some of the Group's contracts are considered by government counterparties to the contracts as essential to national security, particularly in the United States and the UK. In the United Kingdom, the Group is a 33 per cent. shareholder in AWE ML, which oversees the design, development, maintenance and manufacturing of warheads for the UK's strategic nuclear deterrent. The Group also has an important role in the operation of the Ballistic Missile Early Warning System. In the United States, the Group is involved in a number of highly classified projects. Some of these programmes are by their nature extremely technically demanding, operating at the very limits of current technology and engineering. Should the Group or any joint venture that it is involved in (such as AWE ML) be unable to successfully implement, maintain and update the delivery of its technology and services under these contracts, a government counterparty could claim that the Group or such joint venture has breached a contract. In these or other circumstances, including where there is a change in government policy, the government could use its significant negotiating power to amend or terminate its contractual arrangements with the Group or such joint venture, which could have an adverse impact on the Serco Group's business operations, financial condition, results of operations and reputation. Further, as many of these contracts are considered by government counterparties to be essential to national security, in some cases the government has "step-in" rights which allow it to take over contracts on very short notice. Any actual events or threats to national security could affect how the Group is perceived to be performing under these contracts, which could in turn affect the Group's renewals of existing contracts and competitiveness on future bids.

The Group's involvement with contracts that are considered essential to national security presents major management challenges to the Group as the normal ability to intervene and manage issues arising under the contract is limited by stringent security safeguards and approval protocols. Government counterparties also retain the ability to step in at any time in the delivery of services under these contracts. Such interventions might involve actions such as taking over the operation of assets and the management of people employed under such contracts, and even termination of such contracts, which could have a material impact on the business operations, financial condition, results of operation and reputation of the Group.

Work by employees on highly sensitive, confidential or top-secret government matters exposes such employees, and as a result, the Group, to potential breaches of applicable regulations, such as the Official Secrets Act, related to the protection of confidential government and citizen information. If an employee were to misuse such confidential information, it could have a serious impact on the Group's reputation, business operations, financial condition and results of operation, and also potentially lead to legal or other penalties being imposed on the Group.

RISKS RELATED TO THE SERCO GROUP'S REPUTATION

1.21 The Serco Group is subject to litigation, inquiries or investigations that could divert management time and resources and result in penalties, fines, sanctions, variation or revocation of permissions and authorisations, suspension or debarment from doing business with the relevant government customer, reputational damage or loss of goodwill

The Serco Group is involved in, and may become involved in, legal proceedings (including class actions) that may be costly if they are not determined in the Serco Group's favour and that may divert management's attention away from the running of the business.

The Serco Group is subject to regulatory, governmental and other sectoral inquiries and investigations in the normal course of its business in many of the jurisdictions in which it operates. The impact of these inquiries and investigations may be difficult to assess or quantify.

As a government contractor, the Group is subject to a greater risk of investigation, criminal prosecution, civil fraud, whistleblower lawsuits and other legal actions and liabilities than companies with exclusively commercial customers. For example, many of the contracts the Serco Group has entered into with the US Government are subject to various statutes such as the McNamara-O'Hara Service Contract Act and the Davis-Bacon and Related Acts, which require employees under these contracts to be paid certain specified wages and benefits in accordance with the regulations promulgated by the US Department of Labor. While the Group has established policies pursuant to which it evaluates compliance with such wage and labour requirements, the application of these statutes to individual employees is subject to the Group's judgement, which the Department of Labor may view as incorrect, and the Group's effective implementation of such policies. From time to time the Serco Group is investigated by US government agencies with respect to its compliance with applicable laws and regulations. If the Serco Group were found to be in violation of such laws and regulations, it may be subject to civil or criminal penalties or administrative sanctions, including contract termination, the assessment of penalties and suspension or debarment from doing business with US government agencies. As described further in Risk Factor 1.2 above, members of the Serco Group are also currently under investigation by the UK's Serious Fraud Office in relation to its Electronic Monitoring Contract and while the outcome of this investigation is currently uncertain, the Group or certain entities within the Group may face financial penalties or debarment from doing business with UK government agencies. The scope and duration of any suspension or debarment by the UK or US government may vary depending upon the facts and the statutory or regulatory grounds for debarment and could have a material adverse effect on the Group's financial position, results of operations, cash flows and liquidity. The authorities conducting such inquiries or investigations may seek to impose significant fines, sanctions and/or customer redress. In addition, such inquiries or investigations could result in adverse publicity for, or negative perceptions regarding, the Serco Group or they could affect its relations with current and potential customers, as well as divert management's attention from the day-to-day management of the Serco Group's business.

Losses or financial penalties resulting from any current or threatened legal actions may have a material adverse effect on the Serco Group's financial condition, results of operations and cash flows.

To the extent that legal decisions in any of the jurisdictions in which the Serco Group operates increase awards payable by it, the impact of which may be applied prospectively or retrospectively, the Group's claims provisions may prove insufficient to cover actual claims or certain aspects of such claims. In such event, or where it has previously estimated that no liability would apply, the Serco Group would have to increase its claims provisions and incur a charge to its earnings. Such insufficiencies could have a material adverse effect on the Serco Group's financial condition, results of operations and cash flows.

For details regarding regulatory actions or other litigation in which the Serco Group is currently involved, see paragraph 9 of Part IV (*Information on the Serco Group*) of this document.

1.22 Damage to the Serco Group's reputation or negative publicity could have a material adverse effect on the Serco Group's business, results of operations, financial condition and prospects

The Serco Group's success and results of operations are dependent on the strength and reputation of the Serco Group. The Serco Group is vulnerable to adverse market perception because it operates in industries where integrity and customer trust and confidence are paramount.

Given the Group's relatively narrow customer base and the size of the contracts at stake, damage to the reputation of the Serco Group, whether justified or not, has the potential to impact severely the ability to

bid or rebid on contracts and win or retain business streams and therefore could materially adversely affect the business, financial condition, results of operations and prospects of the Serco Group.

The Group has experienced reputational damage from the ongoing Serious Fraud Office investigation into the Group's Electronic Monitoring Contract. For more information regarding the Serious Fraud Office investigation, see in Risk Factor 1.2 above. Additionally, in August 2013, the Ministry of Justice and the Group made announcements regarding the joint request to the City of London Police to investigate allegations related to the misleading recording of key performance indicators under a contract by Serco Limited to provide prisoner escort and custody services in London and East Anglia (the "**PECS Contract**"). Having investigated, on 19 December 2014, the City of London Police announced that it had concluded that there was no evidence of corporate-wide conspiracy or an intention to falsify figures to meet the key performance indicators by senior Serco management or at the board level of Serco Limited in relation to the PECS Contract. The City of London Police were also satisfied there was no evidence to support the request of a charging decision from the Crown Prosecution Service in relation to Serco or its staff with respect to the PECS Contract, a decision that has been accepted by the Crown Prosecution Service on the basis of the force's preliminary investigative findings. While the investigation by the City of London Police into the PECS Contract has concluded and no charges were brought against the Serco Group or its employees, collectively, the EM/PECS Investigations negatively impacted Serco's reputation and brand. Specifically, the Serco Group's pipeline of UK Government opportunities was impacted, and for a period of time the Serco Group was effectively "unawardable" for new UK Central Government contracts; the reputational damage of these events also adversely affected the Serco Group's ability to win contracts in the private sector.

Following the launch of the EM/PECS Investigations, the Serco Group agreed with the UK Government that it would institute the Corporate Renewal Programme, and in December 2013, reached a settlement with the Ministry of Justice comprising a payment by Serco of £64.3 million in respect of issues arising on the Serco Group's Electronic Monitoring Contract, with the following provisos, namely, that (i) the UK Government may seek additional payments if it identifies any new evidence or new heads of claim relating to Serco's performance on the Electronic Monitoring Contract or that relate to anti-competitive behaviour or (ii) the UK Government may re-open the settlement agreement entirely upon a conviction of one or more of the Group's current or former employees or entities with respect to the ongoing Serious Fraud Office investigation. The Serco Group also agreed to make a payment of £2 million in past profits received with respect of the PECS Contract and to forgo future profits on that contract.

Under the Corporate Renewal Programme, the Company has instituted wide-ranging organisational changes, including splitting its UK business between UK Central Government and other customers; reviewing all of its existing major contracts with UK Central Government and performing a forensic audit of its Electronic Monitoring Contract with the UK Central Government; investing in additional risk management systems and rewriting its management systems manual. There were also during this period significant management changes at the most senior level of the Serco Group, including the departure of the former Group Chief Executive, the former Chief Executive of the UK business and the former Group Finance Director. All these factors led to fewer new contracts and a material loss of momentum as well as additional cost, particularly in the UK, resulting in lower organic revenue growth and profitability than the Group would otherwise have expected in 2014 and 2015, and could impact future growth and profitability while the Group rebuilds its pipeline of opportunities.

In addition, the nature of the work the Serco Group does and sectors in which the Group operates attract a high degree of media, political and social attention, and the Group is subject to extensive negative media coverage and political scrutiny from time to time. For example, there has been recent television and other media coverage and criticism in the UK with respect to allegations of disparaging comments between staff members concerning detainees and other staff misconduct at the Yarl's Wood Immigration Removal Centre ("**Yarl's Wood**") operated by Serco. While Serco has suspended and is disciplining some Yarl's Wood staff members and commissioned an independent review into its operations at Yarl's Wood led by former barrister Kate Lampard, there can be no assurance that these allegations and the related media coverage or any future similar allegations will not result in adverse consequences for the Group.

The Serco Group is also exposed to the risk that litigation, employee misconduct, operational failures, regulatory or other investigations or actions, press speculation and negative publicity, whether or not well founded, could damage its brand or reputation. The Serco Group's reputation may also be adversely affected by negative publicity associated with its customers, subcontractors or suppliers. Any damage to the Serco Group's brand or reputation could cause existing customers, partners or intermediaries to withdraw

current or future business from the Serco Group and potential customers, partners or intermediaries to elect not to do business with the Serco Group and could also make it more difficult for the Serco Group to attract and retain qualified employees. Such damage to the Serco Group's brand or reputation could cause disproportionate damage to the Serco Group's business, even if the negative publicity is factually inaccurate or unfounded.

1.23 *The Serco Group may not be able to successfully maintain its implementation of the Corporate Renewal Programme resulting in difficulties qualifying for future contracts with the UK Government*

In 2013, following the allegation that the Serco Group had overcharged the UK Government for electronic monitoring services, the Serco Group was obliged to enter into a process of "corporate renewal" in order to be considered for future contracts with the UK Government. In response, the Serco Group developed and put in place the Corporate Renewal Programme, the scope and relevance of which was assessed by a UK Government oversight group in January 2014.

In October 2014, the Corporate Renewal Programme was reported on by the UK Government's appointed advisers who confirmed that Serco had identified and understood the causes of previous issues and, through the Corporate Renewal Programme, had put in place cultural and governance structures designed to address those issues and sustain ongoing customer confidence.

Failure to be considered by the UK Government to continue to maintain the successful implementation of the Corporate Renewal Programme or failure to successfully implement a lasting change within the Group in accordance with the Corporate Renewal Programme may significantly impact the Group's ability to qualify for future contracts with the UK Government, as past performance issues are reviewed as part of the discretionary qualification criteria used by the UK Government. This could constitute a significant missed opportunity for growth, and losing rebids on existing contracts could lead to the loss of significant existing revenue and profit streams and there could be a material adverse affect on the business, financial condition, results of operations and prospects of the Serco Group.

Furthermore, likely press speculation and negative publicity regarding the Serco Group's successful implementation or maintenance of the Corporate Renewal Programme could further damage the Serco Group's brand and reputation. Any damage to the Serco Group's brand or reputation could cause existing customers, partners or intermediaries to withdraw their business from the Serco Group and potential customers, partners or intermediaries to elect not to do business with the Serco Group, and could also make it more difficult for the Serco Group to attract and retain qualified employees. Such damage to the Serco Group's brand or reputation could cause disproportionate damage to the Serco Group's business.

1.24 *The Serco Group's businesses could be adversely affected by a negative audit or investigation by government agencies or regulators*

The Serco Group's contracts with many of its government customers are subject to audit and investigation by government bodies, agencies or regulators. Depending on the type of audit or investigation, these agencies and regulators may review the Serco Group's performance under its contracts, cost structure and compliance with applicable laws, regulations and standards on such contracts as was the case with the Group's Electronic Monitoring Contract. Such agencies and regulators may also review the adequacy of, and the Serco Group's compliance with, their internal control systems and policies, including the Serco Group's purchasing, property, estimating, compensation and management information systems. If an audit uncovers inadequate internal control systems and policies, improper allocation of costs to a specific contract, or any improper or illegal activities, the Serco Group may be subject to enhanced scrutiny, improperly allocated costs may not be reimbursed (or if already paid, may have to be refunded), or civil and criminal penalties and administrative sanctions may be imposed, including termination of contracts, forfeitures of profits, suspension of payments, fines and suspension or debarment from doing business with the relevant government. In addition, the Serco Group could suffer reputational harm if allegations of impropriety were made against it. Accordingly, any such audit could materially affect the Serco Group's competitive position and result in a substantial adjustment to its revenue.

For example, in the Americas division, the Defence Contract Audit Agency (DCAA) and the Defence Contract Management Agency (DCMA), routinely audit and investigate US Government contracts and government contractors' administrative processes and systems. These agencies review Serco's performance on contracts, pricing practices, cost structure and compliance with applicable laws, regulations and standards. They also evaluate the adequacy of internal controls over business systems, including Serco's purchasing, accounting, estimating, earned value management, and government property systems. Any

costs found to be improperly allocated to a specific contract will not be reimbursed, and any such costs already reimbursed must be refunded and certain penalties may be imposed. Moreover, if any of the administrative processes and systems are found not to comply with requirements, Serco may be subjected to increased government scrutiny and approval that could delay or otherwise adversely affect its ability to compete for or perform contracts or collect revenue in a timely manner. DCAA audits for costs incurred on work performed after 31 December 2008 have not yet been completed. If a government investigation uncovers improper or illegal activities, Serco may be subject to civil and criminal penalties and administrative sanctions, including termination of contracts, forfeitures of profits, suspension of payments, fines and suspension or debarment from doing business with the US Federal Government. Each of these outcomes could cause the Americas division's actual financial results to differ materially and adversely from those anticipated, which in turn could materially affect the Serco Group's financial condition and results of operation.

FINANCIAL RISKS

1.25 *The Serco Group's operating and financial flexibility may be restricted by its level of indebtedness and financial and other covenants, and it may incur increased costs and other adverse consequences if it breaches its covenants*

The Serco Group has entered into the Amendment Agreements with the Lenders and the Noteholders, under the terms of which the Existing Finance Agreements will be amended immediately upon receipt of the net proceeds of the Rights Issue and upon the Company confirming that it will pay down £225 million under the US Note Purchase Agreements and £225 million (or, if less, the amount drawn) under the Facility Agreement from such proceeds as the Amended and Restated Facility Agreement, the Amended Receivables Financing Agreement and the Amended US Note Purchase Agreements (together, the "**Amended Agreements**"). The Serco Group intends to use the proceeds of the Rights Issue to reduce the debt drawn under its existing facilities; however, following the Rights Issue, the Group will continue to have significant outstanding indebtedness and significant debt service requirements under its Amended Agreements.

Should the economic environment or trading performance of the Group deteriorate materially from its current position, the Serco Group's Amended Agreements contain financial covenants that could in the long term (outside the 12-month period covered by the working capital statement at paragraph 11 of Part X (*Additional Information*) of this document) affect its operating and financial flexibility, including:

- the ratio of consolidated total net borrowings to Consolidated EBITDA cannot exceed 3.5:1.0;
- the ratio of Consolidated EBITDA to net financing costs cannot be less than 3.0:1.0; and
- the amount of priority debt cannot exceed £100 million.

The Amended and Restated Facility Agreement and the Amended US Note Purchase Agreements also contain negative covenants restricting, among other things, the Serco Group's ability to:

- dispose or otherwise deal with its existing assets;
- acquire new assets; and
- incur additional financial indebtedness or incur liens.

While the intended disposals described in paragraph 10 of Part I (*Letter from the Chairman*), have been approved by the Group's Lenders and therefore any such disposals or related actions will not be restricted by the Group's covenants, the Serco Group's ability to comply with such covenants and restrictions in the Amended Agreements in the long term (outside the 12-month period covered by the working capital statement at paragraph 11 of Part X (*Additional Information*) of this document), may be affected by events beyond its control, including general economic, financial and industry-related factors and conditions.

A breach of any of these covenants in the longer term could result in a default or an event of default under the relevant debt instrument or other agreements. The lenders under the relevant instruments could then take certain actions, including terminating their commitments and declaring all amounts that the Serco Group has borrowed to be due and payable, together with accrued and unpaid interest (and in the case of the Amended US Note Purchase Agreements, payment of an additional "make-whole amount" which is an amount intended to "make-whole" investors for their loss, if any). In addition, borrowings under the Amended and Restated Facility Agreement and the Amended Receivables Financing Agreement may as a result also be accelerated and become due and payable. If the debt under any one or more of the Amended

Agreements were to be accelerated, the Serco Group's assets may be insufficient to repay the sums in full. Any such actions could potentially force the Serco Group into insolvency proceedings.

The Group's ability to refinance its Amended and Restated Facility Agreement maturing in 2019 (or 2020 if the Company and Lenders agree to extend the term) and its US Private Placement Notes maturing in 2015, 2016 and annually from 2018 to 2024 on favourable terms, or at all, or to raise additional financing, will depend in part on its financial condition at the time of any contemplated refinancing or additional financing.

In addition, the Group's ability to refinance these facilities or raise additional financing could be affected by a number of factors, including volatility in the financial markets, reduced availability of credit, changes in investment markets and changes in interest rates. Any refinancing of the Group's indebtedness or incurrence of additional financing could be at higher interest rates than its current debt and the Group may be required to comply with more onerous financial and other covenants, which could further restrict its business operations and may have an adverse impact on the Group's business, financial condition or results of operations. The Serco Group's existing level of indebtedness and the covenants that apply to it may in the long term (outside the 12-month period covered by the working capital statement at paragraph 11 of Part X (*Additional Information*) of this document) have important consequences, including:

- causing it to reprioritise the uses to which its capital is put to the potential detriment of its business needs, which, depending on the level of its borrowings, prevailing interest rates and exchange rate fluctuations, could result in reduced funds being available for expansion, dividend payments and other general corporate purposes;
- limiting its flexibility in planning for, or reacting to, changes in technology, customer demand, competitive pressures and the sectors in which it operates;
- placing it at a competitive disadvantage compared to its competitors, who may be less leveraged and restricted by financial covenants than the Serco Group;
- increasing its vulnerability to both general and industry-specific adverse economic conditions; and
- increasing the cost of servicing its borrowings in the event such covenants are renegotiated.

The factors above could limit the Serco Group's financial and operational flexibility in the long term and this could have a material adverse effect on its business, results of operations, financial condition and prospects, as well as its ability to pay dividends.

1.26 *The Serco Group is exposed to foreign currency exchange rate and interest rate risks*

The Serco Group is subject to risks associated with fluctuations in currency exchange rates in the ordinary course of its business, with a significant portion of revenue, assets and liabilities being denominated in currencies other than pound sterling, in particular the US dollar, the Australian dollar, the Indian rupee and the UAE dirham.

The Serco Group prepares its consolidated financial statements in pound sterling. Accordingly, when preparing its consolidated financial statements, the Serco Group translates the value of any assets, liabilities, turnover and expenses that are reported or accounted for in other currencies into pound sterling. Many of the companies in the Serco Group report their financial conditions and results of operations in other currencies, principally the US dollar, the Australian dollar, the Indian rupee and the UAE dirham. Accordingly, the Serco Group is exposed to currency translation risk. Consequently, increases and decreases in the value of the pound sterling against these other currencies will affect the amount of these items in the Serco Group's consolidated financial statements, even if its value has not changed in its original currency. In addition, to the extent expenses are incurred that are not denominated in the same currency as related turnover, exchange rate fluctuations could cause the Serco Group's expenses to increase as a percentage of turnover, affecting its profitability.

The Serco Group is also subject to interest rate risk due to debt incurred at variable interest rates. As at 31 December 2014, the Serco Group had £216.7 million of indebtedness that bore interest at rates linked to LIBOR. After giving effect to the receipt and application of £225 million (or, if less, the amount drawn) of the net proceeds of the Rights Issue to the repayment of indebtedness under the Revolving Credit Facility, the Serco Group is expected to have no indebtedness outstanding under the Revolving Credit Facility that will bear interest at rates linked to LIBOR.

Although the Serco Group seeks to hedge against certain financial risks through derivative instruments such as forward exchange contracts, interest rate and currency swaps and combined instruments, there can be no assurance that any hedging strategy will be effective or that foreign currency and interest rate fluctuations will not adversely affect the results of operations and financial condition of the Serco Group.

RISKS RELATING TO SECURITY AND INFORMATION TECHNOLOGY

1.27 Failure to maintain adequately and protect confidential information could have a material adverse effect on the Serco Group

The Serco Group collects and retains confidential information regarding its business dealings and its customers, service end-users and suppliers in computer systems. The secure processing, maintenance and transmission of this information is critical to the Serco Group's operations. The Serco Group must comply with restrictions on the handling of sensitive information (including personal information and customer information). This is a heightened risk, particularly with respect to government contracts, due to the sensitive and confidential nature of government data.

Despite existing security measures, the Serco Group's data infrastructure could still be vulnerable to break-ins, computer viruses, programming errors, infiltration or attacks by third parties or similar disruptive problems, and there have been instances in the past where attempts to access the Group's corporate systems and data have been detected. A security breach of the Serco Group's computer systems could damage its reputation, increase regulatory scrutiny, disrupt its business or result in liability. The Serco Group could also be required to significantly increase capital expenditure and other resources as a consequence of such breaches or to alleviate problems caused by such breaches. Any publicised compromise of security could deter transactions involving the transmission of confidential information.

The Serco Group relies on third parties to provide payment processing services, and it could disrupt the Serco Group's operations if these companies become unwilling or unable to provide these services.

In particular, if the Serco Group or any of the third party service providers on which it relies fail to process, store or protect such personal data in a secure manner or if any such theft or loss of personal data were otherwise to occur, the Serco Group could, among other things, face liability under its customer contracts and data protection laws. Furthermore, any such breaches would have an adverse effect on the Group's relationships with its customers, which could result in contract terminations, counterparty defaults or failures to pay. Such breaches could also result in damage to the Serco Group's brand and reputation as well as the loss of new or repeat business, any of which could have a material adverse effect on the Serco Group's business, prospects, financial condition and results of operations. Law and regulation around data retention and data protection may change and could require the Serco Group to change the way in which it holds, uses or shares data.

Furthermore, there is a risk that data collected by the Serco Group and its appointed third parties is not processed in accordance with notifications made to, or obligations imposed by, data subjects, regulators, or other counterparties or applicable law. Failure to operate effective data collection controls could potentially lead to regulatory censure, fines, reputational and financial costs as well as result in potential inaccurate rating of risks or overpayment of claims.

The loss of any data, for whatever reason, could have a material adverse effect on the Serco Group's business, reputation and results of operations.

1.28 Failure to deliver stable and secure IT systems and to combat cyber and other security risks to information and physical sites could adversely affect the ability of the Serco Group to perform current contracts and to win future contracts and in the event of a breach of security could lead to business disruption and reputational damage

Major IT service delivery failure or prolonged loss of critical IT systems (corporate applications and infrastructure) due to failure or loss of network connectivity, data centre infrastructure (internal or third party), application error, security failure or the commercial failure of a third party supplier would lead to the inability of the Serco Group to meet contract requirements, an inability to perform core business processes (including critical financial transactions and electronic messaging), reputation risk resulting in consequences cross division, loss of business (including potential disqualification from future tenders, contract termination, etc.), significant media attention and future scrutiny. Such failures may also result in significant costs in rectifying such issues and errors, and hence may have an adverse effect on the Serco Group's financial performance and result in dilution of shareholder returns.

The ability of the Serco Group to deliver secure IT and other information assurance systems designed to protect personal data or customer or company confidential information is a key factor for customers. Despite controls to ensure the confidentiality of such information, the Serco Group may breach restrictions or may be subject to attack from computer programs or malicious or hostile third parties that attempt to penetrate the network security and misappropriate confidential information. Alongside this threat is the more insidious and low-profile attack instigated by foreign countries under the auspices of their government policy to steal information for defence or economic advantage. The fact that the Serco Group holds and processes information and data which is highly classified elevates the level of risk of attempted theft. Due to advances in these programs, IT capabilities and other developments, there is no guarantee that the Serco Group's security measures will be sufficient to prevent breaches or cyber-attacks. In addition, the risk of loss of information or data by other means due to a failure to keep it safe at all times and within its custody or control is a risk that cannot be entirely eliminated. Any such breach or compromise of security or a breach of security at a physical site could lead to loss of reputation, disruptions in business operations and an inability to meet contractual obligations and have an adverse effect on the Serco Group's ability to win future contracts and, as a result, its businesses, results of operations and overall financial condition.

1.29 *Failure to maintain and update infrastructure to support the Serco Group's scale, breadth and complexity of operations*

During the Contract & Balance Sheet Reviews in 2014 and development of the Corporate Renewal Programme, the Group determined that its infrastructure, particularly with respect to operational visibility, had not kept pace with the Group's scale, breadth and complexity. As a result, the Group's internal systems, processes and information available to management were insufficient for a business of the Group's size, leading to challenges by the Group in terms of monitoring contract bids and renewals and their associated key performance indicators and risks.

A key part of the Group's strategy is improving the efficiency of its shared services, most particularly in HR, Finance, IT and Purchasing. Whilst many of the required core systems are in place, their implementation and effectiveness needs to be improved and costs reduced. As the Group disposes of businesses, the funding base of these shared services will be reduced, and reducing their costs in line at the same time as improving their effectiveness will be challenging. Failure to achieve cost reductions or efficiency improvements in line with the Group's plans could have a material adverse impact on the Group's financial and operational performance.

The Group is currently seeking to implement a Group-wide finance infrastructure transformation to better align its financial monitoring and reporting systems with the size and scale of the Group's business, including standardisation of the Group's financial accounting and monitoring systems, reporting and processes. While the Directors believe that updating the Group's infrastructure systems, including standardising Group-wide its financial accounting and monitoring systems, may result in cost savings benefits for the Group through reduction in duplicative personnel across the divisions and improvements in the use of shared services by each of the Group's divisions, no assurance can be given that such changes will be successfully implemented, completed within budget and on time or achieve the expected results and cost-saving benefits. Should the Group fail to make the necessary changes or fail to make such changes expeditiously, the Group's existing infrastructure, including its financial monitoring and reporting systems, may limit the Group's opportunity to monitor its operational performance and secure cost efficiencies, leading to excessive operating costs and loss of competitiveness. The Group is currently in the process of implementing new contract obligation tracking systems to better monitor key performance indicators and customer obligations with respect to its contracts. Any failures or significant delays in implementing or maintaining these systems could adversely affect the Group's ability to monitor and adjust its performance under its contracts, which could have an adverse effect on the Group's financial condition and results of operation. The Group is also developing new supplier databases to keep track of performance and key deliverables with respect to its suppliers on a Group level. Both the customer and supplier monitoring systems are new systems to Serco and their performance is untested. Given the scale of the Group-wide finance infrastructure transformation, the Group is subject to a heightened financial control risk during its implementation, including risks associated with employees leaving current roles or transitioning into new roles. For more information, also see Risk Factor 1.38 below. Should the design or functioning of these systems fail to match the Group's expectations, the Group could face significant costs or delays in updating or refining these systems.

The Serco Group is dependent upon its infrastructure being fit for purpose, and a failure to maintain investment in and/or successfully implement new infrastructure may lead to significant inefficiencies and risk of operational failure for the Serco Group's business, operations, financial condition and results of operation. The Serco Group's BPO business is particularly reliant on efficient and up to date technology where the impact of obsolescence could be significant.

RISKS RELATING TO THE SERCO GROUP'S MARKETS AND INDUSTRIES

1.30 The Serco Group operates in emerging markets and is therefore exposed to a wide variety of risks associated with them

The Serco Group operates in a number of countries that are generally characterised as emerging markets, including in the Middle East and India. There are additional risks associated with operating in these regions and in developing markets where the political, economic and legal systems and economic conditions are generally less predictable than in countries with more developed institutional structures. These include:

- delays in receiving payments due from government customers;
- volatile rates of growth in emerging markets;
- volatile prices for commodities, such as oil, which may constitute a large proportion of certain government customers' revenue;
- increased risks associated with inflation, recession, currency and interest rate fluctuations and the potential for higher rates of inflation or hyperinflation;
- reduced intellectual property protection;
- changes in regulation and governmental policies and the consistency with which such regulations and policies are interpreted or enforced;
- the absence of fully developed legal structures, including those governing private or foreign investment and private property;
- the absence of fully developed regulatory structures, including those governing health and safety, employment and human rights;
- difficulty in enforcing remedies;
- imposition of fines with limited legal recourse;
- changing regulatory requirements and approvals, potentially resulting in the Group's operations being non-compliant in the interim;
- difficulty in adequately establishing, staffing and managing operations;
- the risk of non-compliance with anti-corruption and anti-bribery legislation and other business integrity issues;
- the risk of political and social instability, including war, civil disturbance and terrorism;
- expropriation, nationalisation and confiscating taxation;
- challenging ethical and human rights environments; and
- lower levels of democratic accountability.

Such risks may adversely affect the Serco Group's business, results of operations, financial condition and prospects.

1.31 The operations of the Serco Group, particularly in the nuclear sector, carry significant health and safety and environmental risks and the Serco Group is exposed to the risk of material losses, liabilities and reputational damage from safety incidents and accidents

Due to the nature of the services provided by the Serco Group, many of its operations, if not properly managed and conducted, entail the risk of significant harm to employees, third parties, members of the public or the environment. Serious accidents in the workplace and incidents relating to the services the Group delivers can have a major impact on the lives of those employees involved as well as their families,

friends, colleagues and communities. Although highly regulated, certain of the Group's operations are particularly high-risk; these include nuclear operations, aviation, rail, marine and custodial services.

In the event that an incident or accident is caused, perceived to be caused, or contributed to, by failings on the part of the Serco Group or its employees or contractors (for example, as a result of negligence, or poor health and safety systems and controls), this could result in significant damage to customers, reputational damages, liabilities under health and safety and related regulations, criminal convictions, payment of substantial damages not all of which may be insured, fines and the potential loss or suspension of required licences or authorisations and disqualification from future tenders. Moreover, safety-related incidents experienced by other service providers, who operate in the same or similar markets as the Serco Group, could impact customer confidence generally and lead to a reduction in customer contracts for the Serco Group or make it difficult for Serco Group to perform such contracts or mean the Serco Group can only do so at extra cost.

Failure to maintain a strong record of safety and reliability that is satisfactory to customers may adversely affect the Serco Group's reputation, relationship with customers and financial conditions or operating and financial results.

Examples of the health and safety risks include assaults on staff by prisoners in prisons and detention centres operated by the Group. Amongst prisoners, there are also deaths and injuries in custody which occur on a regular basis. In 2014, there were 67 deaths in custody in Serco-managed facilities awaiting inquest. All of these tragic events are thoroughly investigated both by the Group and by the relevant authorities.

In terms of environmental hazards, the most extreme risk involves work performed by AWE plc ("AWE"), which is controlled by AWE ML, in which the Group has a 33 per cent. shareholding. AWE ML's operations include (i) the handling, manufacture, use, storage, transportation and disposal of hazardous and radioactive materials; (ii) the manufacturing, storage, transportation and decommissioning of nuclear weapons containing explosives and hazardous and radioactive materials; and (iii) the decontamination of facilities that contained hazardous and radioactive materials. The use and generation of radioactive and hazardous substances can seriously affect the health and safety of the public, Serco Group employees and the environment. Accidents, the breakdown or failure of equipment or processes or human performance, including the Serco Group's safety controls, and other catastrophic events, such as explosion, fire and flood, could result in the dispersal of radioactive material over large areas, thereby causing injury or loss of life and extensive property or environmental damage. Certain of these events, including those arising as a result of third party acts, such as acts of terrorism or war, are not within the Serco Group's control.

Whilst there are limitations on the Group's liability as a shareholder, an incident at one of the facilities could have a very material impact on the financial performance and reputation of the Group.

Incidents occurring at nuclear weapon facilities managed through the Group's joint venture in AWE caused by third parties unconnected to the Serco Group may result in losses regardless of the Serco Group having no control or influence over such incidents.

Examples of the exposures to health, safety and environmental risks that the Group faces include the following: (i) in 2013, following a fire in an explosives processing building which injured one worker, AWE plead guilty to a breach of the Health and Safety Work Act 1974 and was ordered to pay a fine of £200,000, £80,258 in costs and £2,500 in compensation and (ii) in 2014 Serco Ltd was fined £50,000, with £60,716 in costs, following a release of hydrogen sulphide gas in 2011 on a barge operated by the Serco Group. Proceeds of insurance or indemnities may not be adequate to cover all liabilities incurred, lost revenue or increased expenses.

1.32 Parts of the Serco Group's businesses depend to a significant degree on its ability to obtain and maintain required security clearances for employees and facilities

Certain of the Serco Group's contracts with governments require its employees to maintain various levels of security clearances, and the Serco Group is required to maintain certain facility security clearances complying with the requirements of government and regulatory agencies in applicable geographies. Obtaining and maintaining security clearances for employees and facilities can be a difficult and lengthy process, especially in the case of employees not native to the country of employment.

If the Serco Group is unable to obtain or retain security clearances for employees and facilities, customers requiring cleared employees or facility security clearances could terminate or not renew their contracts. A

loss of such contracts could materially adversely affect the Serco Group's business, financial condition or operating or financial results.

In addition, the Serco Group's employees must maintain certain security standards in order to carry out various business activities undertaken by the Serco Group. If the Serco Group fails to meet the security standards required to conduct such business, its business, financial condition or operating or financial results could be materially adversely affected.

1.33 *Competition within the markets in which the Serco Group operates may reduce the Serco Group's revenue and market share*

The Serco Group operates in competitive markets and the Serco Group's competitors may have more extensive or more specialised capabilities than the Serco Group in some areas.

Over recent years governments have sought to widen their choice of outsource contractors, and contractors themselves have widened their service offerings and geographic reach. Companies such as Siemens and ATOS, who specialised in IT services, have expanded their offerings to encompass key markets, such as Citizen Services, which are core Serco markets; companies such as Mitie have expanded their operations in facilities management into prison and detention centre management; and Sodexo and Compass, with expertise in catering, now offer wide ranges of services in competition to Serco Group. Maximus, a US-based provider of services to governments, has expanded into the UK, Saudi Arabia and Australia.

Competition for the Serco Group has also been influenced by changes in government policies promoting new entrants to the market, such as small and medium-sized enterprises competing as prime contractors, as well as customers deploying new procurement strategies. For example, in the BPO sector, some government customers are using multiple vendor strategies for one project to allow continual benchmarking against competitors even after a contract has been awarded.

If the Serco Group is unable to continue to compete successfully against current or future competitors (including, in respect of outsourcing of services by customers, in-house alternatives), the Serco Group may experience declines in revenue and market share which could have an adverse effect on the Serco Group's business, results of operations, financial condition and prospects.

In addition, the Serco Group's largest single customers are the UK and US Governments, which have taken action to encourage new entrants into the market for the provision of business to government services; this policy may give preference to small and medium-sized businesses and social enterprises, which can put the Group at a competitive disadvantage. By way of example, in the United States, procurement rules reserve contracts for certain types of suppliers such as small businesses, or veteran or minority-owned businesses, which excludes the Group from bidding for them. Since most of the services provided by the Group involve the provision of labour rather than technology, the Group's offerings are open to competition from smaller companies.

RISKS RELATING TO THE SERCO GROUP'S POLICIES AND COMPLIANCE WITH LAWS

1.34 *The Serco Group is subject to extensive and increasingly stringent regulations which may increase costs which it cannot recover under its contracts and, in the event of a breach of such regulations, result in reputational damage, sanctions, debarment or the inability to continue to conduct certain lines of business*

In each of the jurisdictions in which the Serco Group operates, it has to comply with laws, regulations and administrative policies which relate to, among other matters, business and operating licensing regimes, health and safety, employment (including pensions), the environment, anti-bribery, anti-corruption, banking and tax. Each aspect of the regulatory environment in which the Serco Group operates is subject to change, which may be retrospective. Furthermore, as changes in applicable regulations may be unanticipated or unknown to the Group at the time of entry into a contract, any related compliance costs may not be recoverable under Serco's contracts.

With employees and operations located in diverse geographies across the world, Serco is subject to a wide and changing regimen of regulations and administrative policies with which it has to ensure compliance on an ongoing basis. As a corporate entity and employer in multiple jurisdictions of operation, Serco has to consistently monitor any changes in applicable regulations and the Group's compliance with such changes, including any changes following elections and government review cycles. As such, the Group's systems may not detect all applicable new or amended regulations or the Group may fail to implement all necessary changes, including by the effective date or on a Group-wide basis, if required. Any failure by Serco to

comply with or monitor changes to regulations or failure to implement necessary changes in a timely manner could have a material impact on the Group's reputation, business, financial condition or operating or financial results.

Further, members of the Serco Group, particularly those involved in the nuclear weapons industry, are required to obtain security clearances from various governmental authorities and performance under some contracts requires environmental and safety permits, including from the Office for Nuclear Regulation, the Hazardous Installations Inspectorate and the Defence Nuclear Safety Regulator in the UK. Certain clearances and permits require periodic renewal or review of their conditions, and it is not possible to predict whether the Serco Group will be able to renew such clearances or permits or whether material changes in clearance or permit conditions will be imposed. The relevant members of the Serco Group may not have been, or may not at all times in the future be, in complete compliance with all required clearances or permits.

Significant other employment aspects of the Serco Group's activities are subject to regulation by national and local authorities and a number of the Serco Group's businesses are dependent on the Serco Group being granted certain authorisations by such authorities. For example, non-nationals must obtain appropriate employment visa and/or residency authorisations prior to commencing employment in a given country.

There is also a risk that certain governments or authorities will nationalise some services that the Serco Group provides, or will introduce laws or regulations with which the Serco Group will be unable to comply. Failure or an inability to comply with such new or amended laws or regulations may adversely affect the Serco Group's revenues and profitability. Violations of laws, regulations or permits could result in the suspension or closure of the Serco Group's operations, reputational damage and/or the imposition of fines, the commencement of litigation or other proceedings or the imposition of other sanctions, which may not be recoverable under Serco's contracts. Other liabilities under environmental laws, including the clean-up of hazardous substances, and liabilities in relation to pension and redundancy costs, can be costly to discharge.

The Serco Group also anticipates that as a result of continued public pressure to limit migration into the UK and, potentially, other operational countries, this could affect the Serco Group's ability to obtain work visas for key employees. Recently, both the UK and Australia have implemented regulatory changes to limit their respective "right to work" and immigration policies. If governments in the Group's jurisdictions of operation should place strict annual limits on the number of employment visas an entity may apply for, or introduce narrow visa eligibility criteria whereby only the most highly skilled or educated people could qualify for a visa, this could have a material impact on the Group's ability to hire and attract key talent or to relocate skilled employees across geographies as needed.

A number of contracts entered into by the Serco Group are subject to regulation by the Financial Conduct Authority ("FCA"). The relevant members of the Serco Group may not have been, or may not at all times in the future be, in complete compliance with the FCA's requirements.

Whilst the Serco Group incurs, and expects to incur, substantial capital and operating costs to comply with these laws and regulations, it is possible that any of these laws and regulations may change or become more stringent in the future, increasing compliance costs and potential liabilities, each of which (or which together) could have a materially adverse effect on the business, financial condition, results of operations or prospects of the Serco Group.

1.35 *The Serco Group is subject to the Bribery Act 2010 (the "Bribery Act"), the US Foreign Corrupt Practices Act (the "FCPA") and similar laws and may become subject to further such laws in the future, and its failure to comply with the laws and regulations thereunder could result in penalties which could harm its reputation and have a material adverse effect on the Group's business, results of operations, financial condition and prospects*

The Serco Group is subject to the UK Bribery Act and the FCPA and similar laws in other jurisdictions, which generally prohibit companies and their intermediaries from making improper payments to third parties and, particularly, foreign officials for the purpose of obtaining or keeping business and/or other benefits. In addition, some countries in which the Serco Group operates have, or are perceived to have, relatively high levels of corruption. Although the Serco Group has developed policies and procedures designed to ensure that the Serco Group, its employees and agents comply with the Bribery Act and the FCPA and other similar laws, there is no assurance that such policies or procedures will work, or were fully

embedded and have worked in the past effectively all of the time, or protect the Serco Group against liability under the Bribery Act or the FCPA for actions taken by its agents, employees and intermediaries with respect to the Serco Group's business. If the Serco Group is not in compliance with the Bribery Act, the FCPA or other laws governing the conduct of business with third parties, particularly government entities, it may be subject to criminal and civil penalties and other remedial measures, which could have a material adverse impact on the Serco Group's business, results of operations, financial condition and prospects. Any investigation or allegation of any potential violations of the Bribery Act, the FCPA or other anti-corruption laws by UK, other US or foreign authorities also could have a material adverse impact on the Serco Group's business, results of operations, financial condition and prospects. Furthermore, any remediation measures taken in response to such potential or alleged violations of the Bribery Act, the FCPA or other anti-corruption laws, including any necessary changes or enhancements to the Serco Group's procedures, policies and controls and potential personnel changes and/or disciplinary actions, may materially adversely impact its business, prospects, financial condition, cash flows and results of operations.

1.36 *The Serco Group's insurance may be inadequate to cover all of its risks or the insurers may deny coverage of material losses incurred by the Serco Group*

The Serco Group will continue to use insurance to cover certain of its risks and liabilities (including, among others, natural disasters, product liability and business interruption). Not every risk or liability can be protected against by insurance, and, for insurable risks, the limits of coverage reasonably obtainable in the market may not be sufficient to cover all losses or liabilities incurred. In addition, future accidents, risks of war, terrorist activity or other events could increase insurance premiums. In some circumstances the Serco Group may receive indemnification from the UK Government (either directly or indirectly) in respect of its nuclear activities undertaken for the UK Government. Due to the limitations on the availability of coverage, the Serco Group may have to bear substantial costs for uninsured losses that could have an adverse effect upon its business, results of operations and financial condition. Additionally, disputes with insurers over coverage may affect the timing of cash flows and, in the event of litigation with an insurer, an outcome unfavourable to the Serco Group may have an adverse effect on its business, results of operations and financial condition.

1.37 *The Serco Group's risk management policies and procedures may not be effective in protecting it against all risks, and any failure to manage properly the risks which it faces could have a material adverse effect on the Serco Group*

The Serco Group's policies and procedures for managing operational risk (including contractual risk and pricing risk), reputational risk, credit risk, market risk and liquidity risk may prove ineffective.

The Group's February 2015 internal audit report disclosed that a high number of internal audit findings recommended for correction were overdue. While the Group is seeking to address such findings, should the Group fail to make the necessary changes or fail to implement such internal audit actions expeditiously and the risks identified materialize, the Group's business and financial condition could be adversely affected.

Most of the Serco Group's methods for managing risk are based upon observations of historical events or market behaviour, and the Serco Group generally applies analytical and/or other techniques to these observations to arrive at quantifications of its potential risk exposures. However, these methods may not accurately quantify the Serco Group's risk exposures, especially in situations that cannot be identified based on available information. In particular, if the Serco Group enters new lines of business or contracts in new areas, historical analysis and data may be incomplete or inaccurate.

If circumstances arise whereby the Serco Group does not correctly identify, anticipate, evaluate and mitigate certain risks in developing its risk management policies and procedures, including its pricing and other analytical models, the Serco Group's profits could be lower and/or losses could be greater than the amounts estimated by the Serco Group. As additional information becomes available, the Serco Group also may need to make changes to prior estimates. In addition, certain risks may not be accurately quantified by the Serco Group's risk management systems. If a material deficiency in the Serco Group's risk management or other internal control policies or procedures arises, this may expose it to significant operational, reputational, credit, market and/or liquidity risk, which may in turn have a material adverse effect on the Serco Group's business, results of operations, financial condition or prospects.

Material deficiencies in the Serco Group's risk management policies or procedures may expose it to risks which could have a material adverse effect on its business, results of operations, financial condition or

prospects. For example, operational risk management deficiencies may result in significant unanticipated losses resulting from, among other things, inadequate assessment of performance and other risks associated with new contracts, under-pricing of contracts, fraud by employees or outsiders, mismanagement, unauthorised transactions by employees and other operational errors.

RISKS RELATING TO EMPLOYEES

1.38 *The Serco Group's businesses depend on its ability to attract, train and retain its senior management and highly skilled employees*

The Serco Group's success depends on the continued service and performance of its highly qualified and experienced senior management and business development teams. The continuing success of the Serco Group relies on its ability to plan for management succession and to attract, train and retain qualified and experienced management.

During the past 18 months, approximately 25 per cent. of the management of the Group's UK operations have left the business and there have been major changes to the Executive Directors on the Board. Chris Hyman resigned as Group Chief Executive in October 2013 and Ed Casey was appointed to the Board as the acting Group Chief Executive until Rupert Soames was appointed as Group Chief Executive, and joined the Board, in May 2014. Andrew Jenner stepped down as Chief Financial Officer in August 2014 and was replaced by Angus Cockburn. In November 2014, Alastair Lyons, the Non-Executive Chairman, announced his intention to resign once a new Chairman has been appointed. The Board has started the process of identifying suitable candidates for the chairman role. Any further loss of one or more of the members of the Serco Group's senior management without adequate replacement could have a material adverse effect on the prospects for or performance of the Serco Group.

The Serco Group's success also depends on its ability to recruit, train and retain highly skilled and suitably qualified employees to serve its customers effectively. Currently, as part of the Group-wide infrastructure transformation described in Risk Factor 1.29 above, the Group has created new Group-wide roles (i) a Group Finance Transformation Director, who is responsible for overseeing the development and implementation of the Group's finance infrastructure transformation and (ii) a global cyber data security team, who will oversee the Group's delivery of secure IT and other information systems. Competition for skilled personnel in the industries in which the Serco Group operates is strong. Employees who are highly trained are likely to remain a limited resource for the foreseeable future. Identifying, recruiting and training personnel requires substantial resources. If the Serco Group fails to recruit and retain qualified employees, in particular suitably qualified and experienced engineers, technicians and other specialist skills groups, including by failing to maintain compensation awards at an appropriate level, this could lead to a failure to fulfil contractual obligations, the inability to win new business in existing areas or pursue business in new areas, or a loss of reputation, any of which could have a material adverse effect on the business, financial condition or operating or financial results of the Serco Group.

In addition, failure to satisfactorily motivate and engage employees can create a decline in morale and an increase in labour turnover which may adversely affect the ability to win new, and retain existing, customers owing to a lack of appropriate skills and a reduction in customer satisfaction. In turn this could impact integrity, brand and reputation, and could have a material adverse impact on its financial condition and results of operations.

1.39 *An increase in labour costs in the jurisdictions in which the Serco Group operates may adversely affect the Group's business and results of operations*

The Serco Group's business is labour intensive, with labour costs representing approximately 48 per cent. of its revenue for the 2014 Financial Year. Any increase in labour costs, in particular in the UK where approximately one-third of its employees are located, could adversely affect the Serco Group's business and results of operations.

A number of the Serco Group's employees operate under collective bargaining agreements. These existing collective bargaining agreements may not be able to be extended or renewed on their current terms, and the Serco Group may be unable to negotiate collective bargaining agreements in a favourable and timely manner. The Serco Group may also become subject to additional collective bargaining agreements in the future or its non-unionised workers may unionise, all of which may have a material adverse effect on the Serco Group's costs, operations and business.

In addition, laws and regulations relating to labour, employment (including EU regulations on the transfer of employees resulting in additional risks such as increased pension exposure), social security, health and safety of employees and immigration affect the Serco Group's ability to control staff costs.

In the event that the Serco Group experiences a significant or material increase in labour costs and is not able to pass some or all of those incurred costs on to its customers, this could have a material adverse effect on the Serco Group's business, financial condition and results of operations.

1.40 *Due to its large number of employees in many countries, the Serco Group is exposed to employee errors, insufficient quality of service, malicious acts by existing or former employees (including unfair competition) and potential labour disputes, industrial disputes and disruptions*

Operational risk is inherent in the Serco Group's businesses, and due to its having over 95,455 employees (on a full-time equivalent basis as at 31 December 2014) employed in many countries, the Serco Group is exposed to employee errors, insufficient quality of service, malicious acts by existing or former employees (including unfair competition) and potential labour disputes and disruptions. In the past, employee actions have led to a direct loss of revenue on existing contracts. Failure to manage such risks could have a material adverse impact on its financial condition and results of operations.

In particular, failure to ensure that the employees have the right expertise and tools to adequately manage and monitor compliance with contractual obligations and expectations would lead to poor contract performance, inefficiencies in operational performance and customers' concerns around the Serco Group's ability to deliver the contract. Due to the public nature of many of the services operated by the Serco Group, actions of employees outside of the work environment can also affect the reputation of the Serco Group.

Serco has union agreements with employees in all sectors of operation in the UK, and the majority of sectors of its operations in Australia, Asia and the US. The Serco Group has a limited ability to predict how stable its relationships with the trade unions or other employee representative bodies will be. The presence of unions and the collective bargaining agreements may limit the Serco Group's flexibility in dealing with its workforce and may lead to increased operating costs. In addition, if there is a material disagreement or dispute between the Serco Group and its trade unions, the Serco Group's business could be adversely affected; for example, as a result of work stoppages, unionised employees "working to rule" or increased costs associated with industrial disputes.

1.41 *The Serco Group participates in/sponsors a number of defined benefit pension schemes in the UK and Europe. The Serco Group may be required to fund an increase in the cost of future benefits and/or meet funding shortfalls in respect of these schemes*

The Serco Group participates in/sponsors several defined benefit pension schemes for qualifying employees in the UK and Europe, as well as several defined contribution pension schemes in the UK and other jurisdictions. On an accounting basis, the Serco Group reported retirement benefit assets of £143.9 million, and retirement benefit obligations of £17.4 million in the defined benefit plans as at 31 December 2014. For the defined benefit schemes, benefits accrue based on salary and length of service. The cost of the funded schemes is met from both member and employer contributions paid into the pension schemes and the investment returns achieved by the schemes over time.

The Serco Group's participation in the current year in a number of defined benefit schemes (including certain sections of the Local Government Pension Scheme, the DLR and National Physical Laboratory pension schemes, and the NHS Pension Scheme) relate to particular customer contracts. With the exception of the NHS Pension Scheme, these are funded schemes. The Serco Group's level of exposure to these schemes will depend on the terms of the customer contract. Most of the customer contracts reviewed that involve contract-specific defined benefit schemes indicate that there is pass-through of pension costs to the customer (at least outside of certain parameters) but some customer contracts do not contain such contractual protections on pension costs. Where contractual protections are not in place, the Serco Group may be required to pay higher contributions than had been assumed when pricing the contract, for example, upon termination of a contract involving a defined benefit scheme. Any increased contribution demands, if made, may not be recoverable from the contract counterparty under the terms of that particular contract.

The Serco Group's participation in/sponsorship of a number of other defined benefit schemes (including the Serco Group's largest funded defined benefit scheme (the Serco Pension and Life Assurance Scheme

(“SPLAS”), one section of the Railways Pension Scheme and an unfunded scheme) does not relate to one particular customer contract, albeit that many current active members will be deployed on customer contracts. Increased employer contribution demands in relation to these schemes may not be recoverable from a contract counterparty.

The most recent full actuarial valuation of SPLAS was undertaken as at 5 April 2012 and resulted in an actuarially assessed deficit of £24 million (SPLAS assets at that time were £993 million).

In many of the schemes in which the Serco Group participates (including the Local Government Pension Scheme, the Railways Pension Scheme and SPLAS), contributions could be imposed by the scheme actuary (Serco Group’s agreement is not required). The UK Pensions Regulator also has the power to impose contribution demands on the Serco Group pursuant to its statutory scheme funding powers in relation to the UK private sector funded pension schemes, albeit that to date the UK Pensions Regulator has shown itself to be reluctant to exercise such powers in relation to any employer.

Increases in the value of the liabilities of the defined benefit pension schemes and/or a reduction in the value of the assets supporting funded schemes can lead to increased deficits at future formal actuarial valuations, typically resulting in increased employer contributions.

The valuation basis used for formal scheme valuations will not typically replicate the valuation basis used for accounting purposes and scheme valuation deficits are typically higher than accounting deficits.

Where costs cannot be passed-back to a customer, demands on Serco Group companies for materially increased contributions to meet past service deficits or future service costs could have a material adverse effect on the Serco Group’s business, financial condition, results of operations or prospects.

The Pensions Regulator has the power in certain circumstances (for example, where an employer in relation to a pension scheme is considered to be “insufficiently resourced” for the purposes of the relevant legislation or if a particular transaction has a materially detrimental impact on the pension scheme) to require an employer or entities in the employer’s wider corporate group (among others) to contribute to or otherwise support a pension scheme (in respect of each entity targeted by these powers, up to the amount of the buy-out deficit of the pension scheme). These powers apply to the Serco Group (including members of the Serco Group outside the UK) in respect of the UK private sector funded pension schemes in which the Serco Group participates (including SPLAS and the Railways Pension Scheme). The Pensions Regulator can only exercise these powers in a particular case if it considers it reasonable to do so.

Where a Serco Group company ceases to participate in a defined benefit pension scheme, an amount may become payable to the scheme.

A requirement to pay all or part of the buy-out deficit of the scheme or an employer’s share of it could have a material adverse effect on the Serco Group’s business, financial condition, results of operations or prospects.

1.42 *Changes in the regulatory and/or accounting regimes for defined benefit pension liabilities could impose increased pension funding requirements and/or negatively impact the Serco Group’s reported earnings and distributable reserves*

The Serco Group participates in/sponsors a number of defined benefit pension schemes.

Changes to the financial reporting standards regarding retirement benefit calculations could have an adverse impact on the Serco Group’s reported earnings and/or distributable reserves, which could have a material adverse effect on its business, results of operations, financial condition or prospects.

Strengthening of the regulatory funding regime for pensions in the UK (whether imposed by local law or European Union law) or elsewhere could increase requirements for cash funding of pensions. This could require the Serco Group to make significant additional payments to meet its pension commitments, which could have a material adverse effect on its business, results of operations, financial condition or prospects.

RISKS RELATING TO TAXES

1.43 *A change in the tax rates, tax laws or practice by the relevant tax authority or any failure by the Serco Group to manage tax risks adequately may have a material adverse effect on the Serco Group's reputation, results of operations and financial condition*

The Serco Group is subject to corporate and other tax rules in the jurisdictions where it conducts its business operations. Changes in the tax rates, tax relief, tax laws or practice by the relevant tax authority, or changes in interpretation of the law or the relevant tax authority's practice, increasing challenges by relevant tax authorities or any failure to manage tax risks adequately could result in increased charges, financial loss, penalties and reputational damage, which may have a material adverse effect on the Serco Group's financial condition and results of operations. In addition, aggressive tax enforcement is becoming a higher priority for many tax authorities, which could lead to an increase in tax audits, inquiries and challenges of historically accepted intragroup financing and other arrangements. Tax authorities may also actively pursue additional taxes based on retroactive changes to tax laws.

The Serco Group is required to exercise judgement when determining its provisions for income taxes and accounting for tax-related matters. The Serco Group regularly makes estimates where the ultimate tax determination is uncertain. The final determination of any tax audit, tax litigation, appeal of a taxing authority's decision or similar proceedings may take many years to resolve and may differ materially from that which is reflected in the Serco Group's financial statements. The Serco Group operates in many different tax jurisdictions and is therefore routinely subject to tax audits and, in certain jurisdictions of the Group's operations, tax litigation.

The Group is awaiting a ruling by the India High Court on a matter relating to the Group's Intelenet acquisition in India in 2011, specifically with respect to the Group's decision not to withhold tax from payments made to the sellers of Intelenet. The Group expects its potential liability could be £38 million. In addition, there is a possibility that the Group could also be subject to penalties of up to £27 million if the India High Court were to find that the Group's position on such withholding taxes was not reasonable.

Accordingly, there may be material differences between the taxation amounts accrued in the Serco Group's financial statements and the taxation costs ultimately paid by the Serco Group.

As at 31 December 2014, the Group had gross estimated UK tax assets of £723 million (£145 million net), which are comprised mainly of UK tax losses. These UK tax losses arose principally from the accounting provisions recognised for future contract losses together with various exceptional and other items provided for by the Group in the 2013 Financial Year. Such tax losses arose in various UK legal entities owned by the Group, which may not generate sufficient future taxable profits to utilise such losses in full. Accordingly, the Serco Group might still be required to pay UK taxes despite having tax losses in such UK entities. Future changes to UK tax law may restrict the ability of the Group to offset these UK tax losses against future taxable profits.

Any of the foregoing could materially and adversely affect the Serco Group's business, reputation, financial condition and results of operations.

2. RISKS RELATING TO THE RIGHTS ISSUE AND AN INVESTMENT IN NEW ORDINARY SHARES

2.1 *The market price of the Ordinary Shares has been and may continue to be highly volatile, and the market price of the Ordinary Shares may decline and may not reflect the underlying asset value of the Serco Group*

Prospective investors should be aware that the value of an investment in the Serco Group may go down as well as up. The market value of the Nil Paid Rights, Fully Paid Rights and/or New Ordinary Shares could be subject to significant fluctuations and may not always reflect the underlying asset value of the Serco Group. The market price of the Ordinary Shares has been subject to significant volatility in the past 24 months, and may continue to be volatile. The price of Ordinary Shares may decrease in response to further announcements and market appraisal of the Serco Group's Strategy Review, the Contract & Balance Sheet Reviews or if the Serco Group's operating results and/or prospects from time to time are below the expectations of market analysts and investors.

A number of factors outside the control of the Serco Group may affect its performance and the price of the Nil Paid Rights, Fully Paid Rights and/or New Ordinary Shares. Such factors include the operating and share price performance of other companies in the industries and markets in which the Serco Group operates, speculation about the Serco Group's business, about mergers or acquisitions involving the Serco

Group and/or dispositions by the Serco Group in the press, media or investment community, market perceptions of changes affecting the Serco Group's operations or variations in the Serco Group's profit estimates, the publication of research reports by analysts and/or credit ratings by rating agencies, any regulatory changes affecting the Serco Group's operations, other rights issues in the market and general market or economic conditions.

The market price of the Ordinary Shares may be adversely affected by any of the preceding or other factors regardless of the Serco Group's actual results of operations and financial condition. Moreover, the financial results and prospects of the Serco Group may be below the expectations of market analysts and investors from time to time. Any of these events could result in a decline in the market price of the Nil Paid Rights, Fully Paid Rights and/or New Ordinary Shares.

2.2 *The market price for Ordinary Shares may decline below the Issue Price and Shareholders may not be able to sell Ordinary Shares at a favourable price after the Rights Issue*

The public trading market price of the Ordinary Shares may decline below the Issue Price. Should that occur prior to the latest time and date for acceptance under the Rights Issue, Qualifying Shareholders or renounees who exercise their rights in the Rights Issue will suffer an immediate loss as a result. Moreover, following the exercise of their rights, Shareholders may not be able to sell their New Ordinary Shares at a price equal to or greater than the acquisition price for those shares.

Although the Serco Group has no current plans for a subsequent offering of Ordinary Shares, it is possible that it may decide to undertake such an offering in the future. An additional offering could have an adverse effect on the market price of the outstanding Ordinary Shares.

2.3 *Shareholders who do not take up their rights in full will experience dilution in their ownership*

If Qualifying Shareholders do not (or are not permitted under the terms of the Rights Issue to) take up the offer of New Ordinary Shares under the Rights Issue, their proportionate ownership and voting interests in the Serco Group will be reduced and the percentage that their Ordinary Shares will represent of the total share capital of the Serco Group will be reduced accordingly. Even if a Qualifying Shareholder elects to sell its unexercised Nil Paid Rights, or such Nil Paid Rights are sold on its behalf, the consideration it receives may not be sufficient to compensate it fully for the dilution of its percentage ownership of the Serco Group's share capital that may be caused as a result of the Rights Issue.

2.4 *An active trading market in Nil Paid Rights may not develop on the London Stock Exchange*

An active trading market in the Nil Paid Rights may not develop on the London Stock Exchange during the trading period. In addition, because the trading price of the Nil Paid Rights depends on the trading price of the Ordinary Shares, the Nil Paid Rights price may be volatile and subject to the same risks as noted in Risk Factor 2.1 above. The existing volatility of the Ordinary Shares may also magnify the volatility of the Nil Paid Rights.

2.5 *If there is a substantial decline in the price of the Ordinary Shares, the Nil Paid Rights may become worthless*

The public trading market price of the Ordinary Shares may decline below the Issue Price for the New Ordinary Shares. Should that occur after investors exercise their rights in the Rights Issue, investors will suffer an immediate unrealised loss as a result. Following the exercise of rights, such investors may be unable to sell New Ordinary Shares at a price equal to or greater than the Issue Price for these shares.

Shareholders who decide not to exercise their Nil Paid Rights may also sell or transfer their Nil Paid Rights. If the public trading market price of the Ordinary Shares declines below the Issue Price for the New Ordinary Shares, investors who have acquired any such Nil Paid Rights in the secondary market will suffer a loss as a result.

2.6 *Any future issuance of Ordinary Shares by the Serco Group or sale of Ordinary Shares by major Shareholders may dilute the holdings of current Shareholders and may have an adverse effect on the market price of the Ordinary Shares*

Other than pursuant to the Rights Issue, the Serco Group has no current plans for a subsequent offering of Ordinary Shares. However, it is possible that the Serco Group may decide to offer additional Ordinary Shares in the future. If Shareholders did not take up any such offer of Ordinary Shares or were not eligible

to participate in such offering, their proportionate ownership and voting interests in the Serco Group would be reduced.

An additional offering of Ordinary Shares by the Serco Group or a significant sale of Ordinary Shares by any of the Serco Group's major Shareholders, or the perception that such an issuance or sale could occur, could have an adverse effect on the market price of the outstanding Ordinary Shares. Any such sale by a major Shareholder also may make it difficult for the Serco Group to issue equity securities in the future at a time and a price that the Serco Group deems appropriate.

2.7 *The ability to take up Nil Paid Rights under the Rights Issue will not be readily available to Shareholders in the US or any Excluded Territories (subject to limited exceptions)*

The ability to take up Nil Paid Rights under the Rights Issue will not be readily available to any Shareholder with a registered address, or who is resident or located, in the US or an Excluded Territory (subject to limited exceptions) in the absence of certain other actions. If a Qualifying Shareholder is not able to take up Rights granted in respect of Existing Ordinary Shares under the Rights Issue, then it will suffer dilution, as described above, and it may not receive the economic benefit of such Rights because there is no assurance that the procedure in respect of Rights not taken up, described in Part III (*Terms and Conditions of the Rights Issue*) of this document, will be successful either in selling the Nil Paid Rights or in respect of the prices obtained.

2.8 *Investors may not receive compensation for expired and unexercised Rights*

The subscription period for the New Ordinary Shares being offered in the Rights Issue is expected to commence on 31 March 2015 and is expected to expire on 16 April 2015. If an investor fails to exercise its Rights prior to the end of the subscription period, then it may not receive the economic benefit of such Rights because there is no assurance that the procedure in respect of Rights not taken up, described in Part III (*Terms and Conditions of the Rights Issue*) of this document, will be successful in either selling the Nil Paid Rights, or in respect of the prices obtained.

2.9 *The Serco Group does not currently plan to pay dividends on the Ordinary Shares, and any future decision to pay dividends will depend on the availability of distributable reserves, contractual restrictions and other factors*

The Board does not plan to recommend the payment of a final dividend for the 2014 Financial Year, and will reconsider the dividend policy when the Serco Group's trading outlook and cash generation improves.

The level of any dividend paid in respect of the Ordinary Shares in the future is within the discretion of the Board and is subject to a number of factors, including the business and financial condition, earnings and cash flow of, and other factors affecting, the Serco Group, the availability of funds from which dividends can be legally paid and restrictions on the ability of the Serco Group to pay dividends under the terms of its indebtedness. The terms of the covenant waiver letter obtained by the Group with respect to its US Note Purchase Agreements also restrict the ability of the Serco Group to pay dividends on the Ordinary Shares until 31 May 2015. The level of any future dividend in respect of the Ordinary Shares is also subject to the extent to which the Serco Group receives funds, directly or indirectly, from its operating subsidiaries and divisions in a manner which creates funds from which dividends can be legally paid. The ability of its subsidiaries to pay dividends to the Serco Group and its ability to receive distributions from its investments in other entities are subject to applicable local laws and regulatory requirements and other restrictions. These laws and restrictions could limit the payment of dividends and distributions to the Serco Group by its subsidiaries, which could in the future restrict the Serco Group's ability to fund its operations or to pay a dividend to its Shareholders. Any reduction in dividends paid on Ordinary Shares from those historically paid, or the failure to pay dividends in any financial year, could adversely affect the market price of Ordinary Shares.

2.10 *Exchange rate fluctuations may impact the price of Ordinary Shares or the value of any dividends paid*

The Ordinary Shares, and any dividends to be announced in respect of such shares, will be quoted in pound sterling. An investment in Ordinary Shares by an investor in a jurisdiction whose principal currency is not pound sterling exposes the investor to foreign currency rate risk. Any depreciation of the pound sterling in relation to such foreign currency will reduce the value of the investment in the Ordinary Shares in foreign currency terms and may adversely impact the value of any dividends.

2.11 *Holders of Ordinary Shares outside the UK may not be able to participate in future equity offerings*

English law provides for pre-emptive rights generally to be granted to the Shareholders, unless such rights are disapplied by shareholder resolution. However, securities laws of certain jurisdictions may restrict the Serco Group's ability to allow participation by certain Overseas Shareholders in any future issue of Ordinary Shares. In particular, and subject to certain exceptions, Shareholders who are located in the US may not be able to exercise their rights in the Rights Issue or on a future issue of Ordinary Shares, unless a registration statement under the Securities Act is effective with respect to the Ordinary Shares or an exemption from the registration requirements is available thereunder. The Serco Group has no current intention to file any such registration statement, and cannot assure prospective investors that any exemption from the registration requirements would be available to enable US or other Overseas Shareholders to exercise such pre-emption rights or, if available, that it will utilise any such exemption.

Qualifying Shareholders who have a registered address in or who are resident in countries other than the UK should consult their professional advisers as to whether they require any governmental or other consents, or need to observe any other formalities to enable them to subscribe for New Ordinary Shares. Any Shareholder who is not entitled to participate in any future issue of Ordinary Shares carried out by the Serco Group will suffer dilution, as described above.

2.12 *The ability of Overseas Shareholders to bring actions or enforce judgments against the Serco Group or its Directors or officers may be limited*

The ability of an Overseas Shareholder to bring an action against the Serco Group may be limited under law. The Serco Group is a public limited company incorporated in England and Wales. The rights of Shareholders are governed by English law and the Articles. These rights differ from the rights of shareholders in typical US corporations and some other non-UK corporations. In particular, English law significantly limits the circumstances under which shareholders of English companies may bring derivative actions. Under English law, in most cases, only the Serco Group can be the proper claimant for purposes of maintaining proceedings in respect of wrongful acts committed against it. Neither an individual shareholder nor any group of shareholders has any right of action in such circumstances. In addition, English law does not afford appraisal rights to dissenting shareholders in the form typically available to shareholders in a US corporation. An Overseas Shareholder may not be able to enforce a judgment against some or all of the Serco Directors and/or senior managers. The majority of the Serco Directors and senior managers are and will continue to be residents of the UK. Consequently, it may not be possible for an Overseas Shareholder to effect service of process upon the Serco Directors and/or the senior managers within the Overseas Shareholder's country of residence or to enforce against the Serco Directors and/or the senior managers judgments of courts of the Overseas Shareholder's country of residence based on civil liabilities under that country's securities laws. Overseas Shareholders may not be able to enforce any judgments in civil and commercial matters or any judgments under the securities laws of countries other than the UK against the Serco Directors and/or the senior managers who are residents of the UK or countries other than those in which judgment is made. In addition, English or other courts may not impose civil liability on the Serco Directors and/or the senior managers in any original action based solely on foreign securities laws brought against the Serco Group or the Serco Directors and/or the Senior Managers in a court of competent jurisdiction in England or other countries.

2.13 *Admission of the New Ordinary Shares may not occur when expected*

Application for Admission of the New Ordinary Shares is subject to the approval (subject to satisfaction of any conditions to which such approval is expressed to be subject) of the UK Listing Authority and Admission will become effective as soon as a dealing notice has been issued by the UK Listing Authority and the London Stock Exchange has acknowledged that the New Ordinary Shares (nil and fully paid) will be admitted to trading. There can be no guarantee that any conditions to which Admission is subject will be met or that the UK Listing Authority will issue a dealing notice. See "Expected Timetable of Principal Events" on page 56 of this document for further information on the expected dates of these events.

2.14 *If the conditions to the Rights Issue are not satisfied, the Rights Issue will not proceed*

The Rights Issue is underwritten pursuant to the Underwriting Agreement, and the terms and conditions of the Rights Issue (including termination rights) are set out in Part III (*Terms and Conditions of the Rights Issue*) of this document.

The underwriting of the Rights Issue will become fully effective on Admission, provided that all of the conditions are satisfied or waived and none of the termination rights are exercised. The Underwriting Agreement grants the Underwriters customary rights to terminate the Underwriting Agreement in certain circumstances prior to Admission. If the Underwriters are entitled to terminate, and do terminate, the Underwriting Agreement before Admission occurs, then the Rights Issue will not proceed.

Further, if the Resolution is not passed at the General Meeting, the Rights Issue will not proceed.

IMPORTANT INFORMATION

1. FORWARD-LOOKING STATEMENTS

Certain statements contained in this document that are not historical facts are “forward-looking” statements within the meaning of section 27A of the Securities Act. These forward-looking statements are subject to a number of risks and uncertainties, many of which are beyond the Company’s control and all of which are based on the Directors’ current beliefs and expectations about future events. In some cases, these forward-looking statements can be identified by the use of forward-looking terminology, including the terms “targets”, “believes”, “estimates”, “anticipates”, “expects”, “intends”, “may”, “will”, “should” or “might” or, in each case, their negative or other variations or comparable terminology. They appear in a number of places throughout this document and include statements regarding the intentions, beliefs or current expectations of the Company concerning, among other things:

- (a) the Serco Group’s (i) overall strategy and objectives, including acquisition, divestment and financing strategies, (ii) target return, results of operations, financial condition, and prospects, (iii) legal proceedings and related provisions and (iv) capital appreciation of the Ordinary Shares and dividends;
- (b) trends in the sectors in which the Serco Group intends to invest; and
- (c) anticipated financial and other benefits resulting from the Rights Issue, the Strategy Review, the Corporate Renewal Programme, and the Serco Group’s plans and objectives following the Strategy Review.

By their nature, forward-looking statements involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future. Forward-looking statements are not guarantees of future performance. The Serco Group’s actual performance, results of operations, internal rate of return, financial condition, distributions to Shareholders and the development of its overall or financing strategies may differ materially from the impression created by the forward-looking statements contained in this document. In addition, even if the Serco Group’s actual performance, results of operations, internal rate of return, financial condition, distributions to Shareholders and the development of its overall or financing strategies are consistent with the forward-looking statements contained in this document, those results or developments may not be indicative of results or developments in subsequent periods. Forward-looking statements contained in this document do not in any way seek to qualify the working capital statement contained in paragraph 11 of Part X (*Additional Information*) of this document.

Forward-looking statements contained in this document apply only as at the date of this document. To the extent required by the Listing Rules, the Disclosure and Transparency Rules and the Prospectus Rules and other applicable regulations, the Company will update or revise the information in this document. Otherwise, the Company undertakes no obligation publicly to update or revise any forward-looking statement, whether as a result of new information, future developments or otherwise.

The Company has identified some of the risks inherent in forward-looking statements under “*Risk Factors*” in this document. Important factors that could cause actual results to differ materially from those in forward-looking statements include, among others:

- the Serco Group’s exposure to onerous contracts to which it is a party, which could result in material losses;
- the Serco Group’s ability to assess risks associated with contracts on which it bids or enters into;
- the effectiveness of the Serco Group’s risk management policies and procedures;
- the Serco Group’s reliance on large contracts with a relatively limited number of major customers;
- changes to public spending decisions, outsourcing or other changes in policy affecting government customers or other customers operating in the Group’s relevant markets, particularly in the UK, the US, Australia and the Middle East;
- the Serco Group’s ability or the ability of subcontractors on which it relies to meet contractual performance criteria;
- the Serco Group’s ability to secure contractual bids;
- negative publicity causing damage to the Serco Group’s reputation;

- the Serco Group’s ability to comply, including in a cost-effective manner, with changes to applicable laws and regulation in the markets in which it operates;
- changes in political and legal risks in the various countries and markets, including emerging markets, in which the Serco Group operates;
- the Serco Group’s ability to control operating costs and increasing costs as a result of inflation that it may not be entitled to recover under its contracts;
- the Serco Group’s recognition of any further substantial impairments of the carrying value of goodwill or other intangible assets;
- the effects of competition in the markets in which the Serco Group operates;
- changes to procurement rules and regulations or procurement delays by the Serco Group’s government customers;
- the results of a negative audit of the Serco Group by government agencies or regulators;
- the Serco Group’s ability to successfully implement its new strategy, including any anticipated cost-savings and improved efficiencies, relevant disposals or other corporate transactions;
- losses or reputational damage due to the significant health and safety and environmental risks inherent in the Serco Group’s business;
- the Serco Group’s ability to obtain and maintain required security clearances for employees and facilities;
- involvement with joint ventures over which the Serco Group does not have sole control;
- exposure to litigation, inquiries or investigations of the Serco Group, including, amongst others the Serious Fraud Office investigation, which could result in fines, debarment from bidding for contracts with government authorities, revocations of permissions or reputational damage;
- the Serco Group’s ability to maintain and protect confidential information, including the ability to deliver secure IT systems;
- the Serco Group’s ability to procure and maintain sufficient insurance coverage;
- the Serco Group’s ability to attract, train and retain its senior management and highly skilled employees;
- exposure to increased labour costs, including labour disputes and disruptions among the Serco Group’s employees in the markets in which it operates;
- the Serco Group’s ability to manage foreign currency exchange and liquidity risks and to access credit and capital markets;
- the Serco Group’s success in managing the risks involved in the foregoing; and
- force majeure events and other factors outside the Serco Group’s control, including as a result of changing economic conditions, political developments and social instability including war, civil disturbance and terrorism.

Prospective investors should carefully review the section entitled “*Risk Factors*” of this document for a discussion of factors that could cause the Company’s actual results to differ materially from those expected before making an investment decision. There may be other risks, including some risks of which the Company is unaware, that could adversely affect the Company’s results or the forward-looking statements in this document. Therefore, prospective investors should not consider the factors discussed here or under “*Risk Factors*” to be a complete set of all potential risks or uncertainties. For the avoidance of doubt, nothing in this paragraph constitutes a qualification of the working capital statement contained in paragraph 11 of Part X (*Additional Information*) of this document.

2. INDUSTRY AND MARKET DATA

Where information contained in this document has been sourced from a third party, the Company and the Directors confirm that such information has been accurately reproduced and, so far as they are aware and have been able to ascertain from information published by third parties, no facts have been omitted which would render the reproduced information inaccurate or misleading.

3. PRESENTATION OF FINANCIAL INFORMATION

The historical financial information relating to the Serco Group included elsewhere in this document has been extracted with certain unaudited adjustments and presentational differences from the audited financial information incorporated by reference in Part VI (*Historical Financial Information Relating to the Serco Group*) of this document (the “**Serco Group’s Historical Financial Information**”), which includes the following:

- (a) the 2012 Financial Statements;
 - (b) the 2013 Financial Statements; and
 - (c) the 2014 Financial Statements and, together with the 2012 Financial Statements and the 2013 Financial Statements, the “**Audited Financial Statements**”),
- all of which are incorporated by reference into this document.

Note, in particular, that the Serco Group’s Historical Financial Information included in this document reflects the following adjustments:

- (a) The 2012 consolidated financial information has been extracted from the 2013 Financial Statements after adjusting for (i) the 2012 impact of the restatement of certain financial instruments with regards to hedge accounting (see note 4 of the 2014 Financial Statements) and (ii) consistency with the format of presentation used in the 2014 Financial Statements. Therefore the financial information presented in the prospectus for 2012 will differ from the 2012 Financial Statements.
- (b) The 2013 consolidated financial information has been extracted without material adjustments from the 2014 Financial Statements. The 2013 comparative amounts included in the 2014 Financial Statements do not agree to the 2013 Financial Statements as they have been adjusted to (i) reflect the 2013 impact of the restatement of certain financial instruments with regards to hedge accounting (see note 4 of the 2014 Financial Statements) and (ii) be consistent with the format of presentation used in the 2014 Financial Statements.
- (c) Unless otherwise indicated, financial information in this document relating to Serco has been prepared in accordance with IFRS.
- (d) All prices quoted for Ordinary Shares are Closing Prices as provided by the London Stock Exchange. All London Stock Exchange quoted share prices are expressed in pounds sterling.
- (e) Other sources are included in footnotes, where relevant.

Non-IFRS financial measures In this document, certain financial measures of the Serco Group that are presented are not measures of financial performance defined under IFRS, or any other internationally accepted accounting principles. These financial measures are referred to as “non-IFRS”. The principal non-IFRS financial measures used in this document are discussed below.

- **Trading results** — The term “Trading” is used for items in the income statement to denote the exclusion of (a) amortisation and impairment of intangibles arising on acquisition; (b) exceptional items; and (c) where applicable, the tax effect of these items. The primary KPIs where this applies are (i) “Trading Profit”, which is Operating Profit as defined under IFRS, restated for the exclusions (a) and (b) above and (ii) “Trading earnings per share”, which is earnings per share as defined under IFRS, restated for the exclusions in (a), (b) and (c) above.
- **Trading cash flow** — Trading cash flow is defined as “net cash inflow from operating activities” excluding exceptional items excluding “tax paid” plus “dividends received from joint ventures” plus “proceeds from disposal of property plant and equipment” plus “proceeds from disposal of intangible assets” less “purchase of other intangible assets” less “purchase of property, plant and equipment”.
- **Free cash flow** — is defined as Trading cash flow plus “interest received” less “interest paid” less “tax paid”.
- **Return on invested capital** — This is Trading profit for the period divided by Invested capital. Invested capital is defined in terms of balances extracted from the IFRS balance sheet at the end date of the reporting period. The balance sheet captions used are operating assets, being gross assets less trade and other payables (current and non-current) and excluding provisions, pension, derivatives, financing, tax and cash balances. Invested capital includes assets and liabilities classified as held for sale.

- **Organic revenue growth** — Organic revenue growth is the percentage change in revenue excluding the impact of movements in foreign exchange rates and excluding the impact of acquisitions and disposals in the current or prior period.

These non-IFRS earnings measures are presented herein as (1) they are used by management to measure operating performance, in presentations to the Serco Directors, and as a basis for strategic planning and forecasting, and (2) they represent similar measures to those that are widely used by certain investors, securities analysts and other parties as supplemental measures of performance. These measures enhance management’s and investors’ understanding of the financial performance of the Group by excluding items that are outside of ongoing operations. However, these non-IFRS earnings measures are not measures or adjustments defined under IFRS or any other internally accepted accounting principles, and investors should not consider such items as an alternative to the historical financial results or other indicators of the Group’s performance defined under IFRS. The non-IFRS earnings measures, as defined herein, may not be comparable to similarly titled measures as presented by other companies due to differences in the way non-IFRS earnings measures are calculated for purposes of this document. Even though the non-IFRS earnings measures are used by management to assess ongoing operating performance and these types of measures are commonly used by investors, they have important limitations as analytical tools, and you should not consider them in isolation or as substitutes for analysis of the results of the Group as reported under IFRS.

4. ROUNDING

Some numbers in this document have been rounded and, as a result, the numbers shown as totals in this document may vary slightly from the exact arithmetic aggregation of the numbers that precede them.

5. CURRENCY PRESENTATION

The Serco Group operates in a number of countries and earn money and makes payments in different currencies. All references in this document to “£”, “pounds”, “pound sterling”, “sterling”, “pence” or “p” are to the lawful currency of the United Kingdom. All references to “€” or “euro” are to the single currency of the member states of the European Communities that adopt or have adopted the euro as their lawful currency under the legislation of the EU or European Monetary Union. All references to “US\$” or “US dollar” are to the lawful currency of the United States. All references to “AU\$” are to the lawful currency of Australia. All references to “INR” are to the lawful currency of India.

6. HISTORICAL EXCHANGE RATE INFORMATION

The tables below show the period-end, average, high and low exchange rates of the pound sterling per US dollar for each of the five years ended 31 December 2010, 2011, 2012, 2013 and 2014, and for each full month in 2015 up to the Latest Practicable Date, expressed as the number of US dollars per £1.00 as published by Bloomberg. These rates may differ from the actual rates used in the preparation of the Company’s financial statements and other financial information appearing in this document. The average is calculated using the exchange rates set on each Business Day during the period.

	US dollar/pound sterling			
	Period end	Average	High	Low
Year ended 31 December				
2010	1.5612	1.5458	1.6362	1.4334
2011	1.5543	1.6039	1.6707	1.5343
2012	1.6255	1.5851	1.6279	1.5318
2013	1.6557	1.5649	1.6557	1.4867
2014	1.5577	1.6476	1.7166	1.5517
Month in 2015				
January	1.5060	1.5160	1.5586	1.4989
February	1.5438	1.5322	1.5528	1.5039

The tables below show the high, low, average and period-end exchange rates of pound sterling per euro for each of the five years ended 31 December 2010, 2011, 2012, 2013 and 2014, and for each full month in 2015 up to the Latest Practicable Date, expressed as the number of euros per £1.00 as published by Bloomberg. These rates may differ from the actual rates used in the preparation of the Company's financial statements and other financial information appearing in this document. The average is calculated using the exchange rates set on each business day during the period.

	euro/pound sterling			
	Period end	Average	High	Low
Year ended 31 December				
2010	1.1664	1.1662	1.2358	1.0962
2011	1.1987	1.1525	1.2045	1.1066
2012	1.2308	1.2331	1.2863	1.1793
2013	1.2014	1.1779	1.2325	1.1432
2014	1.2877	1.2409	1.3388	1.2726
Month in 2015				
January	1.3388	1.3038	1.3388	1.2726
February	1.3783	1.3501	1.3783	1.3215

7. REFERENCES TO TIME

Unless otherwise stated, all references to time in this document are to the time in London, United Kingdom.

8. DEFINED TERMS

Certain terms used in this document, including capitalised terms and certain technical and other items, are defined in Part XII (*Definitions and Glossary of Technical Terms*) of this document.

9. NO INCORPORATION BY REFERENCE OF WEBSITE INFORMATION

Unless otherwise specified in this document, neither the content of Serco's website, nor the content of any website accessible from hyperlinks on Serco's website, is incorporated into, or forms part of, this document and investors should not rely on them, without prejudice to the documents incorporated by reference into this document, which will be made available on Serco's website.

EXPECTED TIMETABLE OF PRINCIPAL EVENTS

Each of the times and dates in the table below is indicative only and may be subject to change.⁽¹⁾

Publication and posting of this document, the Notice of General Meeting and the Form of Proxy	12 March 2015
Rights Issue Record Date	close of business on 26 March 2015
Latest time and date for receipt of Forms of Proxy	10.00 a.m. on 26 March 2015
General Meeting	10.00 a.m. on 30 March 2015
Despatch of Provisional Allotment Letters (to Qualifying non-CREST Shareholders only) ⁽²⁾	30 March 2015
Publication of notice in the London Gazette	30 March 2015
Existing Ordinary Shares marked “ex” by the London Stock Exchange	8.00 a.m. on 31 March 2015
Dealings in New Ordinary Shares, nil paid, commence on the London Stock Exchange	8.00 a.m. on 31 March 2015
Nil Paid Rights credited to stock accounts in CREST (Qualifying CREST Shareholders only) ⁽²⁾	as soon as practicable after 8.00 a.m. on 31 March 2015
Nil Paid Rights and Fully Paid Rights enabled in CREST	as soon as practicable after 8.00 a.m. on 31 March 2015
Recommended latest time for requesting withdrawal of Nil Paid Rights and Fully Paid Rights from CREST (i.e. if your Nil Paid Rights and Fully Paid Rights are in CREST and you wish to convert them to certificated form)	4.30 p.m. on 10 April 2015
Latest time for depositing renounced Provisional Allotment Letters, nil or fully paid, into CREST or for dematerialising Nil Paid Rights or Fully Paid Rights into a CREST stock account (i.e. if your Nil Paid Rights and Fully Paid Rights are represented by a Provisional Allotment Letter and you wish to convert them to uncertificated form).	3.00 p.m. on 13 April 2015
Latest time and date for splitting Provisional Allotment Letters, nil or fully paid	3.00 p.m. on 14 April 2015
Latest time and date for acceptance, payment in full and registration of renunciation of Provisional Allotment Letters	11.00 a.m. on 16 April 2015
Results of Rights Issue to be announced through a Regulatory Information Service	by 8.00 a.m. on 17 April 2015
Dealings in New Ordinary Shares, fully paid, commence on the London Stock Exchange	8.00 a.m. on 17 April 2015
New Ordinary Shares credited to CREST accounts	as soon as practicable after 8.00 a.m. on 17 April 2015
Despatch of definitive share certificates for the New Ordinary Shares in certificated form	by no later than 24 April 2015

Notes:

- (1) The times and dates set out in the expected timetable of principal events above and mentioned throughout this document may be adjusted by Serco with the agreement of the Joint Global Coordinators in which event details of the new times and dates will be notified to the UKLA, the London Stock Exchange and, where appropriate, Qualifying Shareholders.
- (2) Subject to certain restrictions relating to Qualifying Shareholders with registered addresses outside the United Kingdom, details of which are set out in paragraph 2.6 of Part III (*Terms and Conditions of the Rights Issue*) of this document.

SHARE CAPITAL AND RIGHTS ISSUE STATISTICS

Issue Price per New Ordinary Share	101 pence
Basis of Rights Issue	1 New Ordinary Share for every 1 Existing Ordinary Share
Number of Ordinary Shares in issue at the Latest Practicable Date	549,265,547
Number of New Ordinary Shares to be provisionally allotted pursuant to the Rights Issue ⁽¹⁾	549,265,547
Number of Ordinary Shares in issue immediately following the completion of Rights Issue ⁽¹⁾	1,098,531,094
New Ordinary Shares as a percentage of the enlarged issued share capital of Serco immediately following completion of the Rights Issue	50%
Estimated gross proceeds of the Rights Issue	£555 million
Estimated expenses of the Rights Issue	£27 million
Estimated net proceeds of the Rights Issue receivable by Serco, after deduction of estimated expenses of the Rights Issue	£528 million

Notes:

- (1) On the assumption that no further Ordinary Shares are issued from the date of this document until completion of the Rights Issue other than the New Ordinary Shares.

DIRECTORS, COMPANY SECRETARY, REGISTERED OFFICE AND ADVISERS

Directors	Alastair Lyons CBE Rupert Soames OBE Edward J Casey, Jr Angus Cockburn Mike Clasper CBE	Non-Executive Chairman Group Chief Executive Group Chief Operating Officer Group Chief Financial Officer Senior Independent Director and Non-Executive Director
	Ralph D Crosby, Jr Tamara Ingram Rachel Lomax Angie Risley Malcolm Wyman	Non-Executive Director Non-Executive Director Non-Executive Director Non-Executive Director Non-Executive Director
Company Secretary	David Eveleigh	
Registered Office	Serco House 16 Bartley Wood Business Park Bartley Way Hook Hampshire RG27 9UY	
Joint Sponsor, Joint Global Coordinator and Joint Bookrunner	J.P. Morgan Cazenove 25 Bank Street London E14 5JP	
Joint Sponsor, Joint Global Coordinator and Joint Bookrunner	Merrill Lynch International 2 King Edward Street London EC1A 1HQ	
Co-Bookrunner	Barclays Bank PLC 5 The North Colonnade Canary Wharf London E14 4BB	
Co-Bookrunner	HSBC Bank plc 8 Canada Square London E14 5HQ	
Lead Manager	Crédit Agricole Corporate and Investment Bank 9, quai du président Paul Doumer 92920 Paris la défense cedex	
Financial Adviser	Rothschild New Court St Swithin's Lane London EC4N 8AL	
Legal Adviser to Serco as to English and US Law	Clifford Chance LLP 10 Upper Bank Street London E14 5JJ	

Legal Advisers to Joint Sponsors, Joint Global Coordinators, Joint Bookrunners, Co-Bookrunners and Lead Manager as to English and US Law	Freshfields Bruckhaus Deringer LLP 65 Fleet Street London EC4Y 1HS
Auditors and Reporting Accountants to Serco in respect of Serco financial information	Deloitte LLP Athene Place 66 Shoe Lane London EC4A 3BQ
Registrar and Receiving Agent	Equiniti Aspect House Spencer Road Lancing West Sussex BN99 6DA

PART I
LETTER FROM THE CHAIRMAN

SERCO GROUP PLC

*(Incorporated and registered in England and Wales under the Companies Act 1985 with
registered number 02048608)*

Directors:

Alastair Lyons CBE
Rupert Soames OBE
Edward J Casey, Jr
Angus Cockburn
Mike Clasper CBE
Ralph D Crosby, Jr
Tamara Ingram
Rachel Lomax
Angie Risley
Malcolm Wyman

Registered Office:

Serco House
16 Bartley Wood Business Park
Bartley Way
Hook
Hampshire RG27 9UY

12 March 2015

To the holders of Ordinary Shares and, for information only, to holders of options over Serco Ordinary Shares

Dear Shareholder,

1 for 1 Rights Issue of 549,265,547 New Ordinary Shares at 101 pence per New Ordinary Share and Notice of General Meeting

1. INTRODUCTION

On 10 November 2014, Serco announced that it intended to carry out a rights issue in the first quarter of 2015.

The purpose of this document is to explain the background to and reasons for the Rights Issue, set out the terms and conditions of the Rights Issue and provide you with a Notice of General Meeting to be held to consider and, if thought fit, to pass the Resolution required to enable and authorise the Directors to carry out the Rights Issue.

This document also explains why the Board considers that the Rights Issue and the Resolution to be proposed at the General Meeting are in the best interests of Shareholders and why the Board unanimously recommends that Shareholders vote in favour of the Resolution.

2. BACKGROUND TO AND REASONS FOR THE RIGHTS ISSUE

As set out in the announcement on 10 November 2014, the reason for the Rights Issue is to allow the Group to reduce its debt to an appropriate level while it implements its revised strategy under which it will focus on providing services to government clients in its principal markets and dispose of non-core businesses. An “appropriate level” is one which will give Serco’s customers the confidence they need to commit to signing long-term contracts with Serco and give lenders comfort regarding their investment in the Group, taking into account the potential volatility of earnings, and which will enable the Group to invest in growing the business.

To provide investors with a comprehensive picture as to why the business has felt it appropriate to revise its previous strategic direction, I have set out below the background to the issues the Group faces today. Serco’s current situation does not arise from a single factor, but from a number of operational and strategic issues, and understanding the problem is central to understanding the solution.

2.1 Background to the Strategy Review

From 2000 to 2010, Serco saw strong growth through a combination of organic growth in existing markets and expansion into new countries, as well as through acquisitions. Governments were keen to benefit from involving the private sector in the provision of services, and many areas of activity were contracted out for

the first time. As Serco and others were able to reduce costs and improve services, contract margins grew and revenue increased rapidly.

Towards the end of the decade, however, conditions became more difficult. Margins came under pressure as “first generation” contracts were retendered and governments, having gained experience from the early contracts, became more sophisticated purchasers. At the same time, the competitive landscape became more intense, as companies from outside the public service sector were attracted by the rapid growth and strong margins, and existing operators expanded into new segments. Overlaid upon this came the consequences of the financial crisis in 2008, which led to an intense focus on public expenditure deficits. In the UK, the election in 2010 of a new Government determined to cut spending to reduce the fiscal deficit, combined with US budgetary constraints leading to a series of continuing resolutions and reductions in military expenditure, resulted in a sharp reduction in the rate of growth of the public sector outsourcing market.

Faced by these challenges, in 2010 Serco devised a strategy to reduce its dependence on frontline services and the public sector through the following means:

- Firstly, by building, largely through acquisition, a private sector BPO business that could bring skills and additional services to the public sector business, with the expectation that the public sector business could also add distribution, brand and heft to add value to the private sector business.
- Secondly, Serco sought to combat a slowing public sector market by bidding for new work across a broader range of activities, and entered new segments such as UK clinical healthcare and providing housing for asylum seekers.
- Finally, Serco sought to gain efficiencies and reduce costs by investing in an enterprise-wide SAP ERP system and building a shared services infrastructure covering IT, human resources and finance.

Whilst this strategy was a logical reaction to challenging conditions, in practice it proved extremely difficult to implement because the synergies between the private and public sector businesses were not as expected; the acquisitions that drove entry into the BPO market were not well integrated; some of the contracts in new markets proved to be more costly and more difficult to execute than was anticipated; and the implementation of a shared services infrastructure proved problematic.

On top of the challenges relating to implementing its strategy, Serco suffered a very damaging setback in 2013 when the UK Government announced that an independent audit of the billing arrangements on Serco’s contract to provide electronic monitoring services to persons subject to bail or other court orders (the “**Electronic Monitoring Contract**”) had highlighted evidence of overbilling. This was followed shortly thereafter by a joint request from the UK Ministry of Justice and Serco to the City of London Police to investigate allegations related to the misleading recording of key performance indicators on a contract to provide prisoner escort and custody services in London and East Anglia (the “**PECS Contract**”) (together, the “**EM/PECS Investigations**”). In light of the allegations, the UK Government put in motion a series of actions amidst much publicity to determine the extent of the alleged wrong-doing.

The Electronic Monitoring Contract was referred to the Serious Fraud Office, which announced in November 2013 that it had opened an investigation. Serco is cooperating fully with the Serious Fraud Office’s investigation, which is still in the early stages, and it is not possible to predict the outcome of the investigation at this stage. However, in the event that the Serious Fraud Office decides to prosecute, however, the range of possible adverse outcomes is any one or a combination of the following: (i) that the Serious Fraud Office prosecutes the individuals involved; (ii) that the Serious Fraud Office prosecutes the Serco Group entities involved; or (iii) that the Serious Fraud Office and the relevant Serco Group entities enter into a deferred prosecution agreement (the consequences of which are described further below).

For more information regarding this investigation, see Risk Factor 1.2 above and paragraph 9 of Part IV (*Information on the Serco Group*) below.

On 19 December 2014, the City of London Police announced that, following an extensive investigation in relation to the PECS Contract, it had concluded that there was no evidence of corporate-wide conspiracy or an intention to falsify figures to meet the key performance indicators by senior Serco management or at the board level of Serco Limited in relation to the PECS Contract. The City of London Police were also satisfied there was no evidence to support the request of a charging decision from the Crown Prosecution Service in relation to Serco or its staff in relation to the PECS Contract, a decision that has been accepted by the Crown Prosecution Service on the basis of the force’s preliminary investigative findings. The City of London Police has discontinued its investigation and no charges have been brought.

The Group moved swiftly to address the issues raised in the EM/PECS Investigations: in December 2013, Serco agreed with the UK Ministry of Justice a financial settlement, subject to certain conditions, comprising a payment of £64.3 million in respect of the Electronic Monitoring Contract and a payment of £2 million in past profits and an agreement to forgo future profits in respect of the PECS Contract. The Serco Group also agreed with the UK Government to enter into a process of Corporate Renewal, overseen by the Government, in order to be considered for future contracts with the UK Government. The scope and relevance of the Corporate Renewal Programme was assessed by a UK Government Oversight Group in January 2014 and in February 2014 the Serco Group won its first UK Government contract for new business since the issues on the Electronic Monitoring Contract had been identified. In October 2014, the Corporate Renewal Programme was reported on by the UK Government's appointed consultants confirming that Serco had identified and understood the causes of previous issues and, through the Corporate Renewal Programme, had put in place cultural and governance structures designed to address those issues and sustain ongoing customer confidence. Detailed reviews were also carried out by the UK Government of the Group's other major contracts with the UK Central Government, which revealed no impropriety or maladministration. Further information relating to the EM/PECS Investigations and the Corporate Renewal Programme is set out in detail in paragraphs 3 and 9 of Part IV (*Information on the Serco Group*) of this document.

The EM/PECS Investigations caused substantial damage to Serco's reputation, not only within UK Government circles, but also in the wider private sector markets in the UK. When customers hand over large parts of their business to others to administer, corporate reputation is a powerful factor in the decision-making process. Given the competitive nature of the business, bids tend to be fiercely fought, with relatively small differences in commercial terms, and therefore reputational issues can be decisive. Serco's response was to be swift to acknowledge that some instances of charging were ethically wrong, apologise, fix the problem, and focus on delivering excellent service. The Directors believe that the vast majority of the Group's international public sector customers are very focused on events in their own jurisdiction: despite the negative publicity, the Group has seen relatively little impact in the US, Australia and the Middle East from the events in the UK.

The events of 2013 and natural attrition also gave rise to significant change in Serco's management team, particularly in the UK. Around 25 per cent. of the management of the Group's UK operations have left the business over the last 18 months, including the Chief Executive of the UK division. To bring senior management closer to the operating business units, this division was subsequently divided into two parts — a UK Central Government division and a UK & Europe Local & Regional Government division — and new Chief Executives with strong track records within the services sector have been recruited into the business who have then formed their own new management teams. In addition, the former Group Chief Executive and Group Chief Financial Officer also left the Group. In May 2014, the new Group Chief Executive Rupert Soames joined the Group and Ed Casey was appointed as the Group Chief Operating Officer. In October 2014, the new Group Chief Financial Officer, Angus Cockburn, joined.

Whilst public attention was focused on the EM/PECS Investigations, additional challenging trading conditions began to emerge in early 2014, driven partly by the consequential impact on the business of such investigations and partly by events generally unrelated to these investigations. The Group's business in Australia, the US and the UK all suffered from increased contract and volume attrition in 2013-2014 which was weighted towards contracts with historically high margins, and those that were being newly won tended to be at lower margins. In addition, the Australian Immigration Services contract with the Australian Government Department of Immigration and Citizenship suffered from a significant reduction in revenue and margin as a result of a sharp decline in the volumes of detainees in the second half of 2013. At the same time, being effectively "unawardable" for new UK Central Government contracts for a number of months together with the broader reputational damage arising from the EM/PECS Investigations reduced the Group's ability to replace lost volume with new work and created a significant dislocation in the Group's new business development pipeline.

Significant changes of circumstances relating to existing contracts that contributed to reduced margins, and contracts won at lower than average margins, analysed by territory and market, include the following:

UK:

- Electronic Monitoring Contract: fully transitioned to new providers in early 2014.
- AWE ML: lower margins following the new pricing period of the contract from April 2013.

- Northern Rail: lower margins following extension of the contract from April 2014.
- Suffolk Community Health: losses increased in 2014 as service improvement measures were put in place.
- COMPASS contract to house asylum seekers: losses increased in 2014 as a result of service improvements and increased volumes of asylum seekers requiring accommodation.
- PECS Contract: significant investments made to improve operational performance result in increased losses.
- National Physical Laboratory: contract taken back in-house.

Australia:

- Australian Immigration Services contract: sharply reduced numbers of people in detention as a result of the effectiveness of the actions of the new Australian Government elected in September 2013 in reducing the number of new immigrants arriving by sea.
- Armidale Class Patrol Boats (“ACPB”) contract: increased costs to remediate cracking and corrosion following detailed examination in the second half of 2014.
- Garrison support contract: contract lost on re-compete in January 2014.

United States:

- Attrition of higher margin areas of work including, for example, the loss of the Department of State’s National Visa Center and Kentucky Consular Center in August 2013 and the US Federal Retirement Thrift Investment Board in September 2013.

Business Process Outsourcing:

- Increased investment in 2013 in contract bidding and new market development activity with the intention of developing an international franchise for the Global Services division.
- Lower margin in 2014 on major new operations for Shop Direct and AEGON, together with underutilisation across multiple delivery centres derived from various acquisitions.
- Lower level of UK Local Government discretionary and *ad hoc* project work, in particular following the reputational issues described above arising in 2013. Win rates began to decline in 2013 and the pipeline was also shrinking.

2.2 Strategy Review

On joining the business on 1 May 2014, the new Group Chief Executive, Rupert Soames, determined four priorities:

- **Stabilise the finances of the business to ensure that the Group had the time to conduct an in-depth review of the strategy of the business.** This was achieved by a placing of a total of 49,932,918 new Ordinary Shares at 320 pence per share, raising gross proceeds of approximately £160 million.
- **Rebuild and reorganise the management team.** Very good progress has been made on this, with some key hires of first-class managers, including Angus Cockburn as Chief Financial Officer, Kevin Craven as Chief Executive Officer of the UK Central Government division, Liz Benison as Chief Executive Officer of the UK & Europe Local & Regional Government division, and David Eveleigh as the Group General Counsel and Company Secretary. The Executive Team has been restructured, with Ed Casey taking on the role of Group Chief Operating Officer, and a layer of management removed with the dissolution of the AMEAA (Australasia, the Middle East, Asia and Africa) regional management team.
- **Strengthen the Group’s relationship with the UK Government.** Good progress has been made on this front as well, building on the assessment of the scope and relevance of the Corporate Renewal Programme by a UK Government oversight group in January 2014 and the significant progress that has been achieved since. The Group is now able to compete for UK Central Government contracts, as is demonstrated by the recent awards of a number of new contracts, including Yarl’s Wood.

- **Launch a strategy review** (the “**Strategy Review**”) to analyse the current market and competitive situation, to develop a new strategy that offers the greatest opportunity for value creation for shareholders, customers and employees, and to identify how best to implement the new strategy. The Strategy Review also encompassed reviews of the Group’s contracts and balance sheet (the “**Contract & Balance Sheet Reviews**”) to provide a stable financial base for future growth. The Strategy Review is now complete and the results are set out in detail in paragraph 3 of Part IV (*Information on the Serco Group*).

The Strategy Review had three distinct phases: first, properly understanding the causes and effects of the challenges of the last five years; second, exploring the strategic options for the Group; and finally, having selected a strategy, planning the implementation of the strategy.

The causes of the challenges have been largely set out above. The effects are reflected in both the financial performance and the results of the Contract & Balance Sheet Reviews, which are described in more detail in paragraph 2.3 of this Part I (*Letter from the Chairman*) and Part V (*Operating and Financial Review of the Serco Group*) of this document.

The Directors examined two strategic options in detail: the Company could either continue with the previous strategy of operating both in the private and public sector, or focus on one and exit the other. The private sector represented a very small proportion of the Group’s economic profits; the Group’s public sector customers proved extremely resistant to moving their middle or back office functions outside their jurisdictions; and the Company failed to add value to the private sector business using public sector distribution and brand. It became clear that the disciplines required for international success in the private and public sector BPO markets are different, and to build a Group which could have the scale to be good at both would require significant investment. Therefore the Directors decided to focus investment and effort on the Group’s core market of public sector services, where the Directors believed the Group had a strong position. Once the Group has addressed the issues in its core market, and earned the confidence of its stakeholders, the Directors believe that the Group will have more options in three to five years’ time than those currently available.

The Strategy Review also identified that whilst the public service market presents a number of challenges, it also has many attractions. Most particularly, the market for the provision of public services by private companies is underpinned by structural growth. This is because in many areas of public service provision, private companies, if properly managed, can deliver services of higher quality at a lower cost than government. Second, governments are likely to continue to face pressures to deliver more and better public services at a lower cost, and these pressures will lead them to focus on value for money and the quality of service provision. These pressures can be summarised as the following “Four Forces”:

- the growing costs of healthcare and the costs of supporting ageing populations;
- the need to reduce public debt and expenditure deficits;
- the rising expectations of service quality amongst public service users; and
- the unwillingness of voters and corporate taxpayers to countenance tax increases.

The Directors expect that these four forces will make Serco’s customers want more and better services, for less.

Whilst there has been great focus on “austerity” as a factor affecting public finances in the short term, the Directors believe that these Four Forces will continue to bear on public policy for many years to come, and drive growth in private sector provision of public services in the sectors that make up the Group’s new strategy (being Justice & Immigration, Defence, Transport, Citizen Services and Healthcare). The Directors estimate that, in the long term, the core sectors on which Serco will focus are likely to grow at an aggregate of 5 to 7 per cent. per annum. Furthermore, the need for people intensive core public services, such as prisons, immigration, healthcare and transport, is likely to be resilient to social, economic and technological change, and thus supports a sustainable level of demand for the public services sector.

Core to the new strategy is the Directors’ belief that having a diversified portfolio of services in different segments and jurisdictions is an advantage. In a world where political priorities of changing governments can switch resources from defence to immigration control to healthcare and back again, being diversified by segment and jurisdiction should reduce risk and volatility, and is therefore valuable. Many of the Company’s closest competitors are specialists in either a particular segment, or within a particular region. The Directors believe that, while focused on public services, the Group can deliver better risk-adjusted returns and lower volatility in the long term if it has the capability to operate across more than one segment within the market, and in more than one jurisdiction.

The Directors also believe that governments across the world face similar challenges at many levels. At a detailed operational level, providing cleaning and catering services in a hospital is very similar in Western Australia and in Arkansas; likewise, escorting prisoners to court. At a higher level, having expertise in staff rostering and time management is globally applicable across segments, as is project and case management. Yet higher, building deep capability in “continuous improvement” projects is globally applicable. Finally, the Directors believe that where the Company has deep expertise in running public services in one territory, this provides credibility in another.

In becoming a more focused B2G supplier operating in fewer countries, Serco intends to initially reduce in size, concentrate on improving operational performance, reduce overheads and thereby return to sustainable profitable growth. The Rights Issue and proceeds from the Proposed Disposals will strengthen the Group’s capital structure and funding arrangements. Further, it is intended that the loss-making contracts will, where possible, be mitigated; the Company will focus business development spend on the chosen pillars, investing a greater proportion in the development of markets and pipelines, strengthening bid risk management through tightened procedures and more in-depth commercial reviews, and building stronger cross-business networks to share capability and best practice; the scale of the business will be better exploited through centres of excellence and use of shared services; and underlying infrastructure, management information and capability will be improved through common practices and continuous improvement programmes.

In addition, Serco intends to reduce costs through continuing to de-layer, rolling out continuous improvement initiatives in its contract base, and making better use of its scale in procurement and the use of shared services; all led by dedicated leadership with external support. 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).

2.3 Contract & Balance Sheet Reviews

An essential pre-condition of executing the new strategy is to start from a firm foundation. As part of the Strategy Review, Serco has therefore carried out Contract & Balance Sheet Reviews. In September 2014 the Serco Group engaged Ernst & Young LLP to assist it in identifying contracts held by the Group which were loss-making. As a result of this process, 133 contracts were reviewed, accounting for approximately 50 per cent. of the Group’s targeted annual revenue for the 2015 Financial Year, of which 19 were subject to detailed review. Approximately 50 contracts accounting for targeted aggregate contract revenue of approximately £600 million for the 2015 Financial Year were identified as loss-making over the remaining life of each such respective contract. Estimated future losses across the remaining life of such contracts amounted to £447 million. Five of the loss-making contracts identified are expected to account for approximately 75 per cent. of the losses to the Group over the remaining life of such contracts. Onerous Contract Provisions of £447 million have been recognised in the Group’s financial statements for the 2014 Financial Year to reflect the estimated level of losses of these loss-making contracts.

The single largest revision of estimates involves the contract with the Australian Defence Materiel Organisation for the maintenance of the Royal Australian Navy’s Armidale Class Patrol Boats (“**ACPB**”). Following structural cracks identified on one of the patrol boats, the Group commissioned a further engineering-led report which was completed in January 2015. The report confirmed the presence of similar corrosion and cracking on the other vessels, the remediation of which would require major work. As a result, based on the findings of this report, the loss of one patrol boat out of the fleet as a result of a fire and combined with limited progress on additional cost recovery from its customer, the Serco Group has re-estimated the costs of rectification and maintenance through to the scheduled end of the contract in 2022. The Serco Group recorded an Onerous Contract Provision for this contract as of 31 December 2014 of £135.6 million and also recognised related impairments and charges of £60 million in 2014. For more information regarding the Group’s Onerous Contract Provisions, see paragraph 3.5 in Part V (*Operating and Financial Review of the Serco Group*) of this document.

As highlighted in risk factor 1.1, despite the process of identifying contracts of which profitability might be at risk and the detailed review of the 19 contracts, no assurance can be given that the Onerous Contract Provisions will be sufficient to cover the losses ultimately incurred under such contracts, that further provisions for such contracts will not be required in the future or that the costs of fulfilling other contracts will not exceed the actual or expected economic benefit under such contracts resulting in the need for Onerous Contract Provisions for such contracts.

2.4 Review of Group's leverage

The Strategy Review has assessed the appropriate funding strategy for the Group. Net debt (including that for assets and liabilities of the businesses subject to the Proposed Disposals as described in paragraph 10 of this Part I (*Letter from the Chairman*)) was £682 million at 31 December 2014, but averaged £783 million over the course of 2014. For 2015, a net cash outflow of around £150-200 million is anticipated, before the effect of the Rights Issue proceeds and any proceeds from Proposed Disposals — this reflects in particular: (i) the projected cash outflow on onerous contracts, which is estimated to be around £139 million; (ii) impact from year-end net debt levels becoming more aligned with average net debt levels; (iii) exceptional costs in 2015 which include approximately £30 million of fees and expenses in connection with the reduction of the Group's borrowings and the amendments to the Existing Finance Agreements; and (iv) further restructuring programmes that will be developed as part of implementing the Strategy Review.

A critical aspect of giving the Group a firm foundation for the implementation of its strategy is to ensure that the Group has a level of gearing that allows the business the stability and flexibility to manage its operations efficiently. This is fundamental to giving its customers confidence that the Group has the resilience to manage the risks inherent in its business and, therefore, represent a stable and dependable platform for the contracts with which they entrust the Group. This is always a difficult area of judgement: too much leverage, and the business is constantly constrained, and may not be able to address opportunities for value creation as they arise; too little leverage, and returns on shareholders' equity are lower than they could be.

The Board's judgement on this is that the medium term target level of gearing that balances these two factors is in the range of 1-2x net debt: Consolidated EBITDA. By virtue of the breadth and complexity of its activities the Group will always have significant operational leverage: in the Board's view it should not, therefore, at the same time have a high level of financial leverage.

Based on forecasts made by the Company for the 2015 Financial Year, the net proceeds of the Rights Issue is expected to reduce leverage (the ratio of net debt to Consolidated EBITDA) to around 2x. Leverage would also be expected to reduce further to around the bottom end of the target range following the Proposed Disposals of non-core assets. The timing of any disposal and the amount of any proceeds are uncertain; however the Board considers that the Rights Issue and the Proposed Disposals would have the effect of producing what the Board considers to be an "appropriate level" of financial gearing, as described in paragraph 2 above. Furthermore, progress is being made to institute improved day-to-day working capital controls and cash forecasting in order to promote sustainable cash generation and to focus on appropriate levels of return on capital.

3. USE OF PROCEEDS

Proceeds from the Rights Issue will be used primarily to reduce the Group's net debt. Of the expected approximate £528 million of net proceeds from the Rights Issue, up to £450 million is expected to be applied to reduce the Group's borrowings under its Facility Agreement (£225 million or, if less, the amount then drawn) and the US Private Placement Notes (£225 million), with the balance (after approximately £30 million of fees and expenses are paid in connection with the reduction of the Group's borrowings and the amendments to the Existing Finance Agreements) to be used by the Group for general corporate purposes.

4. FINANCIAL IMPACT OF THE RIGHTS ISSUE

Had the amendments to the Existing Finance Agreements and the Rights Issue taken place (and had part of the proceeds been used to reduce the Group's borrowings) as at the last balance sheet date, being 31 December 2014, the effect on the balance sheet would have been an increase in cash and cash equivalents of £87.8 million and an increase in share capital of £11.0 million. The Group's pro forma net debt to Consolidated EBITDA ratio as at 31 December 2014 would have reduced from 3.4x as reported, to 0.8x taking into account the receipt of the net proceeds of the Rights Issue and the repayment of debt under the Facility Agreement and the US Private Placement Notes.

Your attention is also drawn to Part VII (*Unaudited Pro Forma Financial Information*) of this document which contains an unaudited pro forma statement of net assets that illustrates the effect of the Rights Issue, the repayment of debt under the Facility Agreement and the US Private Placement Notes and the

amendments to the Group's Existing Finance Agreements on the Serco Group's net assets as at 31 December 2014 as if the Rights Issue had been undertaken at that date.

5. PRINCIPAL TERMS OF THE RIGHTS ISSUE

The Company is proposing to raise approximately £528 million (net of estimated underwriting commissions, certain expenses, including professional fees in connection with the Rights Issue), by way of the Rights Issue of 549,265,547 New Ordinary Shares. The Issue Price of 101 pence per New Ordinary Share, which is payable in full on acceptance by not later than 11.00 a.m. on 16 April 2015, represents a 51.1 per cent. discount to the Closing Price of 206 pence per Existing Ordinary Share on 11 March 2015 (being the last Business Day prior to the publication of this document) and a 34.3 per cent. discount to the theoretical ex-rights price of 154 pence per New Ordinary Share calculated by reference to the Closing Price on 11 March 2015. If a Qualifying Shareholder does not take up any of its entitlement to New Ordinary Shares, its proportionate shareholding will be diluted by 50 per cent. However, if a Qualifying Shareholder takes up its Rights in full, it will, after the Rights Issue has completed, have the same proportionate voting rights and entitlements to dividends as it had on the Record Date.

If a Qualifying Shareholder does not wish to subscribe for the New Ordinary Shares to which it is entitled, such Shareholder can instead sell its rights to those New Ordinary Shares and receive the net proceeds in cash. This is referred to as dealing in the rights "nil paid".

The Company proposes to offer New Ordinary Shares by way of the Rights Issue to Qualifying Shareholders on the following basis and otherwise on the terms and conditions set out in Part III (*Terms and Conditions of the Rights Issue*) of this document:

1 New Ordinary Share at 101 pence each for every 1 Existing Ordinary Share

held by Qualifying Shareholders on the Record Date. Holdings of Existing Ordinary Shares in certificated and uncertificated form will be treated as separate holdings for the purpose of calculating entitlements under the Rights Issue.

The New Ordinary Shares will, when issued and fully paid, rank *pari passu* in all respects with the Existing Ordinary Shares, including the right to receive in full all dividends and other distributions declared, made or paid by reference to a record date after the date of their issue.

The Rights Issue is conditional upon, amongst other things:

- (a) the Resolution being passed at the General Meeting;
- (b) the Underwriting Agreement having become unconditional in all respects (save for the condition relating to Admission) and not having been terminated in accordance with its terms prior to Admission; and
- (c) Admission becoming effective by not later than 8.00 a.m. on 31 March 2015 (or such later time and/or date, being not later than 2 April 2015, as the parties to the Underwriting Agreement may agree).

The Rights Issue has been fully underwritten on the basis set out in the Underwriting Agreement. The Underwriters, as agents for the Company, have agreed under the terms of the Underwriting Agreement to procure subscribers for or, failing which, to subscribe for the New Ordinary Shares not taken up in the Rights Issue at a price of 101 pence per New Ordinary Share.

Applications will be made to the UKLA for the New Ordinary Shares to be admitted to the premium segment of the Official List and to the London Stock Exchange for the New Ordinary Shares to be admitted to trading on the main market of the London Stock Exchange. It is expected that Admission will become effective and dealings (for normal settlement) in the New Ordinary Shares will commence, nil paid, at 8.00 a.m. on 31 March 2015.

The results of the Rights Issue, including the aggregate number of New Ordinary Shares issued and the aggregate amount raised, net of expenses, is expected to be announced by Serco to a Regulatory Information Service by 8.00 a.m. on 17 April 2015.

Some questions and answers, together with further terms and conditions of the Rights Issue, are set out in Part II (*Questions and Answers on the Rights Issue*) and Part III (*Terms and Conditions of the Rights Issue*) of this document and, where relevant, in the Provisional Allotment Letter.

Qualifying Shareholders resident in any jurisdiction other than the United Kingdom, and persons who hold Ordinary Shares for the benefit of such persons or who have a contractual or other legal obligation to forward this document into a jurisdiction other than the United Kingdom, should refer to paragraph 12 of this Part I (*Letter from the Chairman*), question 4.7 of Part II (*Questions and Answers on the Rights Issue*) and paragraph 2.6 of Part III (*Terms and Conditions of the Rights Issue*) of this document.

6. INFORMATION ON THE SERCO GROUP

Serco is an international service company predominantly focusing on the public sector where it supports government and other public service providers in the Justice & Immigration, Defence, Transport, Citizen Services and Healthcare sectors.

Serco operates through six divisions, five of which provide a broad range of frontline public service operations to customers in five geographic regions (being the UK Central Government, UK & Europe Local & Regional Government, Americas, Asia Pacific and the Middle East divisions) and one provides Business Process Outsourcing services to the private sector globally (being the Global Services division).

In the 2014 Financial Year, Serco generated revenue of £3,955 million and a Trading Loss of £632.1 million.

Further information on the Serco Group is set out in Part IV (*Information on the Serco Group*) of this document.

7. CURRENT TRADING, TRENDS AND OUTLOOK FOR 2015

As set out in paragraph 2 of this Part I (*Letter from the Chairman*), challenging trading conditions began to emerge in early 2014, driven partly by the consequential impact on the business of the investigations into Serco's Electronic Monitoring Contract and the PECS Contract with the UK Government, and partly by events generally unrelated to these investigations. The Group's business in Australia, the US and the UK all suffered from increased contract and volume attrition in 2013-2014 which weighted towards contracts with historically high margins, and those that were being newly won tended to be at lower margins. In addition, the Australian Immigration Services contract suffered from a significant reduction in revenue and margin as a result of a sharp decline in the volumes of detainees in the second half of 2013. At the same time, being effectively "unawardable" for new UK Central Government contracts for a number of months together with the broader reputational damage arising from the investigations into the Electronic Monitoring Contract and the PECS Contract reduced the Group's ability to replace lost volume with new work and created a significant dislocation in the Group's new business development pipeline.

Serco provided an update on the Strategy Review, including the initial findings of the Contract & Balance Sheet Reviews, and an early view of the outlook for 2015 and 2016 in its announcement on 10 November 2014. In that announcement the Company stated that for 2015, before the impact of any disposals, the Directors believed Adjusted Revenue could be around £4 billion, that there could be a further decline in the Group's margin to around 2.5 per cent. and that Adjusted Operating Profit could be around £100 million. Furthermore, the Company stated that, depending on decisions around disposals, Adjusted Revenue could reach a nadir of £3.0-3.5 billion in 2016, and margins could be as low as 2-3 per cent. Serco also estimated that the provisions, impairments and other balance sheet charges would total around £1.5 billion.

At the time Serco cautioned that as the reviews were ongoing, the information set out at that time would be subject to further work through to the completion of the year-end audit in March 2015. This work has now been completed, Serco's initial estimates of the total impact of the Contract & Balance Sheet Reviews have proved largely correct, trading for 2014 has been in line with statements in the Company's 10 November 2014 announcement, and the Company is maintaining its guidance for 2015 set out in that announcement, albeit with a change in definition to the key forecasting measures. However, given the significance of the uncertainties further out, in particular the timing of any disposals and the time it may take to rebuild the pipeline and implement the strategic initiatives as described further above and in paragraphs 3 and 4 of Part IV (*Information on the Serco Group*) of this document, the Board considers the comments previously made around 2016 are no longer appropriate and the Group is no longer providing formal guidance for 2016 and beyond.

Historically, the key metrics used in the Company's forecasts were non-IFRS measures of Adjusted Revenue ("revenue" as defined under IFRS, adjusted to include Serco's share of joint venture revenue), EBITDA (as defined for covenant purposes) and Adjusted Operating Profit ("operating profit" as defined

under IFRS, adjusted to exclude (i) amortisation and impairment of intangibles arising on acquisition, (ii) transaction-related costs, (iii) management estimation of material costs that were considered to have been impacted by the UK Government reviews that followed the issues in relation to the Electronic Monitoring Contract and PECS Contract, (iv) exceptional items and (v) joint venture interest and tax). The Directors believe that in the future the Company should report its results (and provide future guidance) on metrics that are more closely aligned to statutory measures. Accordingly, the outlook for 2015 is now expressed in terms of revenue and Trading Profit. The revenue measure is consistent with the IFRS definition (which excludes Serco's share of joint venture revenue). Trading Profit adjusts "operating profit" as defined by IFRS to exclude (i) amortisation and impairment of intangibles arising on acquisition and (ii) exceptional items. Trading Profit is therefore lower than the Adjusted Operating Profit measure previously used due to the inclusion of Serco's share of joint venture interest and tax charges in Trading Profit. The Directors believe that these key metrics of revenue and Trading Profit will be simpler and more transparent, and therefore more helpful to investors.

The Directors' current expectations for the 2015 Financial Year are revenue of around £3.5 billion, **Adjusted Operating Profit of around £100 million, Trading Profit of around £90 million and EBITDA (as defined for covenant purposes) of around £160 million** (collectively, the "**Profit Forecast**"). These expectations are unchanged from those set out in the 10 November 2014 announcement, with the difference between Adjusted Revenue and revenue and between Adjusted Operating Profit and Trading Profit reflecting the respective definitions of these measures. The principal drivers of the underlying pressure on 2015 revenue and Trading Profit versus the Group's 2014 financial performance remain those previously described, namely the impact of net attrition from lost contracts and assumptions for reduced volumes on operations such as the Australian Immigration Services contract. These expectations do not include any adjustment for potential disposals that may be completed over the course of the 2015 Financial Year.

As described in paragraph 10 of this Part I (*Letter from the Chairman*), as part of the new strategy, Serco intends to dispose of a number of businesses that are not core to its future strategy. If any of the Proposed Disposals complete during the 2015 Financial Year, it is expected that this would result in a reduction in the Group's revenue and profits (as compared with the Profit Forecast) for the 2015 Financial Year and, depending on the business being disposed of and the timing of the disposal, such reduction may be material.

Further progress, developments and uncertainties during 2015 — such as improving underlying contract performances, implementing cost efficiencies, rebidding existing contracts, winning new work and the volumes actually achieved on certain highly volume-related contracts, the forthcoming general election and potential change in Government in the UK, further impacts from the EM/PECS Investigations and, in the US, the outcome of the legal challenge to the US Affordable Care Act under review by the US Supreme Court — will continue to shape the outcome for 2015. Further details on risks and inherent uncertainties can be found under *Risk Factors* on pages 15 to 50 of this document. Trading in January 2015 has been in line with the Directors' expectations and, as stated in paragraph 13 of Part X (*Additional Information*) of this document, there has been no significant change in the trading or financial position of the Serco Group since 31 December 2014, the date to which Serco's audited 2014 Financial Statements were prepared.

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

The Directors estimate that, in the long term, the core sectors on which Serco will focus are likely to grow at an aggregate of 5 to 7 per cent. per annum, and that industry margins across Serco's mix of business are likely to be in the range of 5 to 6 per cent. If this turns out to be correct, and markets develop as expected, the Directors believe that after the initial years of restructuring and transformation, progress will be made towards bringing performance in line with the average of the Group's peers.

The statements in bold above represent a Profit Forecast for the 2015 Financial Year. The Directors have considered and reconfirm the Profit Forecast. Further information in relation to this Profit Forecast (including the basis and principal assumptions upon which the Profit Forecast has been prepared) is provided in Annex I (*Profit Forecast of the Serco Group*) to this document.

8. DIVIDEND POLICY

Serco paid a total dividend of 10.10 pence per share for the 2012 Financial Year and 10.55 pence per share for the 2013 Financial Year. Serco paid an interim dividend of 3.10 pence per share for the 2014 Financial Year.

As announced on 10 November 2014, the Board has recommended that no final dividend for the 2014 Financial Year be paid. The Board recognises that dividends are seen as an important component of equity returns by many Shareholders. The Board is committed to resuming dividend payments and a progressive dividend policy when it is prudent to do so. The Directors' decision as to when to declare a dividend and the amount to be paid will take into account the Group's underlying earnings, cash flows and balance sheet leverage, the requirement to maintain an appropriate level of dividend cover and the market outlook at the time. It is not anticipated that the Board will recommend any dividend in respect of the 2015 Financial Year.

9. AMENDMENTS TO FINANCING FACILITIES AND US PRIVATE PLACEMENT NOTES

On 18 December 2014, Serco announced that it had reached agreement with the Lenders and the Noteholders to amend its financial covenants under the Existing Finance Agreements, including deferral of the next covenant testing date to 31 May 2015.

On 12 March 2015, Serco entered into further agreements with the Lenders and the Noteholders to amend and restate the Existing Finance Agreements on revised terms.

The main changes to the terms of Revolving Credit Facility include: (i) amendments to the terms of the financial covenants to avoid an anticipated future breach of the covenants by the Group; (ii) an extension of the term of the Revolving Credit Facility from March 2017 to the fourth anniversary of the completion of the Rights Issue with an option for the parties to further extend to the fifth anniversary of the completion of the Rights Issue; and (iii) the reduction of the size of the Revolving Credit Facility from £730 million to £480 million, of which up to £200 million can be drawn by way of bonds.

The main changes to the terms of the Receivables Financing Agreement include: (i) reducing the size of the facility from £60 million to £30 million; and (ii) extending the term to December 2016.

The main changes to the terms of the US Note Purchase Agreements are amendments to the terms of the covenants to avoid an anticipated future breach of the covenants by the Group under each of the US Note Purchase Agreements. The amendments to the covenants under the US Note Purchase Agreements will be broadly identical to the amendments to the covenants under the Revolving Credit Facility. The interest rates payable in respect of the different series of US Private Placement Notes will increase by between 0.20 per cent. and 1.45 per cent. depending on maturity.

The amendments to the Existing Finance Agreements will only become effective upon the receipt by the Serco Group of the net proceeds of the Rights Issue and the commitment by the Company to pay down £225 million under the US Note Purchase Agreements and £225 million (or, if less, the amount then drawn) under the Facility Agreement from such proceeds. Further details on the Existing Financings and the amendments to each of the foregoing are set out in paragraphs 9.5, 9.6 and 9.7 of Part X (*Additional Information*) of this document.

10. PROPOSED DISPOSALS

As announced on 10 November 2014, the Group intends to dispose of a number of businesses that are not core to its future strategy, with the resulting proceeds contributing to reducing the Group's net debt. These businesses include the Environmental Services and Leisure businesses in the UK, the Great Southern Rail business in Australia, and the majority of Serco's private sector BPO operations. In aggregate, these businesses contributed approximately £562 million of the Group's revenue in the 2014 Financial Year. The Directors expect these businesses to contribute a material amount of the Group's revenue and profits (as set out in the Profit Forecast) for the 2015 Financial Year, assuming in each case that these businesses remain within the Group for the full 2015 Financial Year.

If any of the Proposed Disposals complete during the 2015 Financial Year, it is expected that this would result in a reduction in the Group's revenue and profits (as compared with the Profit Forecast) for the 2015 Financial Year. If the sale of Serco's private sector BPO operations is completed during the 2015 Financial Year, it is expected that this will materially reduce the Group's profits (as compared with the Profit Forecast) for the 2015 Financial Year, with it being expected that the later in the 2015 Financial Year that

such disposal is completed, the less the reduction will be. If any of the other Proposed Disposals complete during the 2015 Financial Year, whether such reduction in the Group's profits (as compared with the Profit Forecast) will be material will depend on the business being disposed of and the timing of the disposal, with it being expected that the later in the 2015 Financial Year that any particular disposal is completed, the less the reduction will be. Further, the effect of any Proposed Disposal on the Group's profits for the 2015 Financial Year will be dependent on agreement around what cost structures transfer to the purchaser, as will the resulting proceeds from any transaction. Serco has agreed with the Noteholders that two thirds of the full amount of net proceeds from its Proposed Disposals must be offered to the Noteholders in prepayment of the US Private Placement Notes at par (i.e. without a make-whole amount). The remaining one third of the net proceeds from its Proposed Disposals must be applied in repayment of any cash drawings under the Amended and Restated Facility Agreement (amounts repaid in this way may be re-drawn).

10.1 Private sector BPO

The sale of the private sector BPO portfolio has a proposed structure as two distinct disposal transactions with a view to maximising the enterprise valuation.

The first transaction is in respect of the majority of Serco's private sector BPO operations including the businesses acquired through the acquisition by Serco of Intelenet in 2011 and Infovision in 2008, and selected additional delivery locations in the UK, Poland and the Middle East. This business provides BPO services predominantly in India to clients globally, providing a range of integrated BPO services predominantly in India through both offshore and near shore/onshore delivery centres. The ongoing sale process in respect of this business commenced in January 2015 and the Directors have been encouraged by the progress made to date. As at the date of this document, it is expected that any transaction, if agreed with a purchaser, would be a class 1 transaction under the Listing Rules and therefore require shareholder approval in order for it to complete. If a transaction is agreed with a purchaser and shareholder approval (if required) is obtained, it is expected that completion of the transaction would take place later this year.

The second transaction comprises the sale of Serco's FCA regulated business activities of Serco Listening Company Ltd, formerly The Listening Company Ltd which was acquired by Serco in 2011. This business principally delivers onshore BPO support services to customers based in the UK. Serco is currently evaluating its options in relation to the potential disposal of this business and, as at the date of this document, it is expected that completion of any transaction, if agreed with a purchaser, would take place later this year.

The revenue from Serco's private sector BPO operations was £359 million in the 2014 Financial Year.

10.2 Environmental Services

Serco's non-core Environmental Services business provides waste collection and related support services within the UK. The Group is currently in advanced discussions relating to the disposal of the business following a period of due diligence which is substantially complete. The sale process in respect of this business is currently ongoing and, as at the date of this document, it is expected that completion of any transaction, if agreed with a purchaser, would take place later this year.

The revenue from this business was £120 million in the 2014 Financial Year.

10.3 Leisure

The Leisure business comprises a portfolio of contracts providing operation and management services for leisure centres located across the UK. The Group is in discussions with a preferred buyer, with the due diligence process materially complete. The sale process in respect of this business is currently ongoing and, as at the date of this document, it is expected that completion of any transaction, if agreed with a purchaser, would take place later this year.

The revenue from this business was £25 million in the 2014 Financial Year.

10.4 Great Southern Rail

Great Southern Rail is an Australian based rail transportation operation, largely focused on tourism. The Group is in advanced discussions relating to the disposal of the business. The sale process is currently

ongoing and, as at the date of this document, it is expected that completion of any transaction, if agreed with a purchaser, would take place later this year.

The revenue from this business was £58 million in the 2014 Financial Year.

11. STRUCTURE OF THE RIGHTS ISSUE

The Rights Issue has been structured in a way that is expected to have the effect of providing the Company with the ability to realise distributable reserves approximately equal to the proceeds of the Rights Issue less the nominal value of the New Ordinary Shares issued by the Company.

The Company and J.P. Morgan Cazenove have agreed to subscribe for ordinary shares in Newco. J.P. Morgan Cazenove will apply the proceeds of issue received from Qualifying Shareholders and renounees and from subscribers of New Ordinary Shares not taken up by Qualifying Shareholders and renounees under the Rights Issue (less any premium above the Issue Price) to subscribe for redeemable preference shares in Newco.

The Company will allot and issue the New Ordinary Shares to those persons entitled thereto in consideration for J.P. Morgan Cazenove transferring its holdings of ordinary shares and redeemable preference shares in Newco to the Company. Accordingly, instead of receiving cash consideration for the issue of the New Ordinary Shares, the Company will (following completion of the Rights Issue) own the entire issued share capital of Newco, whose only asset will be the cash reserves representing an amount equal to the proceeds of the Rights Issue. The Company should be able to access those funds by redeeming the redeemable preference shares it holds in Newco or, alternatively, during any interim period prior to redemption, by procuring that Newco lends the amount to the Company. The ability to realise distributable reserves in the Company will facilitate any potential distribution to Shareholders made by the Company in the future.

Accordingly, by taking up New Ordinary Shares under the Rights Issue and submitting a valid payment in respect thereof, a Qualifying Shareholder or other person taking up the Rights under the Rights Issue instructs the Receiving Agent to hold such payment on behalf of J.P. Morgan Cazenove and (i) to the extent of a successful application under the Rights Issue (which has not been subsequently validly withdrawn), to apply such payment (after deduction of certain agreed fees, costs and expenses) on behalf of J.P. Morgan Cazenove solely for J.P. Morgan Cazenove to subscribe (as principal) for redeemable preference shares in Newco and (ii) to the extent of an unsuccessful or validly withdrawn application under the Rights Issue, to return the relevant payment without interest to the applicant.

The Company may elect to implement the Rights Issue without using the structure described above if it deems it to be in the Company's interest to do so.

Further details of the documents relating to this structure are set out in paragraph 9.2 of Part X (*Additional Information*) of this document.

Shareholders resident in any jurisdiction other than the United Kingdom should refer to paragraph 12 of this Part I (*Letter from the Chairman*), question 4.7 of Part II (*Questions and Answers on the Rights Issue*) and paragraph 2.6 of Part III (*Terms and Conditions of the Rights Issue*) of this document.

12. OVERSEAS SHAREHOLDERS

Qualifying Shareholders resident in any jurisdiction other than the United Kingdom, and persons who hold Ordinary Shares for the benefit of such persons or who have a contractual or other legal obligation to forward this document, a Provisional Allotment Letter and any other document in relation to the Rights Issue into a jurisdiction other than the United Kingdom, should refer to question 4.7 of Part II (*Questions and Answers on the Rights Issue*) and paragraph 2.6 of Part III (*Terms and Conditions of the Rights Issue*) of this document.

New Ordinary Shares will be provisionally allotted (nil paid) to all Qualifying Shareholders, including Overseas Shareholders. However, subject to certain exceptions, Provisional Allotment Letters will not be sent to Qualifying non-CREST Shareholders with registered addresses, or who are resident or located, in the United States or the Excluded Territories, nor will the CREST stock account of Qualifying CREST Shareholders with registered addresses, or who are resident or located, in the United States or the Excluded Territories be credited with Nil Paid Rights. The notice in the London Gazette referred to in paragraph 2.6.6 of Part III (*Terms and Conditions of the Rights Issue*) of this document will state where a Provisional Allotment Letter may be inspected or obtained. Any person with a registered address, or who

is resident or located, in the United States or any Excluded Territory who obtains a copy of this document or a Provisional Allotment Letter is required to disregard them, except with the consent of the Company.

Notwithstanding any other provision of this document or the Provisional Allotment Letter, the Company reserves the right to permit any Qualifying Shareholder to take up his rights if the Company in its sole and absolute discretion is satisfied that the transaction in question will not violate applicable laws.

The Company has made arrangements under which the Underwriters will try to find subscribers for the New Ordinary Shares provisionally allotted to such Shareholders by 4.30 p.m. on the second dealing day after the last date for acceptance of the Rights Issue. If the Underwriters find subscribers and are able to achieve a premium over the Issue Price and the related expenses of procuring those subscribers (including any applicable brokerage and commissions and amounts in respect of VAT which are not recoverable), such Shareholders will be sent a cheque for the amount of that aggregate premium above the Issue Price less related expenses (including any applicable brokerage and commissions and amounts in respect of VAT which are not recoverable), so long as the amount in question is at least £5. If any person in the United States or an Excluded Territory receives a Provisional Allotment Letter, that person should not seek to, and will not be able to, take up his rights thereunder, except as described in paragraph 2.6 of Part III (*Terms and Conditions of the Rights Issue*) of this document. The provisions of paragraph 2.3 of Part III (*Terms and Conditions of the Rights Issue*) of this document will apply to Overseas Shareholders who cannot or do not take up the New Shares provisionally allotted to them.

13. SERCO EMPLOYEE SHARE SCHEMES

The options and awards granted under the Serco Employee Share Schemes may be adjusted in such a way as the Remuneration Committee considers appropriate to compensate option and award holders for any effect the Rights Issue will have on those option and awards (as permitted by the rules of the relevant Serco Employee Share Schemes). Any adjustments will not be made until after the ex-rights date and will be subject to the approval of HMRC and the Company's auditors where required. Participants in the Serco Employee Share Schemes will be contacted separately with further information on how their options and awards may be affected by the Rights Issue.

14. GENERAL MEETING

A notice convening a General Meeting to be held at the offices of Clifford Chance LLP, 10 Upper Bank Street, London E14 5JJ at 10.00 a.m. on 30 March 2015 at which the Resolution will be proposed is set out at the end of this document. The purpose of the General Meeting is to consider and, if thought fit, pass the Resolution as summarised below and set out in full in the Notice of General Meeting.

Because of the size of the Rights Issue, the Shareholder authorities granted under the resolution passed at the AGM held on 8 May 2014 are not sufficient for the Rights Issue, and accordingly further Shareholder authority for the allotment and issue of the Rights Issue Shares is required.

The Resolution is an ordinary resolution authorising the Directors to allot up to 549,265,547 New Ordinary Shares, representing 100 per cent. of the Company's current issued share capital as at 10 March 2015 (being the Latest Practicable Day prior to the publication of this document) at 101 pence per New Ordinary Share. This authority will expire at the conclusion of the AGM of the Company expected to be held on 6 May 2015 (or adjournment thereof). The authority granted by the Resolution will be in addition to the authority to allot Ordinary Shares which was granted to the Directors at the Company's last AGM on 8 May 2014, which the Board have no present intention of exercising, except pursuant to the Serco Employee Share Schemes, and which will expire at the conclusion of the Company's next AGM expected to be held on 6 May 2015.

For further information in relation to the Resolution to be proposed at the General Meeting, see the Notice of General Meeting at the end of this document.

15. ACTION TO BE TAKEN

15.1 General Meeting

If you are a Shareholder, you will find enclosed with this document a Form of Proxy for use at the General Meeting. Whether or not you intend to be present at the General Meeting, you are asked to complete the Form of Proxy in accordance with the instructions printed on it and to return it to the Registrar, Equiniti at Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA, as soon as possible and, in any event, so as

to arrive not later than 10.00 a.m. on 26 March 2015. The completion and return of the Form of Proxy will not preclude you from attending the General Meeting and voting in person if you wish to do so. You may also submit your proxies electronically at www.sharevote.co.uk and logging into your share portal account or registering for the share portal if you have not already done so. To register for the share portal you will need your investor code set out on the form of proxy. Once registered, you will be able to vote immediately. If you hold shares in CREST, you may appoint a proxy by completing and transmitting a CREST Proxy Instruction to the issuer's agent, ID RA19, so that it is received no later than 10.00 a.m. on 26 March 2015.

15.2 Rights Issue

The latest time for acceptance by Shareholders under the Rights Issue is 11.00 a.m. (London time) on 16 April 2015. The procedure for acceptance and payment is set out in paragraph 2 of Part III (*Terms and Conditions of the Rights Issue*) of this document. Further details also appear in the Provisional Allotment Letter which will be sent to all Qualifying Non-CREST Shareholders (other than, subject to certain exceptions, those Qualifying Non-CREST Shareholders with registered addresses, or who are resident or located, in the United States or any of the Excluded Territories).

If you are in any doubt as to the action you should take, you are recommended to seek your own personal financial advice immediately from your stockbroker, bank manager, solicitor, accountant, fund manager or other independent financial adviser authorised under FSMA if you are in the United Kingdom or, if you are not, from another appropriately authorised independent financial adviser.

16. FURTHER INFORMATION

Your attention is drawn to the section entitled "*Risk Factors*" of this document and to Part X (*Additional Information*) of this document. You should read all of the information contained in this document before deciding the action to take in respect of the General Meeting. Your attention is also drawn in connection with the Rights Issue to the further information contained in Part II (*Questions and Answers on the Rights Issue*) and Part III (*Terms and Conditions of the Rights Issue*) of this document.

The results of the votes cast at the General Meeting will be announced as soon as possible once known through a Regulatory Information Service and on the Serco website (www.serco.com). It is expected that this will be on 30 March 2015.

17. DIRECTORS' INTENTION REGARDING THE RIGHTS ISSUE

The Directors are fully supportive of the Rights Issue. Each of the Directors who holds Ordinary Shares intends to take up in full his or her rights to subscribe for New Ordinary Shares under the Rights Issue.

18. IMPORTANCE OF YOUR VOTE

Your attention is again drawn to the fact that the Rights Issue is conditional and dependent upon, amongst other things, the Resolution being passed at the General Meeting.

Shareholders are asked to vote in favour of the Resolution at the General Meeting in order for the Rights Issue to proceed and for the Amendment Agreements, through which the Group is seeking to amend its Existing Finance Agreements, to become effective. The Directors believe that the Rights Issue will significantly strengthen the Group's balance sheet and that this will enable the Group to implement its new strategy and to reduce its net debt, all of which are important to the future success of the Group.

However, if the Resolution is not passed, the Rights Issue will not proceed and the Group is at risk of not being able to continue as a going concern as described further below. Further, the Amended Agreements will not become effective as they are conditional upon the Group receiving the net proceeds of the Rights Issue and committing to pay down £225 million under the US Note Purchase Agreements and £225 million (or, if less, the amount then drawn) under the Facility Agreement from such proceeds. In these circumstances, although the Group still expects to be able to meet the financial covenant tests under its Existing Finance Agreements on 31 May 2015 in respect of the 2014 Financial Year:

- unless further waivers or amendments are granted by the Lenders, the Group expects that it would breach its financial covenant tests in respect of the 12-months ending 30 June 2015 under the Facility Agreement and the Receivables Financing Agreement when they are tested 90 days after 30 June 2015, which would trigger a cross-default under the US Note Purchase Agreements; and

- even if such breach of the Facility Agreement and the Receivables Financing Agreement does not occur, unless further amendments or waivers are granted by the Noteholders, the Group would still breach its financial covenant tests in respect of the 12-months ending 30 June 2015 under the US Note Purchase Agreements when they are tested 120 days after 30 June 2015, under the terms of the temporary amendment to the US Note Purchase Agreements entered into with Noteholders in December 2014, which would in turn trigger a cross-default under the Facility Agreement and the Receivables Financing Agreement. See paragraph 3.6 “*Funding strategy and changes in the Group’s indebtedness*” in Part V (*Operating and Financial Review of the Serco Group*) of this document.

Following any such breach of financial covenants or cross-default, the Lenders or Noteholders (as applicable) would be entitled to demand the accelerated repayment in full of any amounts outstanding under the relevant Existing Finance Agreements, including any interest due and the payment of a “make-whole amount” that would be due to Noteholders under the Group’s US Note Purchase Agreements, and the Group does not expect that it would have the funds available to repay such amounts at that time. In such circumstances, in the absence of being able to successfully agree or implement any alternatives as discussed below, the Group would be unable to continue as a going concern.

As a result, if the Rights Issue does not proceed and the Amended Agreements do not become effective, the Group would first seek to negotiate further waivers of its financial covenants under the Existing Finance Agreements with the Lenders and Noteholders in order to avoid any such breach of financial covenants and cross-default. However, the Group may be unable to obtain such waivers from the Lenders and Noteholders either at all or without significant cost to the Group. Indeed, the Directors believe that such waivers might only be granted by the Lenders and Noteholders at a significant cost to the Group and that the Lenders and Noteholders would potentially demand to have significant involvement in the Group’s business and operations and require the Group to undertake further disposals, as described below, which could adversely affect implementation of the Group’s new strategy or result in the Group changing its strategy. Any such waivers would likely subject the Group to additional fees or impose more onerous obligations on the Group. Without the proceeds of the Rights Issue, any covenant waivers under, or any other amendments of, the Existing Finance Agreements would only be a short-term solution that would not fundamentally address the Group’s balance sheet and capitalisation issues.

Should the Lenders or Noteholders not grant to the Group further waivers of its financial covenants under the Existing Finance Agreements or should the Group not be able secure such waivers on commercially acceptable terms, the Group could seek alternative long-term committed debt facilities to replace the Revolving Credit Facility and enable the repayment of its US Private Placement Notes, including the make-whole amount. The terms of any such facilities, if available at all, would likely be significantly more expensive and onerous than those which currently apply to the Existing Finance Agreements and would apply, if the Rights Issue proceeds, to the Amended Agreements. If alternative committed debt facilities could not be secured on commercially acceptable terms or at all, the Group could try to secure other forms of funding, such as through a new equity restructuring, most likely with private capital investors or a conversion by the Group’s lenders of existing debt into equity, which may result in a significant dilution to existing shareholders’ equity interest in Serco. The Group could take action to effect disposals of further assets not already considered for disposal as part of the Group’s new strategy, such as the disposal of one of the Group’s divisions or the sale of the Group’s profitable material contracts, to the extent the Group’s customers and contract terms would permit such disposal, to facilitate a reduction of the debt drawn down under the Group’s Existing Finance Agreements. However, the Existing Finance Agreements restrict the Group’s ability to make any such disposals and the Group would need to receive the approval of the Lenders and Noteholders to further amend the Existing Finance Agreements, which could be withheld.

If the Rights Issue does not proceed and the Group is unable to obtain further waivers of its financial covenants under the Existing Finance Agreements, and is unable to avoid a breach of such financial covenants or cross-default through the successful implementation of one or more of the alternatives described above, shareholders could lose all or a substantial amount of the value of their investment in the Group.

19. RECOMMENDATION

The Board, which has received financial advice from Rothschild, considers the Rights Issue and the Resolution to be in the best interests of the Company and Shareholders as a whole. In providing advice to the Board, Rothschild has relied on the Directors’ commercial assessment of the Rights Issue. Accordingly, the Board unanimously recommends that Shareholders vote in favour of the Resolution to be put to the

General Meeting as the Directors intend to do (or procure to be done) in respect of their own beneficial holdings and holdings of their immediate families connected persons of 490,374 Serco Ordinary Shares in aggregate, representing approximately 0.1 per cent. of the existing issued ordinary share capital of Serco.

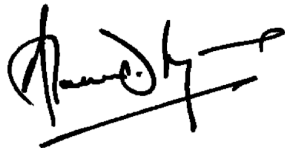
20. CHAIRMAN RESIGNATION

On 17 November 2014 I announced my intention to stand down as the Chairman later this year once my successor has been selected. Personally I shall be very sad to stand down, but the ultimate responsibility for what happens in any company rests with the Chairman. The last two years have been hugely challenging for the business and greatly destructive of shareholder value, which I deeply regret. However despite the strategic and operational challenges of the past few years, Serco has, over the past 25 years, built powerful positions in its principal frontline services both in the UK and overseas. Going forward, in pursuit of the strategy set out in paragraph 2 above and in further detail in paragraph 3 of Part IV (*Information on the Serco Group*) by Rupert Soames, Serco will focus on growing its business within those areas where it has sustainable competitive advantage whilst at the same time reducing costs by simplifying its organisational design and sharing common services across the Group.

As a shareholder myself I look forward to seeing Serco realise its strategic objectives and recover lost value. Significant change is necessary in the way Serco does things and is organised and this will take time to achieve. However Serco has a highly effective management and a deeply committed workforce that cares passionately about the delivery of public services to the benefit of citizens. Above all, I would like to thank them for all that they have continued to contribute: it is because of what they have achieved that Serco is able to adopt a strategy that is based on maximising the potential of Serco's areas of strength.

The process for finding my successor, led by Mike Clasper, the Senior Independent Director and assisted by an external consultant, is currently ongoing. The Company will make an announcement once the new Chairman is selected.

Yours faithfully,

A handwritten signature in black ink, appearing to read 'Alastair Lyons', with a horizontal line drawn underneath it.

Alastair Lyons CBE

Chairman

PART II QUESTIONS AND ANSWERS ON THE RIGHTS ISSUE

The questions and answers set out in this Part II (*Questions and Answers on the Rights Issue*) are intended to be generic guidance only and, as such, you should also read Part III (*Terms and Conditions of the Rights Issue*) of this document for full details of what action you should take. If you are in any doubt about the action to be taken, you are recommended to seek immediately your own personal financial advice from your stockbroker, bank manager, solicitor, accountant, fund manager or other appropriate independent financial adviser duly authorised under FSMA if you are in the United Kingdom, or if you are not, from another appropriately authorised financial adviser. If you are an Overseas Shareholder, you should read question 4.8 of this Part II and you should take professional advice as to whether you are eligible and/or need to observe any formalities to enable you to take up your Rights.

Ordinary Shares can be held in certificated form (that is, represented by a share certificate) or in uncertificated form (that is, through CREST). Accordingly, these questions and answers are split into four sections:

- Section 1 (*General*);
- Section 2 (*Ordinary Shares in certificated form*) answers questions you may have in respect of the procedures for Qualifying Shareholders who hold their Existing Ordinary Shares in certificated form;
- Section 3 (*Ordinary Shares in CREST*) answers questions you may have in respect of the equivalent procedures for Qualifying Shareholders who hold their Existing Ordinary Shares in CREST; and
- Section 4 (*Further procedures for Ordinary Shares whether in certificated form or in CREST*) answers some detailed questions about your rights and the actions you may need to take and is applicable to Ordinary Shares whether held in certificated form or in CREST.

If you do not know whether your Ordinary Shares are in certificated or uncertificated form, please telephone Equiniti between 8.30 a.m. and 5.30 p.m. (London time) Monday to Friday on 0871 384 2880 from within the UK or +44 121 415 0900 if calling from outside the UK. Calls to the 0871 384 2880 number cost 10 pence per minute (including VAT) plus network extras. Calls to the helpline from outside the UK will be charged at applicable international rates. Different charges may apply to calls from mobile telephones and calls may be recorded and randomly monitored for security and training purposes. The helpline cannot provide advice on the merits of the Rights Issue nor give any financial, legal, tax or investment advice.

1. GENERAL

1.1 What is a rights issue?

A rights issue is one way for companies to raise money. Companies do this by issuing shares for cash and giving their existing shareholders a right to buy these shares in proportion to their existing shareholdings. For example, a 1 for 4 rights issue generally means that a shareholder is entitled to buy one new ordinary share for every four currently held. This Rights Issue is a 1 for 1 rights issue; that is, an offer of 1 New Ordinary Share for every 1 Existing Ordinary Share held by Qualifying Shareholders at the close of business on 26 March 2015 (the “**Record Date**”).

New ordinary shares are typically offered in a rights issue at a discount to the current share price. Because of this discount, the right to buy the new ordinary shares is potentially valuable. In this Rights Issue, the Issue Price of 101 pence per New Ordinary Share represents a 51.1 per cent. discount to the Closing Price of 206 pence per Existing Ordinary Share on 11 March 2015 (being the last Business Day prior to the publication of this document) and a 34.3 per cent. discount to the theoretical ex-rights price of 154 pence per New Ordinary Share calculated by reference to the Closing Price on 11 March 2015.

If you do not want to buy the New Ordinary Shares to which you are entitled (if any), you can instead sell your rights to those shares and receive the net proceeds in cash. This is referred to as dealing “nil paid”.

1.2 What happens next?

The Company has called a General Meeting to be held at the offices of Clifford Chance LLP, 10 Upper Bank Street, London E14 5JJ at 10.00 a.m. on 30 March 2015. Please see the Notice of General Meeting at the end of this document. As you will see from the contents of the Notice of General Meeting, the

Directors are seeking Shareholders' approval for the allotment of the Rights Issue Shares free from pre-emption rights.

You will find enclosed with this document a Form of Proxy for use in relation to the General Meeting. Whether or not you intend to be present in person at the meeting, you are requested to complete, sign and return the Form of Proxy to Equiniti so that it arrives no later than 10.00 a.m. on 26 March 2015. You may also deliver the Form of Proxy by hand to Equiniti during usual business hours.

If the Resolution is passed at the General Meeting, the Rights Issue will proceed. The Provisional Allotment Letters are due to be despatched on 30 March 2015 to Qualifying non-CREST Shareholders and the Nil Paid Rights are due to be credited to the CREST stock accounts of Qualifying CREST Shareholders as soon as practicable after 8.00 a.m. on 31 March 2015.

If the Resolution is not passed at the General Meeting, the Rights Issue will not proceed and no Provisional Allotment Letters will be despatched and no CREST stock accounts will be credited.

2. ORDINARY SHARES IN CERTIFICATED FORM

2.1 How do I know if I am eligible to participate in the Rights Issue?

If you receive a Provisional Allotment Letter then you should be eligible to participate in the Rights Issue (as long as you have not sold all of your Existing Ordinary Shares before 8.00 a.m. on 31 March 2015 (the time when the Existing Ordinary Shares are expected to be marked "ex-rights" by the London Stock Exchange), in which case you will need to follow the instructions on the front page of this document).

However, if you receive a Provisional Allotment Letter and you have a registered address in, or are a resident, citizen or national of, a country other than the United Kingdom you must satisfy yourself as to the full observance of the applicable laws of such territory including obtaining any requisite governmental or other consents, observing any other requisite formalities and paying any issue, transfer or other taxes due in such territories. Receipt of this document or a Provisional Allotment Letter does not constitute an offer in those jurisdictions in which it would be illegal to make an offer. Overseas Shareholders should refer to paragraph 2.6 of Part III (*Terms and Conditions of the Rights Issue*) of this document for further details.

If you do not receive a Provisional Allotment Letter, and you do not hold your shares in CREST, this probably means you are not eligible to subscribe for any New Ordinary Shares. However, see question 2.4 below.

2.2 What are my options and what should I do with the Provisional Allotment Letter?

If you hold your Existing Ordinary Shares in certificated form and do not have a registered address, nor are you resident or located, in the United States or any of the Excluded Territories, you will be sent a Provisional Allotment Letter. The Provisional Allotment Letter will show:

- (a) **In Box 1:** how many Ordinary Shares you held at the close of business on the Record Date;
- (b) **In Box 2:** how many New Ordinary Shares you are entitled to buy pursuant to the Rights Issue; and
- (c) **In Box 3:** how much you need to pay if you want to take up your rights in full.
 - (i) *If you want to take up your rights in full*

If you want to take up in full your rights to subscribe for the New Ordinary Shares to which you are entitled, all you need to do is send the Provisional Allotment Letter, together with your cheque or banker's draft for the full amount shown in Box 3, payable to "Equiniti re Serco Rights Issue" and crossed "A/C payee only", by post or by hand (during normal business hours only) to Equiniti at Corporate Actions, Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA so as to arrive before 11.00 a.m. on 16 April 2015. You can use the reply-paid envelope which will be provided with the Provisional Allotment Letter for use within the United Kingdom. Please allow sufficient time for delivery. Paragraph 2.1.2 of Part III (*Terms and Conditions of the Rights Issue*) of this documents sets out full instructions on how to accept and pay for your New Ordinary Shares. These instructions are also set out in the Provisional Allotment Letter. You will be required to pay in full for all the rights you take up. A definitive share certificate will be sent to you for the New Ordinary Shares you subscribe for and it is expected that such certificate(s) will be despatched to you by 24 April 2015.

Your Provisional Allotment Letter will not be returned to you unless you specifically request so by completing Box 4 on the Provisional Allotment Letter. You will only need your Provisional Allotment Letter to be returned to you if you want to deal in your Fully Paid Rights.

(ii) If you do not want to take up your rights at all

If you do not want to take up or sell any of your rights, you do not need to do anything. If you do not return your Provisional Allotment Letter together with payment for the New Ordinary Shares to which you are entitled by 11.00 a.m. on 16 April 2015, the Company has made arrangements under which the Underwriters will try to find investors to take up your rights by 4.30 p.m. on the second dealing day after the last date for acceptance of the Rights Issue. If the Underwriters find investors and are able to achieve a premium over the Issue Price and the related expenses of procuring those investors (including any applicable brokerage and commissions and amounts in respect of VAT which are not recoverable), you will be sent a cheque for the amount of that aggregate premium above the Issue Price less related expenses (including any applicable brokerage and commissions and amounts in respect of VAT which are not recoverable), so long as the amount in question is at least £5. Cheques are expected to be despatched by 24 April 2015 and will be sent to your address as it appears on the Company's register of members (or to the first named holder if you hold Existing Ordinary Shares jointly).

Alternatively, if you want to sell or transfer all of your Nil Paid Rights, see paragraph 2.2(c)(iv) below; or if you want to sell or transfer part of your Nil Paid Rights, see paragraph 2.2(c)(iii) below.

(iii) If you want to take up some but not all of your rights

If you want to take up some but not all of your rights and wish to sell some or all of those you do not want to take up, you should split Provisional Allotment Letters by completing Form X on page 4 of the Provisional Allotment Letter and then return it by post or by hand (during normal business hours only) to Equiniti at Corporate Actions, Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA so as to be received by 3.00 p.m. on 14 April 2015, the last time and date for splitting Provisional Allotment Letters, together with your cheque or banker's draft for the amount relating to the Nil Paid Rights you wish to take up, payable to "Equiniti re Serco Rights Issue" and crossed "A/C payee only", a covering letter stating the number of split Provisional Allotment Letters required and the number of Nil Paid Rights or Fully Paid Rights to be comprised in each split Provisional Allotment Letter. You can use the reply-paid envelope which will be provided with the Provisional Allotment Letter for use within the United Kingdom. Please allow sufficient time for delivery.

Alternatively, if you want only to take up some of your rights (and do not wish to sell some or all of those you do not want to take up), you should complete Form X on page 4 of the Provisional Allotment Letter and return it by post or by hand (during normal business hours only) to Equiniti at Corporate Actions, Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA, together with a covering letter confirming the number of New Ordinary Shares you wish to take up and a cheque or banker's draft for the appropriate amount. In this case the Provisional Allotment Letter and cheque must be received by Equiniti by 3.00 p.m. on 14 April 2015, being the last time and date for the splitting of Provisional Allotment Letters. You can use the reply-paid envelope which will be provided with the Provisional Allotment Letter for use within the United Kingdom. Please allow sufficient time for delivery. Further details relating to payment and acceptance are set out in paragraph 2.1.2 of Part III (*Terms and Conditions of the Rights Issue*) of this document.

(iv) If you want to sell all of your rights

If you want to sell all of your rights you should complete and sign Form X on page 4 of the Provisional Allotment Letter (if it is not already marked "Original Duly Renounced") and pass the entire letter to your stockbroker, bank manager or other appropriate financial adviser or to the transferee (provided they do not have a registered address, nor are they resident or located, in the United States or any of the Excluded Territories).

Please note that your ability to sell your rights is dependent on the demand for such rights and that the price for the Nil Paid Rights may fluctuate.

The latest time and date for selling all of your rights is 11.00 a.m. on 16 April 2015. Please ensure, however, that you allow enough time so as to enable the person acquiring your rights to take all necessary steps in connection with taking up the entitlement prior to 11.00 a.m. on 16 April 2015.

2.3 How do I transfer my rights into the CREST system?

If you are a Qualifying non-CREST Shareholder, but are also a CREST member and want your New Ordinary Shares to be in uncertificated form, you should complete Form X and the CREST Deposit Form (both on page 4 of the Provisional Allotment Letter), and ensure they are delivered to the CREST courier and sorting service to be received by 3.00 p.m. on 13 April 2015 at the latest. CREST sponsored members should arrange for their CREST sponsors to do this.

If you have transferred your rights into CREST, you should refer to paragraph 2.2.2 of Part III (*Terms and Conditions of the Rights Issue*) of this document for details on how to pay for the New Ordinary Shares.

2.4 What if I do not receive a Provisional Allotment Letter?

If you do not receive a Provisional Allotment Letter and you do not hold your Ordinary Shares in CREST, this probably means that you are not eligible to participate in the Rights Issue. Some Qualifying Shareholders, however, will not receive a Provisional Allotment Letter but may still be able to participate in the Rights Issue, namely:

- (a) Qualifying CREST Shareholders who held their Existing Ordinary Shares in uncertificated form on 26 March 2015 and who have converted them to certificated form;
- (b) Qualifying non-CREST Shareholders who bought Ordinary Shares before 8.00 a.m. on 31 March 2015 but were not registered as the holders of those Ordinary Shares at the close of business on 26 March 2015 (please see question 2.5 below); and
- (c) certain Overseas Shareholders who can demonstrate to the satisfaction of the Company that the offer under the Rights Issue can lawfully be made to them without contravention of any relevant legal or regulatory requirements (please see question 4.8 below).

If you do not receive a Provisional Allotment Letter on or about 31 March 2015 but think you should have received one, please telephone Equiniti between 8.30 a.m. and 5.30 p.m. (London time) Monday to Friday (except bank and other public holidays) on 0871 384 2880 from within the UK or +44 121 415 0900 if calling from outside the UK. Calls to the 0871 384 2880 number from within the UK cost 10 pence per minute (including VAT) plus network extras. Calls to the helpline from outside the UK will be charged at applicable international rates. Different charges may apply to calls from mobile telephones and calls may be recorded and randomly monitored for security and training purposes. The helpline cannot provide advice on the merits of the Rights Issue nor give any financial, legal, tax or investment advice.

2.5 If I buy Ordinary Shares before 8.00 a.m. on 31 March 2015 (the date the Ordinary Shares start trading ex-rights) will I be eligible to participate in the Rights Issue?

If you buy Ordinary Shares before 8.00 a.m. on 31 March 2015 (the date the Ordinary Shares start trading ex-rights (that is, without the right to participate in the Rights Issue, referred to as the ex-rights date)) but are not registered as the holder of those Ordinary Shares on the Record Date you may still be eligible to participate in the Rights Issue. If you are in any doubt, please consult your stockbroker, bank or other appropriate financial adviser, or whoever arranged your share purchase, to ensure you claim your entitlement.

You will not be entitled to Nil Paid Rights in respect of any Ordinary Shares acquired on or after the ex-rights date.

2.6 What should I do if I sell or have sold or transferred all or some of the Ordinary Shares shown in Box 1 of the Provisional Allotment Letter before the ex-rights date?

If you sell or have sold or transferred all of your Ordinary Shares before the ex-rights date but were registered as the holder of those Ordinary Shares on the Record Date, you should complete Form X on page 4 of the Provisional Allotment Letter and send the entire Provisional Allotment Letter together with this document to the stockbroker, bank or other appropriate financial adviser through whom you made the sale or transfer (provided they do not have a registered address, nor are they resident or located, in the United States or any of the Excluded Territories).

If you sell or have sold or transferred only some of your holding of Ordinary Shares before the ex-rights date, you will need to complete Form X on page 4 of the Provisional Allotment Letter and consult the

stockbroker, bank or other appropriate financial adviser through whom you made the sale or transfer before taking any action with regard to the balance of rights due to you.

2.7 How many New Ordinary Shares will I be entitled to subscribe for?

You will be entitled to 1 New Ordinary Share for every 1 Existing Ordinary Share held on the Record Date (rounding down to the nearest whole number). Box 2 on page 1 of the Provisional Allotment Letter will show the number of New Ordinary Shares you will be entitled to subscribe for. All Qualifying non-CREST Shareholders (other than certain Overseas Shareholders) will be sent a Provisional Allotment Letter after the General Meeting has approved the Resolution.

2.8 What should I do if I think my holding of Ordinary Shares (as shown in Box 1 on page 1 of the Provisional Allotment Letter) is incorrect?

If you are concerned about the figure in Box 1, please telephone Equiniti between 8.30 a.m. and 5.30 p.m. (London time) Monday to Friday on 0871 384 2880 from within the UK or +44 121 415 0900 if calling from outside the UK. Calls to the 0872 384 2880 number cost 10 pence per minute (including VAT) plus network extras. Calls to the helpline from outside the UK will be charged at applicable international rates. Different charges may apply to calls from mobile telephones and calls may be recorded and randomly monitored for security and training purposes. The helpline cannot provide advice on the merits of the Rights Issue nor give any financial, legal, tax or investment advice.

2.9 If I take up my rights, when will I receive my New Ordinary Share certificate?

If you take up your rights under the Rights Issue, share certificates for the New Ordinary Shares are expected to be posted by 24 April 2015.

3. ORDINARY SHARES IN CREST

3.1 How do I know if I am eligible to participate in the Rights Issue?

If you are a Qualifying CREST Shareholder (save as mentioned below), and on the assumption that the Rights Issue proceeds as planned, your CREST stock account will be credited with your entitlement to Nil Paid Rights on 31 March 2015. The stock account to be credited will be the account under the participant ID and member account ID that apply to your Ordinary Shares on the Record Date. The Nil Paid Rights are expected to be enabled as soon as practicable after 8.00 a.m. on 31 March 2015. If you are a CREST sponsored member, you should consult your CREST sponsor if you wish to check that your account has been credited with your entitlement to Nil Paid Rights. The CREST stock accounts of Overseas Shareholders with a registered address in the United States or any of the Excluded Territories will not be credited with Nil Paid Rights. Overseas Shareholders should refer to paragraph 2.6 of Part III (*Terms and Conditions of the Rights Issue*) of this document.

3.2 How do I take up my rights using CREST?

If you are a Qualifying CREST Shareholder, you should refer to paragraph 2.2 of Part III (*Terms and Conditions of the Rights Issue*) of this document for details on how to take up and pay for your rights.

If you are a CREST member you should ensure that a Many-to-Many (“MTM”) instruction has been inputted and has settled by 11.00 a.m. on 16 April 2015 in order to make a valid acceptance. If your Ordinary Shares are held by a nominee or you are a CREST sponsored member you should speak directly to the agent who looks after your stock or your CREST sponsor (as appropriate) who will be able to help you. If you have further questions, particularly of a technical nature regarding acceptance through CREST, you should call the CREST Service Desk on 0845 964 5648 (+44 845 964 5648 if you are calling from outside the United Kingdom).

3.3 If I buy or have bought Ordinary Shares before 8.00 a.m. on 31 March 2015 (the date that the Ordinary Shares start trading ex-rights) will I be eligible to participate in the Rights Issue?

If you buy Ordinary Shares before 8.00 a.m. on 31 March 2015, but are not registered as the holder of those Ordinary Shares on the Record Date, you may still be eligible to participate in the Rights Issue. Euroclear will raise claims in the normal manner in respect of your purchase and your Nil Paid Rights will be credited to your stock account(s) on settlement of those claims.

You will not be entitled to Nil Paid Rights in respect of any further Ordinary Shares acquired on or after the ex-rights date.

3.4 What should I do if I sell or transfer all or some of my Ordinary Shares before 8.00 a.m. on 31 March 2015 (the ex-rights date)?

You do not have to take any action except, where you sell or transfer all of your Ordinary Shares before the ex-rights date, to send this document to the purchaser or transferee or to the stockbroker, bank or other financial adviser through whom you made the sale or transfer (provided they do not have a registered address, nor are they resident or located, in the United States or any of the Excluded Territories). A claim transaction in respect of that sale or transfer will automatically be generated by Euroclear which, on settlement, will transfer the appropriate number of Nil Paid Rights to the purchaser or transferee.

3.5 How many New Ordinary Shares am I entitled to subscribe for?

If you are a Qualifying CREST Shareholder, your stock account will be credited with Nil Paid Rights in respect of the number of New Ordinary Shares which you are entitled to subscribe for. You will be entitled to subscribe for 1 New Ordinary Share for every 1 Existing Ordinary Share you hold at the close of business on 26 March 2015, the Record Date (rounding down to the nearest whole number). You can also view the claim transactions in respect of purchases/sales effected after this date, but before the ex-rights date. If you are a CREST sponsored member, you should consult your CREST sponsor.

3.6 What should I do if I think my holding of Ordinary Shares is incorrect?

If you buy or sell Ordinary Shares between the date of this document and 26 March 2015, your transaction may not be entered on the register of members before the Record Date and you should consult the stockbroker, bank or other appropriate financial adviser through whom you made the sale, purchase or transfer before taking any other action. If you are concerned about the number of Nil Paid Rights with which your stock account has been credited, please telephone Equiniti between 8.30 a.m. and 5.30 p.m. (London time) Monday to Friday on 0871 384 2880 from within the UK or +44 121 415 0900 if calling from outside the UK. Calls to the 0871 384 2880 number cost 10 pence per minute (including VAT) plus network extras. Calls to the helpline from outside the UK will be charged at applicable international rates. Different charges may apply to calls from mobile telephones and calls may be recorded and randomly monitored for security and training purposes. The helpline cannot provide advice on the merits of the Rights Issue nor give any financial, legal, tax or investment advice.

3.7 If I take up my rights, when will New Ordinary Shares be credited to my CREST stock account(s)?

If you take up your rights under the Rights Issue, it is expected that New Ordinary Shares will be credited to the CREST stock account in which you hold your Fully Paid Rights on 17 April 2015.

4. FURTHER PROCEDURES FOR ORDINARY SHARES WHETHER IN CERTIFICATED FORM OR IN CREST

4.1 Will I be taxed if I take up or sell my rights or if my rights are sold on my behalf?

If you are resident in the United Kingdom for tax purposes, you should not have to pay UK tax when you fully take up your right to receive New Ordinary Shares, although the Rights Issue may affect the amount of UK tax you may pay when you sell your Ordinary Shares. However, you may be subject to tax on chargeable gains on any proceeds you receive from the sale of your rights.

Further information for certain Qualifying Shareholders is contained in Part VIII (*Taxation*) of this document. **Qualifying Shareholders who are in any doubt as to their tax position, or who are subject to tax in any other jurisdiction, should consult their professional advisers as soon as possible. Please note that Equiniti are unable to advise on any taxation issues.**

4.2 I understand that there is a period when there is trading in the Nil Paid Rights. What does this mean?

If you do not want to buy the New Ordinary Shares being offered to you under the Rights Issue and you are a Qualifying Shareholder, you can (provided that, subject to certain exceptions, you do not have a registered address, nor are you resident or located, in the United States or any of the Excluded Territories) instead sell or transfer your Nil Paid Rights and receive the net proceeds of the sale or transfer in cash. This is referred to as dealing "nil paid". During the nil paid trading period (between 8.00 a.m. on 31 March

2015 and 11.00 a.m. on 16 April 2015), subject to demand and market conditions, persons can buy and sell the Nil Paid Rights. Please note that your ability to sell your rights is dependent on demand for such rights and that the price of the Nil Paid Rights may fluctuate.

If you wish to sell or transfer all or some of your Nil Paid Rights and you hold your Ordinary Shares in certificated form, you will need to complete Form X, the form of renunciation, on page 4 of the Provisional Allotment Letter and send it to the stockbroker, bank or other agent through or by whom the sale or transfer was effected, to be forwarded to the purchaser or transferee.

If you buy Nil Paid Rights, you are buying an entitlement to take up the New Ordinary Shares, subject to your paying for them in accordance with the terms of the Rights Issue. Any seller of Nil Paid Rights who holds his Ordinary Shares in certificated form will need to forward to you his Provisional Allotment Letter (with Form X completed) for you to complete and return, with your cheque, by 11.00 a.m. on 16 April 2015, in accordance with the instructions in the Provisional Allotment Letter.

If you are a CREST member or CREST sponsored member and have received a Provisional Allotment Letter and you wish to hold your Nil Paid Rights in uncertificated form in CREST, then you should send the Provisional Allotment Letter with Form X and the CREST Deposit Form on page 4 of the Provisional Allotment Letter completed (in the case of a CREST member) to the CREST courier and sorting service or (in the case of a CREST sponsored member) to your CREST sponsor by 3.00 p.m. on 13 April 2015 at the latest.

Qualifying CREST Shareholders and, subject to dematerialisation of their Nil Paid Rights as set out in the Provisional Allotment Letter, Qualifying non-CREST Shareholders who are CREST members or CREST sponsored members can transfer Nil Paid Rights, in whole or in part, by means of CREST in the same manner as any other security that is admitted to CREST. Please consult your CREST sponsor or stockbroker, bank or other appropriate financial adviser, or whoever arranged your share purchase, for details.

4.3 What if I want to sell the New Ordinary Shares for which I have paid?

If you are a Qualifying non-CREST Shareholder, provided the New Ordinary Shares have been paid for and you have requested the return of the receipted Provisional Allotment Letter, you can transfer the Fully Paid Rights by completing Form X, the form of renunciation, on page 4 of the receipted Provisional Allotment Letter in accordance with the instructions set out on pages 2 and 3 of the Provisional Allotment Letter until 11.00 a.m. on 16 April 2015.

After that time, you will be able to sell your New Ordinary Shares in the normal way. However, the share certificate relating to your New Ordinary Shares is expected to be despatched to you only by 24 April 2015. Pending despatch of such share certificate, valid instruments of transfer will be certified by Equiniti against the register.

If you hold your New Ordinary Shares and/or rights in CREST, you may transfer them in the same manner as any other security that is admitted to CREST. Please consult your stockbroker, bank or other appropriate financial adviser, or whoever arranged your share purchase, for details.

4.4 What if I do nothing?

If you do not want to take up any of your rights, you do not need to do anything. If you do not take up your rights, the number of Ordinary Shares you hold in the Company will stay the same, but the proportion of the total number of Ordinary Shares that you will hold will be lower than that held currently. If you are a Qualifying Non-CREST Shareholder and do not return your Provisional Allotment Letter and payment for the New Ordinary Shares to which you are entitled, by 11.00 a.m. on 16 April 2015, the Company has made arrangements under which the Underwriters will try to find investors to take up your rights by 4.30 p.m. on the second dealing day after the last date for acceptance of the Rights Issue. If the Underwriters find investors and are able to achieve a premium over the Issue Price and the related expenses of procuring those investors (including any applicable brokerage and commissions and amounts in respect of VAT which are not recoverable), you will be sent a cheque for the amount of that aggregate premium above the Issue Price less related expenses (including any applicable brokerage and commissions and amounts in respect of VAT which are not recoverable), so long as the amount in question is at least £5. Cheques are expected to be despatched by 24 April 2015 and will be sent to your address as it appears on the Company's register of members (or to the first named holder if you hold Existing Ordinary Shares jointly).

4.5 Do I need to comply with the Money Laundering Regulations (as set out in paragraphs 2.1.3 and 2.2.3 of Part III (*Terms and Conditions of the Rights Issue*) of this document)?

If you are a Qualifying non-CREST Shareholder, you do not need to follow these procedures if the value of the New Ordinary Shares you are subscribing for is less than €15,000 (approximately £10,700) or if you pay for them by a cheque drawn on an account in your own name and that account is one which is held with an EU or UK regulated bank or building society. If you are a Qualifying CREST Shareholder, you will not generally need to comply with the Money Laundering Regulations unless you apply to take up all or some of your entitlement to Nil Paid Rights as agent for one or more persons and you are not an EU or UK regulated financial institution.

Qualifying non-CREST Shareholders and Qualifying CREST Shareholders should refer to paragraphs 2.1.3 and 2.2.3 respectively of Part III (*Terms and Conditions of the Rights Issue*) of this document for a fuller description of the requirements of the Money Laundering Regulations.

4.6 What if I hold options and awards under the Serco Employee Share Schemes?

The options and awards granted under the Serco Employee Share Schemes may be adjusted in such way as the Directors consider appropriate to compensate option and award holders for any effect the Rights Issue will have on those options and awards (as permitted by the rules of the relevant Serco Employee Share Schemes). Any adjustments will not be made until after the ex-rights date and will be subject to approval of HMRC and the Company's auditors, where required. Participants in the Serco Employee Share Schemes will be contacted separately with further information on how their options and awards may be affected by the Rights Issue.

4.7 What should I do if I live outside the United Kingdom?

Your ability to take up rights to New Ordinary Shares may be affected by the laws of the country in which you live and you should take professional advice about any formalities you need to observe. Shareholders resident outside the United Kingdom, particularly those resident in the United States, Canada, Hong Kong, Japan, the PRC and South Africa should refer to paragraph 2.6 of Part III (*Terms and Conditions of the Rights Issue*) of this document.

4.8 Will the Rights Issue affect the dividends Serco pays?

As announced on 10 November 2014, the Board has recommended that no final dividend for the 2014 Financial Year be paid. The Board recognises that dividends are seen as an important component of equity returns by many of the Shareholders. The Board is committed to resuming dividend payments and a progressive dividend policy when it is prudent to do so. The Directors' decision as to when to declare a dividend and the amount to be paid will take into account the Group's underlying earnings, cash flows and balance sheet leverage, the requirement to maintain an appropriate level of dividend cover and the market outlook at the time. It is not anticipated that the Board will recommend any dividend in respect of the 2015 Financial Year.

4.9 What do I do if I have any further queries about the Rights Issue or the action I should take?

If you have any other questions, please telephone Equiniti between 8.30 a.m. and 5.30 p.m. (London time) Monday to Friday on 0871 384 2880 from within the UK or +44 121 415 0900 if calling from outside the UK. Calls to the 0872 384 2880 number cost 10 pence per minute (including VAT) plus network extras. Calls to the helpline from outside the UK will be charged at applicable international rates. Different charges may apply to calls from mobile telephones and calls may be recorded and randomly monitored for security and training purposes. The helpline cannot provide advice on the merits of the Rights Issue nor give any financial, legal, tax or investment advice. However, the staff can explain the options available to you, which forms you need to fill in and how to fill them in correctly.

Your attention is drawn to the terms and conditions of the Rights Issue in Part III (*Terms and Conditions of the Rights Issue*) of this document and (in the case of Qualifying non-CREST Shareholders) in the Provisional Allotment Letter.

PART III
TERMS AND CONDITIONS OF THE RIGHTS ISSUE

1. Introduction

Subject to the fulfilment of the terms and conditions referred to below, the Company is proposing to raise proceeds of approximately £528 million (net of estimated expenses) by way of a rights issue of 549,265,547 New Ordinary Shares. The New Ordinary Shares will be offered to Qualifying Shareholders (other than, subject to certain exceptions, Qualifying Shareholders with registered addresses, or who are resident or located, in the United States or any of the Excluded Territories) by way of nil-paid rights at 101 pence per New Ordinary Share, payable in full on acceptance by Qualifying Shareholders, on the basis of:

1 New Ordinary Share for every 1 Existing Ordinary Share

held on the Record Date (and so in proportion to any other number of Existing Ordinary Shares then held) subject to the terms and conditions as set out in this document and, in the case of Qualifying non-CREST Shareholders, the Provisional Allotment Letter.

The Issue Price of 101 pence per New Ordinary Share represents a discount of approximately:

- 51.1 per cent. to the Closing Price of 206 pence on 11 March 2015 (being the last Business Day prior to the publication of this document); and
- 34.3 per cent. to the theoretical ex-rights price of 154 pence based on the Closing Price on 11 March 2015.

Proceeds from the Rights Issue will be used primarily to reduce the Group's net debt. Of the expected approximate £528 million net proceeds from the Rights Issue, up to £450 million is expected to be applied to reduce the Group's borrowings under its Facility Agreement (£225 million or, if less, the amount then drawn) and the US Private Placement Notes (£225 million), with the balance (after approximately £30 million fees and expenses are paid in connection with the reduction of the Group's borrowings and the amendments to the Existing Finance Agreements) to be used by the Group for general corporate purposes.

Times and dates referred to in this Part III (*Terms and Conditions of the Rights Issue*) have been included on the basis of the expected timetable for the Rights Issue set out on page 56 of this document.

Qualifying Shareholders who do not take up any rights to New Ordinary Shares will have their proportionate shareholdings in Serco diluted by 50 per cent. Those Qualifying Shareholders who take up their rights in full will have the same proportionate voting and distribution rights as held by them at the close of business on the Record Date.

The Nil Paid Rights (also described as New Ordinary Shares, nil paid) are entitlements to subscribe for the New Ordinary Shares subject to payment of the Issue Price. The Fully Paid Rights are entitlements to receive the New Ordinary Shares, for which a subscription and payment has already been made.

Holdings of Existing Ordinary Shares in certificated and uncertificated form will be treated as separate holdings for the purpose of calculating entitlements under the Rights Issue.

Applications will be made to the UK Listing Authority and to the London Stock Exchange for the New Ordinary Shares (nil paid and fully paid) to be admitted to the premium listing segment of the Official List and to trading on the London Stock Exchange's main market for listed securities, respectively. It is expected that Admission will become effective on 31 March 2015 and that dealings in the New Ordinary Shares, nil paid, will commence on the London Stock Exchange at 8.00 a.m. on that date. The New Ordinary Shares and the Existing Ordinary Shares are in registered form and can be held in certificated form or uncertificated form via CREST.

The Existing Ordinary Shares are already admitted to CREST. No further application for admission to CREST is required for the New Ordinary Shares and all of the New Ordinary Shares when issued and fully paid may be held and transferred by means of CREST.

Applications have been made for the Nil Paid Rights and the Fully Paid Rights to be admitted to CREST. Euroclear requires the Company to confirm to it that certain conditions (imposed by the CREST Manual) are satisfied before Euroclear will admit any security to CREST. It is expected that these conditions will be satisfied, in respect of the Nil Paid Rights and the Fully Paid Rights, on Admission.

The ISIN for the New Ordinary Shares will be the same as that of the Existing Ordinary Shares, being GB0007973794. The ISIN code for the Nil Paid Rights is GB00BW9HGS54 and for the Fully Paid Rights is GB00BW9HGT61.

None of the New Ordinary Shares are being made available to the public other than pursuant to the Rights Issue.

The Rights Issue has been fully underwritten by the Underwriters and is conditional upon, amongst other things:

- (a) the Resolution being passed at the General Meeting;
- (b) the Underwriting Agreement having become unconditional in all respects (save for the condition relating to Admission) and not having been terminated in accordance with its terms prior to Admission; and
- (c) Admission becoming effective by not later than 8.00 a.m. on 31 March 2015 (or such later time and/or date, being not later than 2 April 2015, as the Company and the Underwriters may agree).

The Underwriting Agreement is conditional upon certain matters being satisfied or not breached prior to Admission and may be terminated by the Underwriters prior to Admission upon the occurrence of certain specified events, in which case the Rights Issue will not proceed. The Underwriters may arrange sub-underwriting for some, or none, of the New Ordinary Shares. The Underwriting Agreement is not capable of termination following Admission (including in respect of any statutory withdrawal rights). A summary of certain terms and conditions of the Underwriting Agreement is contained in paragraph 9.1 of Part X (*Additional Information*).

The Underwriters and their respective affiliates may, in accordance with applicable legal and regulatory provisions and subject to the provisions of the Underwriting Agreement, engage in transactions in relation to the Nil Paid Rights, the Fully Paid Rights, the New Ordinary Shares and/or related instruments for their own account for the purpose of hedging their underwriting exposure or otherwise. Accordingly, references in this document to Nil Paid Rights, Fully Paid Rights or New Ordinary Shares being issued, offered, subscribed, acquired, placed or otherwise dealt in should be read as including any issue or offer to, or subscription, acquisition, placing or dealing by, the Underwriters and any of their affiliates. Except as required by applicable law or regulation, none of the Underwriters propose to make any public disclosure in relation to such transactions. In addition certain of the Underwriters or their affiliates may enter into financing arrangements (including swaps or contracts for differences) with investors in connection with which such Underwriters (or their affiliates) may from time to time acquire, hold or dispose of Ordinary Shares. None of the Underwriters intend to disclose the extent of any such investment or transactions otherwise than in accordance with any legal or regulatory obligation to do so.

The Company will not proceed with the Rights Issue if the Underwriting Agreement is terminated at any time prior to Admission and commencement of dealings in the New Ordinary Shares (nil paid).

Subject, *inter alia*, to the conditions referred to in paragraphs (a) to (c) above being satisfied and save as provided in paragraph 2.6 of this Part III (*Terms and Conditions of the Rights Issue*) below, it is expected that:

- (i) Provisional Allotment Letters will be despatched to Qualifying non-CREST Shareholders (other than, subject to certain exceptions, Qualifying Shareholders with a registered address, or who are resident or located, in the United States or any of the Excluded Territories or who are otherwise located in the United States, or any agent or intermediary of those Qualifying Shareholders) on 30 March 2015;
- (ii) Admission of the New Ordinary Shares, nil paid, will become effective at 8.00 a.m. on 31 March 2015;
- (iii) the Registrar will instruct Euroclear to credit the appropriate stock accounts of Qualifying CREST Shareholders (other than, subject to certain exceptions, Qualifying Shareholders with a registered address, or who are resident or located, in the United States or any of the Excluded Territories, or any agent or intermediary of those Qualifying Shareholders) with such Shareholders' entitlements to Nil Paid Rights with effect as soon as practicable after 8.00 a.m. on 31 March 2015;
- (iv) the Nil Paid Rights and the Fully Paid Rights will be enabled for settlement in CREST by Euroclear as soon as practicable after 8.00 a.m. on 31 March 2015;

- (v) New Ordinary Shares will be credited to the appropriate stock accounts of the relevant Qualifying CREST Shareholders (or their renounees) who validly take up their rights as soon as practicable after 8.00 a.m. on 17 April 2015; and
- (vi) share certificates for the New Ordinary Shares will be despatched to Qualifying non-CREST Shareholders (or their renounees) who validly take up their rights by no later than 24 April 2015.

The attention of Overseas Shareholders or any person (including, without limitation, custodians, nominees and trustees) who has a contractual or other legal obligation to forward this document or any Provisional Allotment Letter (duly renounced), if and when received, or other document into a jurisdiction other than the UK is drawn to paragraph 2.6 below.

Subject to certain exceptions, the offer of New Ordinary Shares will not be made into the United States or any of the Excluded Territories. Subject to the provisions of paragraph 2.6 below, Shareholders with a registered address, or who are resident or located, in the United States or any Excluded Territory are not being sent the Provisional Allotment Letter and will not have their CREST accounts credited with Nil Paid Rights.

This document constitutes the offer of New Ordinary Shares to all Qualifying Shareholders (other than, subject to certain exceptions, Qualifying Shareholders with registered addresses, or who are resident or located, in the United States or any of the Excluded Territories). This offer is being made to such Qualifying Shareholders on the terms and conditions set out in this document (and, in the case of Qualifying non-CREST Shareholders, the Provisional Allotment Letter) at the time when, in the case of Qualifying non-CREST Shareholders, the Provisional Allotment Letters are despatched as described in paragraph (i) above, and in the case of Qualifying non-CREST Shareholders, the Nil Paid Rights are enabled for settlement as described in paragraph (iv) above (such Shareholders' stock accounts having been credited as described in step (iii) above).

The offer of New Ordinary Shares and the Rights Issue are not being made by means of this document into the United States or any of the Excluded Territories.

Pursuant to the Companies Act, the offer of New Ordinary Shares to Qualifying Shareholders who have no registered address in an EEA State and who have not given to the Company an address in an EEA State for the serving of notices will also be made to such Qualifying Shareholders through a notice in the London Gazette, details of which are provided in paragraph 2.6.6 of this Part III (*Terms and Conditions of the Rights Issue*). Qualifying Shareholders taking up their Rights by completing a Provisional Allotment Letter or by sending a Many-To-Many ("MTM") instruction to Euroclear will be deemed to have given the representations and warranties set out in paragraph 2.6.7 of this Part III (*Terms and Conditions of the Rights Issue*), unless such requirement is waived by the Company.

The New Ordinary Shares will, when issued and fully paid, rank *pari passu* in all respects with the Existing Ordinary Shares, including the right to receive all dividends or other distributions declared, made or paid by reference to a record date after the date of their issue. There will be no restrictions on the free transferability of the New Ordinary Shares save as provided in the Articles of the Company. The rights attaching to the New Ordinary Shares are governed by the Articles, a summary of which is set out in Part X (*Additional Information*) of this document.

All documents, including the Provisional Allotment Letters and cheques and certificates posted to, by or from Qualifying Shareholders and/or their transferees or renounees (or their agents, as appropriate) will be posted at their own risk.

2. Action to be taken

The action to be taken depends on whether you are:

- (a) a Qualifying non-CREST Shareholder; or
- (b) a Qualifying CREST Shareholder.

If you are a Qualifying non-CREST Shareholder and do not have a registered address, nor are you resident or located, in the United States or any of the Excluded Territories (subject to certain limited exceptions), please refer to paragraph 2.1 and paragraphs 2.3 to 2.10 below.

If you are a Qualifying CREST Shareholder and do not have a registered address, nor are you resident or located, in the United States or any of the Excluded Territories (subject to certain limited exceptions),

please refer to paragraphs 2.2 to 2.10 below and to the CREST Manual for further information on the CREST procedures referred to below.

If you are a Qualifying Shareholder and have a registered address, or are resident or located, in the United States or any of the Excluded Territories, please refer to paragraph 2.6 below.

CREST sponsored members should refer to their CREST sponsors, as only their CREST sponsors will be able to take the necessary actions specified below to take up the entitlements or otherwise to deal with the Nil Paid Rights or Fully Paid Rights of CREST sponsored members.

All enquiries in relation to the Provisional Allotment Letter should be addressed to Equiniti between 8.30 a.m. and 5.30 p.m. (London time) Monday to Friday on 0871 384 2880 from within the UK or +44 121 415 0900 if calling from outside the UK. Calls to the 0871 384 2880 number cost 10 pence per minute (including VAT) plus network extras. Calls to the helpline from outside the UK will be charged at applicable international rates. Different charges may apply to calls from mobile telephones and calls may be recorded and randomly monitored for security and training purposes. Please note that, for legal reasons, the helpline is only able to provide information contained in this document and information relating to the Company's register of members to persons who do not have a registered address, or who are not resident or located, in the United States or any of the Excluded Territories. The helpline cannot provide advice on the merits of the Rights Issue nor give any financial, legal, tax or investment advice.

2.1 Action to be taken by Qualifying non-CREST Shareholders

2.1.1 General

Provisional Allotment Letters are expected to be despatched to Qualifying non-CREST Shareholders (other than, subject to certain limited exceptions, Qualifying Shareholders with registered addresses, or who are resident or located, in the United States or any of the Excluded Territories) on 30 March 2015. Each Provisional Allotment Letter will set out:

- (a) in Box 1, the holding at the close of business on the Record Date of Existing Ordinary Shares on which a Qualifying non-CREST Shareholder's entitlement to New Ordinary Shares has been based;
- (b) in Box 2, the aggregate number of New Ordinary Shares which have been provisionally allotted to that Qualifying non-CREST Shareholder;
- (c) in Box 3, the amount payable by a Qualifying non-CREST Shareholder at the Issue Price to take up his entitlement in full;
- (d) the procedures to be followed if a Qualifying non-CREST Shareholder wishes to dispose of all or part of his entitlement or a Qualifying non-CREST Shareholder wishes to convert all or part of his entitlement into uncertificated form; and
- (e) any instructions regarding acceptance, instruction and payment, consolidation, splitting and registration of renunciation (where applicable).

Assuming that dealings in Nil Paid Rights commence on 31 March 2015, the latest time and date for:

- (i) **acceptance, instruction and payment by completion and return of a Provisional Allotment Letter will be 11.00 a.m. on 16 April 2015; and**
- (ii) **acceptance and payment by settlement of an MTM instruction in CREST will be 11.00 a.m. on 16 April 2015.**

If the Provisional Allotment Letters are not despatched on 30 March 2015 or if the timetable for the Rights Issue is otherwise amended, the expected timetable set out on page 56 of this document will be adjusted accordingly and the revised dates will be announced through a Regulatory Information Service. All references to times and/or dates in this Part III (*Terms and Conditions of the Rights Issue*) should be read as being adjusted accordingly.

2.1.2 Procedure for acceptance, instruction and payment

- (a) Qualifying non-CREST Shareholders who wish to take up their entitlement in full

Qualifying non-CREST Shareholders who wish to take up all of their entitlement must complete (as appropriate) and return the Provisional Allotment Letter, together with a cheque or banker's draft in

pound sterling, made payable to “Equiniti re Serco Rights Issue” and crossed “A/C payee only”, for the full amount payable on acceptance, in accordance with the instructions printed on the Provisional Allotment Letter, by post or by hand (during normal business hours only) to Equiniti at Corporate Actions, Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA so as to arrive as soon as possible and in any event so as to be received by not later than 11.00 a.m. on 16 April 2015. A reply-paid envelope (for use in the UK) will be enclosed with the Provisional Allotment Letter for this purpose. If you post your Provisional Allotment Letter within the UK by first-class post, it is recommended that you allow at least four days for delivery. Payments via CHAPS, BACS or electronic transfer will not be accepted.

(b) Qualifying non-CREST Shareholders who wish to take up some (but not all) of their entitlement

Qualifying non-CREST Shareholders who wish to take up some (but not all) of their entitlement, with or without selling or transferring the remainder, should return by post or by hand (during normal business hours only) to Equiniti at Corporate Actions, Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA so as to arrive as soon as possible and in any event so as to be received by not later than 3.00 p.m. on 14 April 2015 (the last date and time for splitting the Provisional Allotment Letters), the following:

- (i) the Provisional Allotment Letter duly completed, including by signing and dating Form X, in accordance with the instructions printed thereon;
- (ii) a cheque or banker’s draft in pound sterling, made payable to “Equiniti re Serco Rights Issue” and crossed “A/C payee only”, for the amount payable for the number of Nil Paid Rights such Qualifying non-CREST Shareholder wishes to take up; and
- (iii) a covering letter, signed by the Qualifying non-CREST Shareholder(s), stating the number of New Ordinary Shares to be taken up (and, if such Shareholder wishes to sell or transfer the remaining, the number of split Provisional Allotment Letters required for the Nil Paid Rights not being taken up and the number of Nil Paid Rights to be comprised in each such split Provisional Allotment Letter).

In this case, the split Provisional Allotment Letters (representing the Nil Paid Rights the Qualifying non-CREST Shareholder does not wish to take up) will be required in order to sell those rights not being taken up.

(c) Company’s discretion as to validity of acceptances and instructions

If payment is not received in full by 11.00 a.m. on 16 April 2015, the provisional allotment will (unless the Company has exercised its right to treat as valid an acceptance or instruction as set out below) be deemed to have been declined and will lapse. The Company (in its absolute discretion, after consulting the Joint Global Coordinators) may elect, but shall not be obliged, to treat as valid any Provisional Allotment Letter and accompanying remittance for the full amount due which is not received prior to 11.00 a.m. on 16 April 2015.

The Company (in its absolute discretion, after consulting the Joint Global Coordinators) may elect, but shall not be obliged to treat as a valid acceptance or instruction, the receipt of appropriate remittance by 11.00 a.m. on 16 April 2015, from an authorised person (as defined in FSMA) specifying the number of New Ordinary Shares to be subscribed for and containing an undertaking by that person to lodge the Provisional Allotment Letter, duly completed, in due course.

The Company may (in its absolute discretion, after consulting the Joint Global Coordinators) also treat a Provisional Allotment Letter as valid and binding on the person(s) by whom or on whose behalf it is lodged even if it is not completed in accordance with the relevant instructions or is not accompanied by a valid power of attorney where required.

The Company reserves the right to treat a Provisional Allotment Letter as invalid if the Company determines (in its sole discretion) that the Provisional Allotment Letter: (i) is illegible, incomplete, or unexecuted; (ii) has not been completed in accordance with the relevant instructions; or (iii) is not accompanied by a valid power of attorney where required. The Company’s decision shall be final and binding in all respects.

The Company reserves the right to treat as invalid any acceptance or instruction or purported acceptance or instruction in relation to the New Ordinary Shares that appears to the Company to have been executed in, despatched from, or that provided an address in, the United States or any Excluded Territory.

The provisions of this paragraph 2.1.2(c) and any other terms of the Rights Issue relating to Qualifying non-CREST Shareholders may be waived, varied or modified as regards specific Qualifying non-CREST Shareholder(s) or on a general basis by the Company, with the agreement of the Joint Global Coordinators.

A Qualifying non-CREST Shareholder who makes a valid acceptance or instruction (as applicable) and payment in accordance with this paragraph 2.1 is deemed to request that the New Ordinary Shares to which they will become entitled be issued to them (if they are a Qualifying non-CREST Shareholder) on the terms and conditions set out in this document and subject to the Articles of the Company.

(d) Payments

All payments must be in pound sterling and made by cheque or banker's draft made payable to "Equiniti re Serco Rights Issue" and crossed "A/C payee only". Cheques or banker's drafts must be drawn on a bank or building society or branch of a bank or building society in the UK or Channel Islands or Isle of Man which is either a settlement member of the Cheque and Credit Clearing Company Limited or the CHAPS Clearing Company Limited or which has arranged for its cheques and banker's drafts to be cleared through the facilities provided by any of those companies or committees and must bear the appropriate sort code in the top right-hand corner. Payments via CHAPS, BACS or electronic transfer will not be accepted.

Cheques must be drawn on the personal account to which the Qualifying non-CREST Shareholder (or his nominee) has sole or joint title to the funds. Third party cheques may not be accepted with the exception of building society cheques or banker's drafts where the building society or bank has inserted details of the name of the account holder and the building society cheque or banker's draft has been stamped with the building society or bank branch stamp. The account name should be the same as that shown on the application. Post-dated cheques will not be accepted. Cheques or banker's drafts will be presented for payment upon receipt. The Company reserves the right to instruct the Receiving Agent to seek special clearance of cheques and banker's drafts to allow value to be obtained for remittances at the earliest opportunity. No interest will be paid on payments made before they are due. It is a term of the Rights Issue that cheques shall be honoured on first presentation and the Company may elect to treat as invalid acceptances in respect of which cheques are not so honoured. Return of a completed Provisional Allotment Letter will constitute a warranty that the cheque will be honoured on first presentation. All documents, cheques and banker's drafts sent through the post will be sent at the risk of the sender.

If the New Ordinary Shares have already been allotted to a Qualifying non-CREST Shareholder prior to any payment not being so honoured upon first presentation or such acceptance or instruction (as applicable) being treated as invalid, the Company may (in its absolute discretion as to manner, timing and terms) make arrangements for the sale of such New Ordinary Shares on behalf of such Qualifying non-CREST Shareholder and hold the proceeds of sale (net of the Company's reasonable estimate of any loss it has suffered as a result of the same and of the expenses of the sale, including, without limitation, any stamp duty or SDRT payable on the transfer of such New Ordinary Shares, and of all amounts payable by such Qualifying non-CREST Shareholder pursuant to the terms of the Rights Issue in respect of the subscription of such New Ordinary Shares) on behalf of such Qualifying non-CREST Shareholder. None of the Company, the Underwriters or any other person shall be responsible for, or have any liability for, any loss, expense or damage suffered by such Qualifying non-CREST Shareholder as a result.

2.1.3 Money Laundering Regulations

It is a term of the Rights Issue that, to ensure compliance with the Money Laundering Regulations, the Receiving Agent may require, at its absolute discretion, verification of the identity of the person by whom or on whose behalf a Provisional Allotment Letter is lodged with payment (which requirements are referred to below as the "verification of identity requirements"). If an application is made by a UK regulated broker or intermediary acting as agent and which is itself subject to the Money Laundering Regulations, any verification of identity requirements are the responsibility of such broker or intermediary and not of the Receiving Agent. In such case, the lodging agent's stamp should be inserted on the Provisional Allotment Letter. The person(s) who, by lodging a Provisional Allotment Letter with payment and in accordance with the other terms as described above (the "acceptor"), accept(s) directly or indirectly, such number of New Ordinary Shares as referred therein (for the

purposes of this paragraph 2.1.3 the “**relevant shares**”) (being the provisional allottee or, in the case of renunciation, the person named in such Provisional Allotment Letter) shall thereby be deemed to agree to provide the Receiving Agent and/or the Company with such information and other evidence as they or either of them may require to satisfy the verification of identity requirements and agree for the Receiving Agent to make a search using a credit reference agency for the purpose of confirming such identity where deemed necessary. A record of the search will be retained.

If the Receiving Agent determines that the verification of identity requirements applies to an acceptor, an acceptance or an instruction and the verification of identity requirements have not been satisfied (which the Receiving Agent shall in its absolute discretion determine) by 11.00 a.m. on 16 April 2015, the Company may, in its absolute discretion, and without prejudice to any other rights of the Company, treat the acceptance or instruction as invalid, in which event the application monies will be returned (at the applicant’s risk) without interest to the account of the bank or building society on which the relevant cheque or banker’s draft was drawn, or may confirm the allotment of the relevant shares but (notwithstanding any other term of the Rights Issue) such shares will not be issued to the relevant acceptor or registered in his name until the verification of identity requirements have been satisfied (which the Receiving Agent shall in its absolute discretion determine). If the acceptance or instruction is not treated as invalid and the verification of identity requirements are not satisfied within such period, being not less than seven days after a request for evidence of identity is despatched to the acceptor, as the Company may in its absolute discretion allow, the Company will be entitled to make arrangements (in its absolute discretion as to manner, timing and terms) to sell the relevant shares. Any proceeds of sale (net of expenses) of the relevant shares which shall be issued to and registered in the name of the purchaser(s) or an amount equivalent to the original payment, whichever is the lower, will be held by the Company on trust for the acceptor, subject to the requirements of the Money Laundering Regulations. The Receiving Agent is entitled in its absolute discretion to determine whether the verification of identity requirements apply to any acceptor and whether such requirements have been satisfied. None of the Company, the Underwriters or the Receiving Agent will be liable to any person for any loss suffered or incurred as a result of the exercise of any such discretion or as a result of any sale of relevant shares.

Return of a Provisional Allotment Letter with the appropriate remittance will constitute a warranty from the acceptor that the Money Laundering Regulations will not be breached by acceptance of such remittance and an undertaking to provide promptly to the Receiving Agent such information as may be specified by the Receiving Agent as being required for the purpose of the Money Laundering Regulations. If the verification of identity requirements applies, failure to provide the necessary evidence of identity may result in your acceptance or instruction (as applicable) being treated as invalid or in delays in the despatch of share certificates and other documents relating to the Rights Issue (as applicable).

The verification of identity requirements will not usually apply:

- (a) if the acceptor is an organisation required to comply with the Money Laundering Directive 2005/60/EC of the European Parliament and of the EC Council of 26 October 2005 on the prevention of the use of the financial system for the purpose of money laundering and terrorist financing; or
- (b) if the acceptor is a regulated UK broker or intermediary acting as agent and is itself subject to the Money Laundering Regulations; or
- (c) if the acceptor (not being an acceptor who delivers his acceptance in person) makes payment by way of a cheque drawn on an account in the name of such acceptor; or
- (d) if the aggregate subscription price is less than €15,000 (approximately £10,700).

Where the verification of identity requirements applies, please note the following as this will assist in satisfying the requirements. Satisfaction of the verification of identity requirements may be facilitated in the following ways:

- (i) if payment is made by cheque or banker’s draft in pound sterling drawn on a branch in the UK of a bank or building society and bears a UK bank sort code number in the top right-hand corner, the following applies. Cheques should be made payable to “Equiniti re Serco Rights Issue” and crossed “A/C payee only”. Third party cheques may not be accepted with the exception of building society cheques or banker’s drafts where the building society or bank has inserted details

of the name of the account holder and the building society cheque or banker's draft has been stamped with the building society or bank branch stamp. The account name should be the same as that shown on the application;

- (ii) if the Provisional Allotment Letter is lodged with payment by an agent which is an organisation of the kind referred to in (i) above or which is subject to anti-money laundering regulation in a country which is a member of the Financial Action Task Force (the non-EU members of which are Argentina, Australia, Brazil, Canada, Gibraltar, Hong Kong, Iceland, Japan, Mexico, Luxembourg, New Zealand, Norway, the Russian Federation, Singapore, South Africa, Switzerland, Turkey, the United States of America and, by virtue of their membership of the Gulf Co-operation Council, Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the UAE), the agent should provide written confirmation with the Provisional Allotment Letter that it has that status and a written assurance that it has obtained and recorded evidence of the identity of the persons for whom it acts and that it will on demand make such evidence available to the Receiving Agent or the relevant authority; or
- (iii) if a Provisional Allotment Letter is lodged by hand by the acceptor in person, he should ensure that he has with him evidence of identity bearing his photograph (for example, his passport) and evidence of his address (for example, a recent bank statement).

In order to confirm the acceptability of any written assurance referred to in (iii) above or any other case, the acceptor should telephone Equiniti between 8.30 a.m. and 5.30 p.m. (London time) Monday to Friday on 0871 384 2880 from within the UK or +44 121 415 0900 if calling from outside the UK. Calls to the 0871 384 2880 number cost 10 pence per minute (including VAT) plus network extras. Calls to the helpline from outside the UK will be charged at applicable international rates. Different charges may apply to calls from mobile telephones and calls may be recorded and randomly monitored for security and training purposes. The helpline cannot provide advice on the merits of the Rights Issue nor give any financial, legal, tax or investment advice.

2.1.4 Dealings in Nil Paid Rights

Dealings in the Nil Paid Rights on the London Stock Exchange are expected to commence at 8.00 a.m. on 31 March 2015.

A transfer of Nil Paid Rights can be made by renunciation of the Provisional Allotment Letter in accordance with the instructions printed thereon and delivery of the letter to the transferee or to a stockbroker, bank or other appropriate financial adviser. The latest time and date for registration of renunciation of Provisional Allotment Letters, nil paid, is expected to be 11.00 a.m. on 16 April 2015.

2.1.5 Dealings in Fully Paid Rights

After acceptance and payment in full in accordance with the provisions set out in this document and the Provisional Allotment Letter, the Fully Paid Rights may be transferred by renunciation of the relevant Provisional Allotment Letter and delivering it, by post or by hand (during normal business hours only) to Equiniti at Corporate Actions, Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA by not later than 11.00 a.m. on 16 April 2015. To do this, Qualifying non-CREST Shareholders will need to have their fully paid Provisional Allotment Letters returned to them after acceptance has been effected by the Receiving Agent. Fully paid Provisional Allotment Letters will only be returned to Shareholders if their return is requested by ticking Box 4 on the Provisional Allotment Letter. From 17 April 2015, the New Ordinary Shares will be in registered form and transferable in the usual way (see paragraph 2.1.10 of this Part III (*Terms and Conditions of the Rights Issue*) below).

2.1.6 Renunciation and splitting of Provisional Allotment Letters

Qualifying non-CREST Shareholders who wish to transfer all of their Nil Paid Rights or, after acceptance of the provisional allotment and payment in full, Fully Paid Rights comprised in a Provisional Allotment Letter may (save as required by the laws of certain overseas jurisdictions) renounce such allotment by completing and signing Form X on the Provisional Allotment Letter (if it is not already marked "Original Duly Renounced") and passing the entire Provisional Allotment Letter to their stockbroker or bank or other appropriate financial adviser or to the transferee. Once a Provisional Allotment Letter has been renounced, the letter will become a negotiable instrument in bearer form and the Nil Paid Rights or Fully Paid Rights (as appropriate) comprised in the Provisional Allotment Letter may be transferred by delivery of the Provisional Allotment Letter to the transferee.

The latest time and date for registration of renunciation of Provisional Allotment Letters, fully paid, is 11.00 a.m. on 16 April 2015.

If a holder of a Provisional Allotment Letter wishes to take up some (but not all) of his entitlement and wishes to sell or transfer the remainder, or wishes to transfer all the Nil Paid Rights or (if appropriate) Fully Paid Rights but to different persons, he must have the Provisional Allotment Letter split. To split a Provisional Allotment Letter, it must be delivered by post or by hand (during normal business hours only) to Equiniti at Corporate Actions, Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA, by not later than 3.00 p.m. on 14 April 2015, with Form X on page 4 of the Provisional Allotment Letter duly completed and signed and (if applicable) a cheque for the entitlements he wishes to take up.

The number of split Provisional Allotment Letters required and the number of Nil Paid Rights or (as appropriate) Fully Paid Rights to be comprised in each split Provisional Allotment Letter should be stated in an accompanying letter. Form X on split Provisional Allotment Letters will be marked "Original Duly Renounced" before issue. The aggregate number of Nil Paid Rights or (as appropriate) Fully Paid Rights comprised in the split Provisional Allotment Letters must equal the number of New Ordinary Shares set out in Box 2 of the original Provisional Allotment Letter (less the number of New Ordinary Shares representing rights that the holder wishes to take up if taking up his entitlement in part). The original Provisional Allotment Letter would then be split and cancelled for split Provisional Allotment Letters. The split Provisional Allotment Letter(s) (representing the New Ordinary Shares the Shareholder does not wish to take up) will be required in order to sell those rights not being taken up.

Alternatively, Qualifying Non-CREST Shareholders who wish to take up some of their rights, without selling or transferring the remainder, should refer to paragraph 2.1.2(b) of this Part III (*Terms and Conditions of the Rights Issue*).

The Company reserves the right to refuse to register any renunciation in favour of any person in respect of which the Company believes such renunciation may violate applicable legal or regulatory requirements, including (without limitation) any renunciation in the name of any person with an address outside the UK.

2.1.7 *Registration in names of Qualifying non-CREST Shareholders*

A Qualifying non-CREST Shareholder who wishes to have all the New Ordinary Shares to which he is entitled registered in his name must accept and make payment for such allotment in accordance with the provisions set out in this document and the Provisional Allotment Letter but need take no further action. A share certificate in respect of the New Ordinary Shares subscribed for is expected to be sent to such Qualifying non-CREST Shareholder by no later than 24 April 2015.

2.1.8 *Registration in names of persons other than Qualifying non-CREST Shareholders originally entitled*

In order to register Fully Paid Rights in certificated form in the name of someone other than the Qualifying non-CREST Shareholder(s) originally entitled, the renounee or his agent(s) must complete Form Y on the Provisional Allotment Letter (unless the renounee is a CREST member who wishes to hold such New Ordinary Shares in uncertificated form, in which case Form X and the CREST Deposit Form must be completed (see paragraph 2.1.9 of this Part III (*Terms and Conditions of the Rights Issue*) below)) and deliver the Provisional Allotment Letter, when fully paid, by post or by hand (during normal business hours) to Equiniti at Corporate Actions, Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA, by not later than the latest time for registration of renunciations, which is 11.00 a.m. on 16 April 2015. Registration cannot be effected unless and until the New Ordinary Shares comprised in a Provisional Allotment Letter are fully paid.

The New Ordinary Shares comprised in several renounced Provisional Allotment Letters may be registered in the name of one holder (or joint holders) if Form Y on the Provisional Allotment Letter is completed on one Provisional Allotment Letter (the "**Principal Letter**") and all the Provisional Allotment Letters are delivered in one batch. Details of each Provisional Allotment Letter (including the Principal Letter), the number of New Ordinary Shares represented by each Provisional Allotment Letter, the allotment number of Provisional Allotment Letters to be consolidated and the total number of New Ordinary Shares represented by all the Provisional Allotment Letters to be consolidated should be listed in a covering letter accompanying the Provisional Allotment Letter and the allotment number of the Principal Letter should be entered in the space provided on each of the other Provisional Allotment Letters.

2.1.9 Deposit of Nil Paid Rights or Fully Paid Rights into CREST

The Nil Paid Rights or Fully Paid Rights represented by the Provisional Allotment Letter may be converted into uncertificated form, that is, deposited into CREST (whether such conversion arises as a result of a renunciation of those rights or otherwise). Similarly, Nil Paid Rights or Fully Paid Rights held in CREST may be converted into certificated form, that is, withdrawn from CREST. Subject as provided in the next following paragraph or in the Provisional Allotment Letter, normal CREST procedures and timings apply in relation to any such conversion. You are recommended to refer to the CREST Manual for details of such procedures.

The procedure for depositing the Nil Paid Rights represented by the Provisional Allotment Letter into CREST, whether such rights are to be converted into uncertificated form in the name(s) of the person(s) whose name(s) and address appear(s) on page 1 of the Provisional Allotment Letter or in the name of a person or persons to whom the Provisional Allotment Letter has been renounced, is as follows: Form X and the CREST Deposit Form (both on the Provisional Allotment Letter) will need to be completed and the Provisional Allotment Letter deposited with the CREST courier and sorting service (“CCSS”). In addition, the normal CREST Stock Deposit procedures will need to be carried out, except that (a) it will not be necessary to complete and lodge a separate CREST Transfer Form (prescribed under the Stock Transfer Act 1963) with the CCSS and (b) only the whole of the Nil Paid Rights or the Fully Paid Rights represented by the Provisional Allotment Letter may be deposited into CREST. If you wish to deposit some only of the Nil Paid Rights or the Fully Paid Rights represented by the Provisional Allotment Letter into CREST, you must apply for split Provisional Allotment Letters by following the instructions in paragraph 2.1.6 above. If the rights represented by more than one Provisional Allotment Letter are to be deposited, the CREST Deposit Form on each Provisional Allotment Letter must be completed and deposited. The Consolidation Listing Form (as defined in the CREST Regulations) must not be used.

A holder of Nil Paid Rights (or, if appropriate, the Fully Paid Rights) represented by a Provisional Allotment Letter who is proposing to convert those rights into uncertificated form (whether following a renunciation of such rights or otherwise) is recommended to ensure that the conversion procedures are implemented in sufficient time to enable the person holding or acquiring the Nil Paid Rights (or, if appropriate, the Fully Paid Rights) in CREST following the conversion to take all necessary steps in connection with taking up the entitlement prior to 11.00 a.m. on 16 April 2015. **In particular, having regard to processing times in CREST and on the part of the Registrar, the latest recommended time for depositing a renounced Provisional Allotment Letter (with Form X and the CREST Deposit Form on the Provisional Allotment Letter duly completed) with the CCSS in order to enable the person acquiring the Nil Paid Rights (or, if appropriate, the Fully Paid Rights) in CREST as a result of the conversion to take all necessary steps in connection with taking up the entitlement prior to 11.00 a.m. on 16 April 2015 is 3.00 p.m. on 13 April 2015.**

When Form X and the CREST Deposit Form (on the Provisional Allotment Letter) have been completed, the title to the Nil Paid Rights or the Fully Paid Rights represented by the Provisional Allotment Letters will cease to be renounceable or transferable by delivery, and for the avoidance of doubt any entries in Form Y will not subsequently be recognised or acted upon by the Receiving Agent. All renunciations or transfers of Nil Paid Rights or Fully Paid Rights must be effected through the CREST system once such Nil Paid Rights or Fully Paid Rights have been deposited into CREST.

CREST sponsored members should contact their CREST sponsor as only their CREST sponsor will be able to take the necessary action to take up the entitlement or otherwise to deal with the Nil Paid Rights or Fully Paid Rights of the CREST sponsored member.

2.1.10 Issue of New Ordinary Shares in definitive form

Definitive share certificates in respect of the New Ordinary Shares to be held in certificated form are expected to be despatched by post by 24 April 2015 at the risk of the persons entitled thereto to Qualifying non-CREST Shareholders (or their transferees who hold Fully Paid Rights in certificated form), or in the case of joint holdings, to the first-named Shareholders, at their registered address (unless valid address details have been completed on the Provisional Allotment Letter). After despatch of the definitive share certificates, Provisional Allotment Letters will cease to be valid for any purpose whatsoever. Pending despatch of definitive share certificates, instruments of transfer of the New Ordinary Shares will be certified by the Registrar against the register.

2.2 Action to be taken by Qualifying CREST Shareholders in relation to Nil Paid Rights and Fully Paid Rights in CREST

2.2.1 General

It is expected that each Qualifying CREST Shareholder (other than, subject to certain limited exceptions, Qualifying Shareholders with registered addresses, or who are resident or located, in the United States or any of the Excluded Territories) will receive a credit to his stock account in CREST of his entitlement to Nil Paid Rights on 31 March 2015. It is expected that such rights will be enabled as soon as practicable after 8.00 a.m. on 31 March 2015. The CREST stock account to be credited will be an account under the participant ID and member account ID that apply to the Existing Ordinary Shares in uncertificated form held at the close of business on the Record Date by the Qualifying CREST Shareholder in respect of which the Nil Paid Rights are provisionally allotted.

The maximum number of New Ordinary Shares that a Qualifying CREST Shareholder may take up is that which has been provisionally allotted to that Qualifying CREST Shareholder and for which he receives a credit of entitlement into his stock account in CREST. The minimum number of New Ordinary Shares a Qualifying CREST Shareholder may take up is one.

The Nil Paid Rights will constitute a separate security for the purposes of CREST and can accordingly be transferred, in whole or in part, by means of CREST in the same manner as any other security that is admitted to CREST.

If, for any reason, it is impracticable to credit the stock accounts of Qualifying CREST Shareholders, or to enable the Nil Paid Rights by 8.00 a.m. on 31 March 2015, Provisional Allotment Letters shall, unless the Company determines otherwise, be sent out in substitution for the Nil Paid Rights which have not been so credited or enabled and the expected timetable as set out in this document will be adjusted as appropriate. **References to dates and times in this document should be read as subject to any such adjustment.** The Company will make an appropriate announcement to a Regulatory Information Service giving details of any revised dates **but Qualifying CREST Shareholders may not receive any further written communication.**

CREST members who wish to take up their entitlements in respect of or otherwise to transfer Nil Paid Rights or Fully Paid Rights held by them in CREST should refer to the CREST Manual for further information on the CREST procedures referred to below. If you are a CREST sponsored member, you should consult your CREST sponsor if you wish to take up your entitlement as only your CREST sponsor will be able to take the necessary action to take up your entitlements or otherwise to deal with your Nil Paid Rights or Fully Paid Rights.

2.2.2 Procedure for acceptance and payment

(a) MTM instructions

CREST members who wish to take up all or some of their entitlement in respect of Nil Paid Rights in CREST must send (or, if they are CREST sponsored members, procure that their CREST sponsor sends) an MTM instruction to Euroclear that, on its settlement, will have the following effect:

- (i) the crediting of a stock account of the Receiving Agent under the participant ID and member account ID specified below, with the number of Nil Paid Rights to be taken up;
- (ii) the creation of a settlement bank payment obligation (as this term is defined in the CREST Manual), in accordance with the RTGS payment mechanism (as this term is defined in the CREST Manual), in favour of the RTGS settlement bank of the Receiving Agent in pound sterling in respect of the full amount payable on acceptance in respect of the Nil Paid Rights referred to in paragraph 2.2.2(a)(i) above; and
- (iii) the crediting of a stock account of the accepting CREST member (being an account under the same participant ID and member account ID as the account from which the Nil Paid Rights are to be debited on settlement of the MTM instruction) of the corresponding number of Fully Paid Rights to which the CREST member is entitled on taking up his Nil Paid Rights referred to in paragraph 2.2.2(a)(i) above.

(b) Contents of MTM instructions

The MTM instruction must be properly authenticated in accordance with Euroclear's specifications and must contain, in addition to the other information that is required for settlement in CREST, the following details:

- (i) the number of Nil Paid Rights to which the acceptance relates;
- (ii) the participant ID of the accepting CREST member;
- (iii) the member account ID of the accepting CREST member from which the Nil Paid Rights are to be debited;
- (iv) the participant ID of the Receiving Agent, in its capacity as a CREST receiving agent. This is 2RA20;
- (v) the member account ID of the Receiving Agent, in its capacity as a CREST receiving agent. This is RA194401;
- (vi) the number of Fully Paid Rights that the CREST member is expecting to receive on settlement of the MTM instruction. This must be the same as the number of Nil Paid Rights to which the acceptance relates;
- (vii) the amount payable by means of the CREST assured payment arrangements on settlement of the MTM instruction. This must be the full amount payable on acceptance in respect of the number of Nil Paid Rights referred to in paragraph 2.2.2(b)(i) above;
- (viii) the intended settlement date, which must be on or before 11.00 a.m. on 16 April 2015;
- (ix) the Nil Paid Rights ISIN number which is GB00BW9HGS54;
- (x) the Fully Paid Rights ISIN number which is GB00BW9HGT61;
- (xi) the Corporate Action Number for the Rights Issue. This will be available by viewing the relevant corporate action details in CREST;
- (xii) contact name and telephone number in the shared note field; and
- (xiii) a priority of at least 80.

(c) Valid acceptance

An MTM instruction complying with each of the requirements as to authentication and contents set out in paragraph 2.2.2(b) above will constitute a valid acceptance where either:

- (i) the MTM instruction settles by not later than 11.00 a.m. on 16 April 2015; or
- (ii) at the discretion of the Company:
 - (A) the MTM instruction is received by Euroclear by not later than 11.00 a.m. on 16 April 2015;
 - (B) a number of Nil Paid Rights at least equal to the number of Nil Paid Rights inserted in the MTM instruction is credited to the CREST stock member account of the accepting CREST member specified in the MTM instruction at 11.00 a.m. on 16 April 2015; and
 - (C) the relevant MTM instruction settles by 2.00 p.m. on 16 April 2015 (or such later time and/or date as the Company may determine).

An MTM instruction will be treated as having been received by Euroclear for these purposes at the time at which the instruction is processed by the Network Providers' Communications Host (as this term is defined in the CREST Manual) at Euroclear of the network provider used by the CREST member (or by the CREST sponsored member's CREST sponsor). This will be conclusively determined by the input time stamp applied to the MTM instruction by the Network Providers' Communications Host.

The provisions of this paragraph 2.2.2(c) and any other terms of the Rights Issue relating to Qualifying CREST Shareholders may be waived, varied or modified as regards specific Qualifying CREST Shareholder(s) or on a general basis by the Company.

(d) Representations, warranties and undertakings of CREST members

A CREST member or CREST sponsored member who makes a valid acceptance in accordance with this paragraph 2.2.2 represents, warrants and undertakes to the Company and the Underwriters that he has taken (or procured to be taken), and will take (or will procure to be taken), whatever action is required to be taken by him or by his CREST sponsor (as appropriate) to ensure that the MTM instruction concerned is capable of settlement by 11.00 a.m. on 16 April 2015 and remains capable of settlement at all times until 2.00 p.m. on 16 April 2015 (or such later time and/or date as the Company may determine). In particular, the CREST member or CREST sponsored member represents, warrants and undertakes that, at 11.00 a.m. on 16 April 2015 and at all times thereafter until 2.00 p.m. on 16 April 2015 (or until such later time and date as the Company may determine), there will be sufficient Headroom within the Cap (as those terms are defined in the CREST Manual) in respect of the cash memorandum account to be debited with the amount payable on acceptance to permit the MTM instruction to settle. CREST sponsored members should contact their CREST sponsor if they are in any doubt. In addition, such CREST sponsored member taking up entitlements makes the representations and gives the warranties set out in paragraph 2.2.2 of this Part III (*Terms and Conditions of the Rights Issue*).

If there is insufficient Headroom within the Cap (as those terms are defined in the CREST Manual) in respect of the cash memorandum account of a CREST member or CREST sponsored member for such amount to be debited or the CREST member's or CREST sponsored member's acceptance is otherwise treated as invalid and New Ordinary Shares have already been allotted to such CREST member or CREST sponsored member, the Company and the Underwriters may (in their absolute discretion as to the manner, timing and terms) make arrangements for the sale of such New Ordinary Shares on behalf of that CREST member or CREST sponsored member and hold the proceeds of sale (net of the Company's and/or Underwriters' reasonable estimate of any loss that has been suffered as a result of the acceptance being treated as invalid and of the expenses of sale, including, without limitation, any stamp duty or SDRT payable on the transfer of such New Ordinary Shares, and of all amounts payable by the CREST member or CREST sponsored member pursuant to the Rights Issue in respect of the subscription of such New Ordinary Shares) on behalf of such CREST member or CREST sponsored member. None of the Company, the Underwriters, or any other person shall be responsible for, or have any liability for, any loss, expense or damage suffered by such CREST member or CREST sponsored member as a result.

(e) CREST procedures and timings

CREST members and CREST sponsors (on behalf of CREST sponsored members) should note that Euroclear does not make available special procedures in CREST for any particular corporate action. Normal system timings and limitations will therefore apply in relation to the input of an MTM instruction and its settlement in connection with the Rights Issue. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST sponsored member, to procure that his CREST sponsor takes) the action necessary to ensure that a valid acceptance is received as stated above by 11.00 a.m. on 16 April 2015. In connection with this, CREST members and (where applicable) CREST sponsors are referred in particular to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

(f) CREST member's undertaking to pay

A CREST member or CREST sponsored member who makes a valid acceptance in accordance with the procedures set out in this paragraph 2.2.2 undertakes to pay to the Receiving Agent, or procure the payment to the Receiving Agent of, the amount payable in pound sterling on acceptance in accordance with the above procedures or in such other manner as the Receiving Agent may require (it being acknowledged that, where payment is made by means of the CREST RTGS payment mechanism (as defined in the CREST Manual), the creation of an RTGS payment obligation in pound sterling in favour of the Receiving Agent's RTGS settlement bank (as defined in the CREST Manual) in accordance with the RTGS payment mechanism shall, to the extent of the obligation so created, discharge in full the obligation of the CREST member (or CREST sponsored member) to pay the amount payable on acceptance) and (b) requests that the Fully Paid Rights and/or New Ordinary Shares to which he will become entitled be issued to him on the terms set out in this document and subject to the Articles of the Company.

If the payment obligations of the relevant CREST member or CREST sponsored member in relation to such New Ordinary Shares are not discharged in full and such New Ordinary Shares have already been allotted to the CREST member or CREST sponsored member, the Company may (in its absolute discretion as to manner, timing and terms) make arrangements for the sale of such New Ordinary Shares on behalf of the CREST member or CREST sponsored member and hold the proceeds of sale (net of the Company's reasonable estimate of any loss that has been suffered as a result of the same and of the expenses of the sale, including, without limitation, any stamp duty or SDRT payable on the transfer of such New Ordinary Shares, and of all amounts payable by such CREST member or CREST sponsored member pursuant to the terms of the Rights Issue in respect of the subscription of such New Ordinary Shares) or an amount equal to the original payment of the CREST member or CREST sponsored member. None of the Company or the Underwriters or any other person shall be responsible for, or have any liability for, any loss, expense or damage suffered by the CREST member or CREST sponsored member as a result.

(g) Company's discretion as to rejection and validity of acceptances

The Company may agree in its absolute sole discretion (after consulting the Underwriters) to:

- (i) reject any acceptance constituted by an MTM instruction, which is otherwise valid, in the event of breach of any of the representations, warranties and undertakings set out or referred to in this paragraph 2.2.2. Where an acceptance is made as described in this paragraph 2.2.2, which is otherwise valid, and the MTM instruction concerned fails to settle by 2.00 p.m. on 16 April 2015 (or by such later time and date as the Company has determined), the Company shall be entitled to assume, for the purposes of its right to reject an acceptance contained in this paragraph 2.2.2, that there has been a breach of the representations, warranties and undertakings set out or referred to in this paragraph 2.2.2 unless the Company is aware of any reason outside the control of the CREST member or CREST sponsor (as appropriate) for the failure to settle;
- (ii) treat as valid (and binding on the CREST member or CREST sponsored member concerned) an acceptance which does not comply in all respects with the requirements as to validity set out or referred to in this paragraph 2.2.2;
- (iii) accept an alternative properly authenticated dematerialised instruction from a CREST member or (where applicable) a CREST sponsor as constituting a valid acceptance in substitution for, or in addition to, an MTM instruction and subject to such further terms and conditions as the Company and the Underwriters may determine;
- (iv) treat a properly authenticated dematerialised instruction (in this paragraph 2.2.2(g)(iv), the "**first instruction**") as not constituting a valid acceptance if, at the time at which the Receiving Agent receives a properly authenticated dematerialised instruction giving details of the first instruction, either the Company or the Receiving Agent has received actual notice from Euroclear of any of the matters specified in Regulation 35(5)(a) of the CREST Regulations in relation to the first instruction. These matters include notice that any information contained in the first instruction was incorrect or notice of lack of authority to send the first instruction; and
- (v) accept an alternative instruction or notification from a CREST member or CREST sponsored member or (where applicable) a CREST sponsor, or extend the time for acceptance and/or settlement of an MTM instruction or any alternative instruction or notification, if, for reasons or due to circumstances outside the control of any CREST member or CREST sponsored member or (where applicable) CREST sponsor, the CREST member or CREST sponsored member is unable validly to take up all or part of his Nil Paid Rights by means of the above procedures. In normal circumstances, this discretion is only likely to be exercised in the event of any interruption, failure or breakdown of CREST (or of any part of CREST) or on the part of facilities and/or systems operated by the Registrar in connection with CREST.

2.2.3 Money Laundering Regulations

If you hold your Nil Paid Rights in CREST and apply to take up all or part of your entitlement as agent for one or more persons and you are not a UK or EU regulated person or institution (e.g. a UK financial institution), then, irrespective of the value of the application, the Receiving Agent is entitled

to take reasonable measures to establish the identity of the person or persons (or the ultimate controller of such person or persons) on whose behalf you are making the application and any submission of an MTM instruction is agreeing for the Receiving Agent to make a search via a credit reference agency where deemed necessary. A record of search results will be retained. You must therefore contact the Receiving Agent before sending any MTM instruction or other instruction so that appropriate measures may be taken.

Submission of an MTM instruction which constitutes, or which may on its settlement constitute, a valid acceptance as described above constitutes a warranty and undertaking by the applicant to provide promptly to the Receiving Agent any information the Receiving Agent may specify as being required for the purposes of the verification of the identity requirements in the Money Laundering Regulations or FSMA. Pending the provision of such information and other evidence as the Receiving Agent may require to satisfy the verification of identity requirements, the Receiving Agent, having consulted with the Company, may take, or omit to take, such action as it may determine to prevent or delay settlement of the MTM instruction. If such information and other evidence of identity has not been provided within a reasonable time, then the Receiving Agent will not permit the MTM instruction concerned to proceed to settlement but without prejudice to the right of the Company and/or the Underwriters to take proceedings to recover any loss suffered by any of them as a result of failure by the applicant to provide such information and other evidence.

2.2.4 Dealings in Nil Paid Rights in CREST

Assuming the Rights Issue becomes unconditional, dealings in the Nil Paid Rights on the London Stock Exchange are expected to commence as soon as practicable after 8.00 a.m. on 31 March 2015. A transfer (in whole or in part) of Nil Paid Rights can be made by means of CREST in the same manner as any other security that is admitted to CREST. The Nil Paid Rights are expected to be disabled in CREST after the close of CREST business on 16 April 2015.

2.2.5 Dealings in Fully Paid Rights in CREST

After acceptance of the provisional allotment and payment in full in accordance with the provisions set out in this document, the Fully Paid Rights may be transferred by means of CREST in the same manner as any other security that is admitted to CREST. The last time for settlement of any transfer of Fully Paid Rights in CREST is expected to be 11.00 a.m. on 16 April 2015. The Fully Paid Rights are expected to be disabled in CREST after the close of CREST business on 16 April 2015. From 17 April 2015, the New Ordinary Shares will be registered in the name(s) of the person(s) entitled to them in the Company's register of members and will be transferable in the usual way.

2.2.6 Withdrawal of Nil Paid Rights or Fully Paid Rights from CREST

Nil Paid Rights or Fully Paid Rights held in CREST may be converted into certificated form, that is, withdrawn from CREST. Normal CREST procedures (including timings) apply in relation to any such conversion.

The recommended latest time for receipt by Euroclear of a properly authenticated dematerialised instruction requesting withdrawal of Nil Paid Rights or, if appropriate, Fully Paid Rights from CREST is 4.30 p.m. on 10 April 2015, so as to enable the person acquiring or (as appropriate) holding the Nil Paid Rights or, if appropriate, Fully Paid Rights following the conversion to take all necessary steps in connection with taking up the entitlement prior to 11.00 a.m. on 16 April 2015. You are recommended to refer to the CREST Manual for details of such procedures.

2.2.7 Issue of New Ordinary Shares in CREST

Fully Paid Rights in CREST are expected to be disabled in CREST after the close of CREST business on 16 April 2015 (the latest date for settlement of transfers of Fully Paid Rights in CREST). New Ordinary Shares (in definitive form) will be issued in uncertificated form to those persons registered as holding Fully Paid Rights in CREST no later than close of business, the Business Day after the date on which the Fully Paid Rights are disabled. The Registrar will instruct Euroclear to credit the appropriate stock accounts of those persons (under the same participant ID and member account ID that applied to the Fully Paid Rights held by those persons) with their entitlements to New Ordinary Shares to take effect as soon as practicable after 8.00 a.m. on 17 April 2015.

2.2.8 *Right to allot/issue in certificated form*

Despite any other provision of this document, the Company reserves the right to allot and/or issue any Nil Paid Rights, Fully Paid Rights or New Ordinary Shares in certificated form. In normal circumstances, this right is only likely to be exercised in the event of an interruption, failure or breakdown of CREST (or of any part of CREST) or on the part of the facilities and/or systems operated by the Registrar in connection with CREST.

2.3 **Procedure in respect of rights not taken up and withdrawal**

2.3.1 *Procedure in respect of rights not taken up*

If rights to New Ordinary Shares are not validly taken up, in accordance with the procedure laid down in this document for acceptance, instruction and payment, then that provisional allotment will be deemed to have been declined and will lapse. The Underwriters will use reasonable endeavours to procure, by not later than 4.30 p.m. on 20 April 2015, subscribers for all (or as many as possible) of those New Ordinary Shares not taken up at a price per New Ordinary Share which is at least equal to the aggregate of the Issue Price and the expenses of procuring such subscribers (including any applicable brokerage and commissions and amounts in respect of value added tax).

Notwithstanding the above, the Underwriters may cease to endeavour to procure any such subscribers if, in their opinion, it is unlikely that any such subscribers can be procured at such a price and by such a time. If and to the extent that subscribers for New Ordinary Shares cannot be procured on the basis outlined above, the Underwriters will subscribe for the relevant Underwritten Shares as principals under the terms of the Underwriting Agreement or by sub-underwriters procured by the Underwriters, in each case at the Issue Price.

Any premium over the aggregate of the Issue Price and the expenses of procuring subscribers (including any applicable brokerage and commissions and amounts in respect of value added tax) shall be paid (subject as provided in this paragraph 2.3.1):

- (a) where the Nil Paid Rights were, at the time they lapsed, represented by a Provisional Allotment Letter, to the person whose name and address appeared on the Provisional Allotment Letter;
- (b) where the Nil Paid Rights were, at the time they lapsed, in uncertificated form, to the person registered as the holder of those Nil Paid Rights at the time of their disablement in CREST; and
- (c) to the extent not provided for above, where an entitlement to New Ordinary Shares was not taken up by an Overseas Shareholder with an address in the United States or any Excluded Territory, to that Overseas Shareholder.

New Ordinary Shares for which subscribers are procured on this basis will be re-allotted to the subscribers and the aggregate of any premiums (being the amount paid by the subscribers after deducting the Issue Price and the expenses of procuring the subscribers, including any applicable brokerage and commissions and amounts in respect of value added tax), if any, will be paid (without interest) to those persons entitled (as referred to in paragraphs (a) to (c) above) *pro rata* to the relevant lapsed provisional allotments, save that amounts of less than £5.00 per holding will not be so paid but will be aggregated and will ultimately accrue for the benefit of the Company. Holdings of Existing Ordinary Shares in certificated and uncertificated form will be treated as separate holdings for these purposes. Cheques for the amounts due (if any) will be sent by post, at the risk of the person(s) entitled, to their registered addresses (the registered address of the first-named holder in the case of joint holders), **provided that**, where any entitlement concerned was held in CREST, the amount due will, unless the Company (in its absolute discretion) otherwise determines, be satisfied by the creation of an assured payment obligation in favour of the relevant CREST member's (or CREST sponsored member's) RTGS settlement bank in respect of the cash amount concerned in accordance with the RTGS payment mechanism.

Any transactions undertaken pursuant to this paragraph 2.3.1 or paragraph 2.6.1 below shall be deemed to have been undertaken at the request of the persons entitled to the lapsed provisional allotments or other entitlements and none of the Company or the Underwriters or any other person procuring subscribers shall be responsible, or have any liability whatsoever for any loss or damage (whether actual or alleged) arising from the terms or timing of any such subscription, any decision not to endeavour to procure subscribers or the failure to procure subscribers on the basis so described.

The Underwriters will be entitled to retain any brokerage fees, commissions or other benefits received in connection with these arrangements.

It is a term of the Rights Issue that all New Ordinary Shares validly taken up by subscribers under the Rights Issue may be allotted to such subscribers in the event that not all of the New Ordinary Shares offered for subscription under the Rights Issue are taken up.

2.3.2 *Withdrawal rights*

Persons who have the right to withdraw their acceptances under section 87Q(4) of FSMA after a supplementary prospectus (if any) has been published and who wish to exercise such right of withdrawal must do so by lodging a written notice of withdrawal (which shall not include a notice sent by facsimile or any other form of electronic communication), which must include the full name and address of the person wishing to exercise such statutory withdrawal rights and, if such person is a CREST member, the participant ID and the member account ID of such CREST member, with the Receiving Agent Equiniti at Corporate Actions, Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA so as to be received no later than two Business Days after the date on which the supplementary prospectus was published, withdrawal being effective upon receipt of the written notice of withdrawal. Notice of withdrawal given by any other means or which is deposited with or received by the Receiving Agent after the expiry of such period will not constitute a valid withdrawal. Furthermore, the Company will not permit the exercise of withdrawal rights after payment by the relevant Shareholder of its subscription amount in full and the allotment of the New Ordinary Shares to such Shareholder becoming unconditional. In such circumstances, Shareholders are advised to consult their professional advisers.

Provisional allotments of entitlements to New Ordinary Shares which are the subject of a valid withdrawal notice will be deemed to be declined. Such entitlements to New Ordinary Shares will be subject to the provisions of paragraph 2.3.1 above as if the entitlement had not been validly taken up.

2.4 **Serco Employee Share Schemes**

The options and awards granted under the Serco Employee Share Schemes may be adjusted in such way as the Directors consider appropriate to compensate option and award holders for any effect the Rights Issue will have on those options and awards (as permitted by the rules of the relevant Serco Employee Share Schemes). Any adjustments will not be made until after the ex-rights date and will be subject to approval of HMRC and the Company's auditors, where required. Participants in the Serco Employee Share Schemes will be contacted separately with further information on how their options and awards may be affected by the Rights Issue.

2.5 **Taxation**

Information on taxation in the United Kingdom and the United States with regard to the Rights Issue is set out in Part VIII (*Taxation*) of this document. The information contained in Part VIII (*Taxation*) is intended only as a general guide to the current tax position in the United Kingdom and the United States and Qualifying Shareholders should consult their own tax advisers regarding the tax treatment of the Rights Issue in light of their own circumstances. Shareholders who are in any doubt as to their tax position or who are subject to tax in any other jurisdiction should consult an appropriate professional adviser immediately.

2.6 **Overseas Shareholders**

Provisional Allotment Letters will be posted to Qualifying non-CREST Shareholders (other than, subject to certain limited exceptions, Qualifying Shareholders with registered addresses, or who are resident or located, in the United States or any of the Excluded Territories) and Nil Paid Rights will be credited to the CREST stock accounts of Qualifying CREST Shareholders with registered addresses in any country other than the United States or an Excluded Territory. No offer of or invitation to subscribe for New Ordinary Shares is being made by virtue of this document or the Provisional Allotment Letters into the United States or any of the Excluded Territories. Qualifying Shareholders in jurisdictions other than the United States or the Excluded Territories may, subject to the laws of their relevant jurisdiction, accept their rights under the Rights Issue in accordance with the instructions set out in this document and, in the case of Qualifying non-CREST Shareholders only, the Provisional Allotment Letters.

Qualifying Shareholders who have registered addresses in or who are resident in, or who are citizens of, countries other than the United Kingdom should consult their appropriate professional advisers as to

whether they require any governmental or other consents or need to observe any other formalities to enable them to take up their Nil Paid Rights or to acquire Fully Paid Rights or New Ordinary Shares. If you are in any doubt as to your eligibility to accept the offer of New Ordinary Shares or to deal with Nil Paid Rights or Fully Paid Rights, you should contact your appropriate professional adviser immediately.

2.6.1 General

The making or acceptance of the proposed offer of Nil Paid Rights, Fully Paid Rights and/or New Ordinary Shares to persons who have registered addresses in, or who are resident in, or citizens of, countries other than the UK may be affected by the laws of the relevant jurisdiction. Those persons should consult their professional advisers as to whether they require any governmental or other consents or need to observe any other formalities to enable them to take up their entitlement.

It is the responsibility of any person (including, without limitation, custodians, nominees and trustees) outside the UK wishing to take up rights to New Ordinary Shares or otherwise participate in the Rights Issue to satisfy himself as to the full observance of the laws of any relevant territory in connection therewith, including the obtaining of any governmental or other consents which may be required, the compliance with other necessary formalities and the payment of any issue, transfer or other taxes due in such territories. The comments set out in this paragraph 2.6 are intended as a general guide only and any Overseas Shareholder who is in doubt as to his position should consult his professional adviser without delay.

Having considered the circumstances, the Directors have formed the view that it is necessary or expedient to restrict the ability of persons with registered addresses, or who are resident or located, in the United States and the Excluded Territories to take up rights to New Ordinary Shares or otherwise participate in the Rights Issue due to the time and costs involved in the registration of this document and/or compliance with the relevant local legal or regulatory requirements in those jurisdictions.

Receipt of this document and/or a Provisional Allotment Letter or the crediting of Nil Paid Rights to a stock account in CREST will not constitute an offer in those jurisdictions in which it would be illegal to make an offer and, in those circumstances, this document and/or a Provisional Allotment Letter must be treated as sent for information only and should not be copied or redistributed.

New Ordinary Shares will be provisionally allotted (nil paid) to all Shareholders on the register at the close of business on the Record Date. However, Provisional Allotment Letters will not be sent to, and Nil Paid Rights will not be credited to CREST accounts of, Shareholders with registered addresses, or who are resident or located, in the United States or any of the Excluded Territories or their agents or intermediaries, except where the Company is satisfied that such action would not result in the contravention of any registration or other legal requirement in any jurisdiction.

No person receiving a copy of this document and/or a Provisional Allotment Letter and/or receiving a credit of Nil Paid Rights to a stock account in CREST in any territory other than the UK may treat the same as constituting an invitation or offer to him nor should he in any event use the Provisional Allotment Letter or deal with Nil Paid Rights or Fully Paid Rights in CREST unless, in the relevant territory, such an invitation or offer could lawfully be made to him or the Provisional Allotment Letter could lawfully be used or dealt with without contravention of any registration or other legal requirements. In such circumstances, this document and the Provisional Allotment Letter are to be treated as sent for information only and should not be copied or redistributed.

Accordingly, persons (including, without limitation, custodians, nominees and trustees) receiving a copy of this document and/or a Provisional Allotment Letter or whose CREST stock account is credited with Nil Paid Rights or Fully Paid Rights should not, in connection with the Rights Issue, distribute or send the same or transfer Nil Paid Rights or Fully Paid Rights in or into any jurisdiction where to do so would or might contravene local security laws or regulations. If a Provisional Allotment Letter or a credit of Nil Paid Rights or Fully Paid Rights is received by any person in any such territory, or by his agent or nominee, he must not seek to take up the rights referred to in the Provisional Allotment Letter or in this document or renounce the Provisional Allotment Letter or transfer the Nil Paid Rights or Fully Paid Rights unless the Company and the Underwriters determine that such actions would not violate applicable legal or regulatory requirements. Any person (including, without limitation, custodians, nominees and trustees) who does forward this document or a Provisional Allotment Letter, or transfer, Nil Paid Rights or Fully Paid Rights into any such territories (whether pursuant to a contractual or legal obligation or otherwise) should draw the recipient's attention to the contents of this paragraph 2.6.

The Company reserves the right to treat as invalid and will not be bound to allot or issue any New Ordinary Shares in respect of any acceptance or instruction or purported acceptance or instruction which:

- (i) appears to the Company or its agents to have been executed, effected or despatched from the United States or an Excluded Territory;
- (ii) in the case of a Provisional Allotment Letter, provides an address for delivery of the share certificates or other statements of entitlement or advice in the United States or an Excluded Territory or any other jurisdiction outside the UK in which it would be unlawful to deliver such certificates, statements or advice or if the Company or its agents believe that the same may violate applicable legal or regulatory requirements; or
- (iii) in the case of a credit in CREST, to a CREST member or CREST sponsored member whose registered address is in the United States or an Excluded Territory or any other jurisdiction outside the UK in which it would be unlawful to make such a credit or if the Company or its agents believe that making such credit may violate applicable legal or regulatory requirements.

Save as provided in this paragraph 2.6, rights to New Ordinary Shares to which Shareholders with registered addresses, or who are resident or located, in the United States or any of the Excluded Territories would otherwise be entitled will be aggregated with entitlements to Nil Paid Rights which have not been taken up by other Shareholders and, if possible, sold as described in paragraph 2.3 above. The net premium realised from such sales (after deduction of the Issue Price and expenses) will be paid to the relevant Shareholders pro-rated to their holdings of Existing Ordinary Shares at the close of business on the Record Date as soon as practicable after receipt, except that individual amounts of less than £5.00 per holding will not be distributed but will ultimately accrue for the benefit of the Company. Holdings of Existing Ordinary Shares in certificated and uncertificated form will be treated as separate holdings for these purposes. None of the Company, the Underwriters or any other person shall be responsible or have any liability whatsoever for any loss, damage, liability or cost (actual or alleged) arising from the terms or the timing of the acquisition or the procuring of it or any failure to procure subscribers.

Despite any other provision of this document or a Provisional Allotment Letter, the Company reserves the right to permit any Shareholder to participate in the Rights Issue on the terms and conditions set out in this document as if it were a Qualifying Shareholder if the Company in its sole and absolute discretion is satisfied that the transaction in question is exempt from or not subject to the legislation or regulations giving rise to the restrictions in question. If the Company is so satisfied, the Company will arrange for the relevant Overseas Shareholder to be sent a Provisional Allotment Letter if it is a Qualifying non-CREST Shareholder or, if it is a Qualifying CREST Shareholder, arrange for Nil Paid Rights to be credited to the relevant CREST stock account.

These Shareholders who wish, and are permitted, to take up their entitlement should note that payments must be made as described in paragraphs 2.1 (in the case of Qualifying non-CREST Shareholders) and 2.2 (in the case of Qualifying CREST Shareholders) above.

The attention of Overseas Shareholders with registered addresses, or who are resident or located, in the United States or any of the Excluded Territories is also drawn to paragraphs 2.6.2 to 2.6.4 below.

Overseas Shareholders (other than Qualifying CREST Shareholders) should note that all subscription monies must be paid in pound sterling by cheque or banker's draft and should be drawn on a bank in the UK, made payable to "Equiniti re Serco Rights Issue" and crossed "A/C payee only".

2.6.2 Offering restrictions relating to the United States

Subject to certain exceptions, this document and the Provisional Allotment Letters are intended for use only in connection with offers and sales of New Ordinary Shares outside the United States and are not to be sent or given to any person with a registered address, or who is resident or located, in the United States.

The New Ordinary Shares, the Nil Paid Rights, the Fully Paid Rights and the Provisional Allotment Letters have not been and will not be registered under the Securities Act or under any relevant securities laws of any state or other jurisdiction of the United States and may not be offered, sold, pledged, taken up, exercised, resold, renounced, transferred or delivered, directly or indirectly, within the United States absent registration or pursuant to an exemption from, or in a transaction not subject

to, the registration requirements of the Securities Act and in compliance with any applicable state securities laws. The Nil Paid Rights, the Fully Paid Rights and the New Ordinary Shares being offered outside the United States are being offered in reliance on Regulation S.

The offer by way of Rights will be made to Qualifying Shareholders by means of the notice in the London Gazette referred to in paragraph 2.6.6 of this Part III (*Terms and Conditions of the Rights Issue*). The notice in the London Gazette will state where a Provisional Allotment Letter may be inspected or obtained. Any person with a registered address, or who is resident or located, in the United States who obtains a copy of this document or a Provisional Allotment Letter is required to disregard them, except with the consent of the Company.

Subject to certain exceptions, the offer of New Ordinary Shares is not being made in the United States and neither this document nor the Provisional Allotment Letters constitutes or will constitute an offer, or an invitation to apply for, or an offer or an invitation to subscribe for or acquire any New Ordinary Shares, Nil Paid Rights or Fully Paid Rights in the United States. Subject to certain limited exceptions, Provisional Allotment Letters have not been, and will not be, sent to, and Nil Paid Rights have not been, and will not be, credited to the CREST account of, any Qualifying Shareholder with a registered address in or that is known to be resident or located in the United States.

The New Ordinary Shares, the Nil Paid Rights, the Fully Paid Rights and the Provisional Allotment Letters have not been approved or disapproved by the SEC, any state securities commission in the United States or any other US regulatory authority, nor have any of the foregoing authorities passed upon or endorsed the merits of the offering of the New Ordinary Shares, the Nil Paid Rights, the Fully Paid Rights and the Provisional Allotment Letters or the accuracy or adequacy of this document. Any representation to the contrary is a criminal offence in the United States.

Subject to certain limited exceptions, envelopes containing Provisional Allotment Letters should not be postmarked in the United States or otherwise despatched from the United States, and all persons subscribing for or acquiring New Ordinary Shares and wishing to hold such shares in certificated form must provide an address for registration of the New Ordinary Shares issued upon exercise thereof outside the United States.

Subject to certain limited exceptions, any person who subscribes for or acquires New Ordinary Shares, Nil Paid Rights or Fully Paid Rights will be deemed to have declared, warranted and agreed, by accessing this document or accepting delivery of the Provisional Allotment Letter and delivery of the New Ordinary Shares, Nil Paid Rights or Fully Paid Rights, that it is not, and that at the time of subscribing for or acquiring the New Ordinary Shares, Nil Paid Rights or Fully Paid Rights it will not be, in the United States.

The Company and the Underwriters reserve the right to treat as invalid any Provisional Allotment Letter: (i) that appears to the Company, the Underwriters or their respective agents to have been executed in or despatched from the United States, (ii) that does not include the relevant warranty set out in the Provisional Allotment Letter headed "Overseas Shareholders" to the effect that the person accepting and/or renouncing the Provisional Allotment Letter does not have a registered address and is not resident or located in the United States and is not subscribing for or acquiring Nil Paid Rights, Fully Paid Rights or New Ordinary Shares with a view to the offer, sale, resale, transfer, delivery or distribution, directly or indirectly, of any such Nil Paid Rights, Fully Paid Rights or New Ordinary Shares in the United States, or (iii) where the Company and the Underwriters believe acceptance of such Provisional Allotment Letter may infringe applicable legal or regulatory requirements, and the Company and the Underwriters shall not be bound to allot (on a non-provisional basis) or issue any New Ordinary Shares, Nil Paid Rights or Fully Paid Rights in respect of any such Provisional Allotment Letter. In addition, the Company and the Underwriters reserve the right to reject any MTM instruction in respect of Nil Paid Rights sent by or on behalf of any CREST member with a registered address in or resident or located in the United States.

Notwithstanding the foregoing, the Company reserves the right to offer and deliver the Nil Paid Rights and Provisional Allotment Letters to, and the Fully Paid Rights and the New Ordinary Shares may be offered to and acquired by, a limited number of Shareholders in the United States reasonably believed to be QIBs, in offerings exempt from the registration requirements of the Securities Act.

A QIB will be permitted to take up its entitlements to New Ordinary Shares under the Rights Issue only if the QIB executes a QIB Representation Letter in the form provided by the Company and delivers it to the Company, with a copy to the Underwriters. The QIB Representation Letter will

require each such QIB to represent and agree that, amongst other things, (i) it is a QIB, and (ii) it will only offer, sell, transfer, assign, pledge or otherwise dispose of the New Ordinary Shares in transactions exempt from, or not subject to, the registration requirements of the Securities Act and in compliance with applicable securities laws. The QIB Representation Letter contains additional written representations, agreements and acknowledgements relating to the transfer restrictions applicable to the New Ordinary Shares. Any such QIBs who hold Ordinary Shares through a bank, a broker or other financial intermediary should procure that the relevant bank, broker or financial intermediary submits a QIB Representation Letter on their behalf. The Company has the discretion to refuse to accept any Provisional Allotment Letter that is incomplete, unexecuted or not accompanied by an executed QIB Representation Letter or any other required additional documentation.

Any person with a registered address, or who is resident or located, in the United States who obtains a copy of this document and/or a Provisional Allotment Letter and who is not a QIB is required to disregard them.

Until 40 days after the commencement of the Rights Issue or the procurement of subscribers for the New Ordinary Shares not taken up in the Rights Issue, any offer, sale or transfer of the New Ordinary Shares, Nil Paid Rights or Fully Paid Rights within the United States by a dealer (whether or not participating in the Rights Issue) may violate the registration requirements of the Securities Act.

No representation has been, or will be, made by the Company or any of the Underwriters as to the availability of Rule 144 under the Securities Act or any other exemption under the Securities Act or any state securities laws for the reoffer, resale, pledge or transfer of the New Ordinary Shares.

2.6.3 US transfer restrictions in respect of shares not taken up in the Rights Issue

Any person with a registered address, or who is resident or located, in the United States that subscribes for any New Ordinary Shares that were not taken up in the Rights Issue must meet certain requirements and will be deemed to have represented, acknowledged and agreed that it has received a copy of this document and such other information as it deems necessary to make an investment decision and to have further represented, acknowledged and agreed as follows (terms defined in Rule 144A or Regulation S shall have the same meaning in this section):

- (a) It is a QIB and, if it is subscribing for or acquiring the New Ordinary Shares as a fiduciary or agent for one or more investor accounts, each owner of such account is a QIB.
- (b) It is aware, and each beneficial owner of the New Ordinary Shares has been advised, that the New Ordinary Shares have not been, and will not be, registered under the Securities Act, and that the offer and sale to it (or such beneficial owner) is being made in a transaction not involving a public offering exempt from registration under the Securities Act.
- (c) It is acquiring the New Ordinary Shares for its own account or for the account of a QIB as to which it has full investment discretion (and it has full power and authority to make, and does make, the acknowledgments, representations and agreements herein on behalf of each owner of such account), in each case for investment purposes and not with a view to, or for offer or sale in connection with, any distribution (within the meaning of the United States securities laws) thereof.
- (d) It has made its own assessment concerning the relevant tax, legal and other economic considerations relevant to its investment in the New Ordinary Shares. It will base its investment decision solely on this document, including the information incorporated by reference herein. It acknowledges that none of the Company, any of its affiliates or any other person (including any of the Underwriters or any of their respective affiliates) has made any representations, express or implied, to it with respect to the Company, the Rights Issue, the New Ordinary Shares or the accuracy, completeness or adequacy of any financial or other information concerning the Company, the Rights Issue or the New Ordinary Shares, other than (in the case of the Company and its affiliates only) the information contained or incorporated by reference in this document. It acknowledges and agrees that it will not hold the Underwriters or any of their affiliates or any person acting on their behalf responsible or liable for any misstatements in or omissions from any publicly available information relating to the Company. It acknowledges that it has not relied on any investigation that the Underwriters or any person acting on their behalf may or may not have conducted, nor any information contained in any research reports prepared by the Underwriters or any of their respective affiliates, and it has relied solely on its own judgment, examination and

due diligence of the Company, and the terms of the transaction, including the merits and risks involved, and not upon any view expressed by or information provided by, or on behalf of, the Underwriters or any of their affiliates. It acknowledges that it has read and agreed to the matters set forth under paragraph 2.6 of this Part III (*Terms and Conditions of the Rights Issue*).

- (e) It is aware that the New Ordinary Shares will be “restricted securities” within the meaning of Rule 144(a)(3) under the Securities Act.
- (f) It is aware that the New Ordinary Shares may not be deposited, and it agrees that it shall not deposit any New Ordinary Shares, into any unrestricted depository facility and that the New Ordinary Shares may not settle or trade, and it agrees that it shall not settle or trade such New Ordinary Shares; through the facilities of The Depository Trust Company or any other U.S. exchange or clearing system, unless at the time of deposit, settlement or trading such New Ordinary Shares are no longer “restricted securities” within the meaning of Rule 144(a)(3) under the Securities Act.
- (g) It will not reoffer, resell, pledge or otherwise transfer the New Ordinary Shares except (i) outside the United States in accordance with Rule 903 or Rule 904 of Regulation S, or (ii) to another QIB in compliance with Rule 144A; or (iii) pursuant to an exemption from registration under the Securities Act provided by Rule 144 or any other exemption from the registration requirements of the Securities Act, subject to its delivery to the Company of an opinion of counsel (and of such other evidence that the Company may reasonably require) that such transfer or sale is in compliance with the Securities Act, in each case in accordance with any applicable securities laws of any state or other jurisdiction of the United States. It understands that no representation has been made as to the availability of Rule 144 of the Securities Act or any other exemption under the Securities Act or any state securities laws for the offer, resale, pledge or transfer of the securities. It will notify any person to whom it subsequently reoffers, resells, pledges or otherwise transfers the New Ordinary Shares of the foregoing restrictions on transfer.
- (h) It understands, and each beneficial owner understands, that the Company does not intend to file a registration statement in respect of the New Ordinary Shares.
- (i) It is an institution, and it, and each other QIB, if any, for whose account it is acquiring the New Ordinary Shares, in the normal course of business invest in or purchase securities similar to the New Ordinary Shares, (i) has such knowledge and experience in financial and business matters that it is capable of evaluating the risks of an investment in the New Ordinary Shares, and (ii) has the financial stability to bear the economic risk of such investment in the New Ordinary Shares and adequate means for providing for current needs and possible contingencies. It agrees that it will not look to any of the Underwriters or any of their affiliates for all or part of any loss it may suffer.
- (j) It is not acquiring the New Ordinary Shares as a result of any general solicitation or general advertising (as those terms are defined in Regulation D under the Securities Act), including advertisements, articles, notices or other communications published in any newspaper, magazine or similar media or broadcast over the radio or television or any seminar or meeting whose attendees have been invited by general solicitation or general advertising or directed selling efforts (as that term is defined in Regulation S).
- (k) It acknowledges that, to the extent any New Ordinary Shares are delivered in certificated form, the certificate delivered in respect of such New Ordinary Shares will bear a legend substantially to the following effect for so long as the securities are “restricted securities” within the meaning of Rule 144(a)(3) under the Securities Act:

THE SHARES REPRESENTED HEREBY HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”), OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES, AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (A) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT, (B) TO A “QUALIFIED INSTITUTIONAL BUYER” AS DEFINED IN AND IN COMPLIANCE WITH RULE 144A; OR (C) PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT PROVIDED BY RULE 144 OR ANOTHER EXEMPTION

FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT, SUBJECT TO DELIVERY TO THE COMPANY OF AN OPINION OF COUNSEL (AND OF SUCH OTHER EVIDENCE THAT THE COMPANY MAY REASONABLY REQUIRE) THAT SUCH TRANSFER OR SALE IS IN COMPLIANCE WITH THE SECURITIES ACT, IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF THE EXEMPTION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT FOR REALES OF THE SHARES REPRESENTED HEREBY. NOTWITHSTANDING ANYTHING TO THE CONTRARY IN THE FOREGOING, THE SHARES MAY NOT BE DEPOSITED INTO ANY UNRESTRICTED DEPOSITARY RECEIPT FACILITY MAINTAINED BY A DEPOSITARY BANK. EACH HOLDER, BY ITS ACCEPTANCE OF THESE SHARES, REPRESENTS THAT IT UNDERSTANDS AND AGREES TO THE FOREGOING RESTRICTIONS.

- (l) It acknowledges and agrees that the Company shall not have any obligation to recognise any offer, resale, pledge or other transfer made other than in compliance with the restrictions on transfer set forth and described in this section and that the Company may make notations on its records or give instructions to any transfer agent of the New Ordinary Shares in order to implement such restrictions.
- (m) It acknowledges and agrees that the Company, its affiliates, the Underwriters, their respective affiliates, the Registrar and others will rely upon the truth and accuracy of the foregoing warranties, acknowledgements, representations and agreements. It agrees that if any of the representations, warranties, agreements and acknowledgements deemed to be made cease to be accurate, it shall promptly notify the Company and the Underwriters.

Prospective purchasers are hereby notified that sellers of the New Ordinary Shares may be relying on the exemption from the registration requirements of the Securities Act provided by Rule 144A.

2.6.4 *Excluded Territories*

Due to restrictions under the securities laws of the Excluded Territories, and subject to certain exceptions, no Provisional Allotment Letters will be sent to, and no Nil Paid Rights or Fully Paid Rights will be credited to a stock account in CREST of, persons with registered addresses, or who are resident or located, in the Excluded Territories and the Nil Paid Rights to which they are entitled will be sold if possible in accordance with the provisions of paragraph 2.3 above. Subject to certain exceptions, the Provisional Allotment Letters, the Nil Paid Rights, the Fully Paid Rights and the New Ordinary Shares may not be transferred or sold to, or renounced or delivered in, the Excluded Territories. No offer of New Ordinary Shares is being made by virtue of this document or the Provisional Allotment Letters into the Excluded Territories. The offer by way of Rights will be made to such Shareholders by means of the notice in the London Gazette referred to in paragraph 2.6.6 of this Part III (*Terms and Conditions of the Rights Issue*).

The notice in the London Gazette will state where a Provisional Allotment Letter may be inspected or obtained. Any person with a registered address, or who is resident or located, in any of the Excluded Territories who obtains a copy of this document or a Provisional Allotment Letter is required to disregard them, except with the consent of the Company.

2.6.5 *Overseas territories other than the United States and the Excluded Territories*

Other than, subject to certain exceptions, Qualifying Shareholders with registered addresses, or who are resident or located, in the United States or any of the Excluded Territories, Provisional Allotment Letters will be posted to Qualifying non-CREST Shareholders and Nil Paid Rights will be credited to the CREST stock accounts of Qualifying CREST Shareholders. Such Qualifying Shareholders may, subject to the laws of the relevant jurisdictions, participate in the Rights Issue in accordance with the instructions set out in this document and, if relevant, the applicable Provisional Allotment Letter. In cases where Overseas Shareholders do not take up Nil Paid Rights, their entitlements will be sold if possible in accordance with the provisions of paragraph 2.3 above.

Qualifying Shareholders who have registered addresses in or who are resident in, or who are citizens of, countries other than the UK should consult their professional advisers as to whether they require any governmental or other consents or need to observe any other formalities to enable them to take up their entitlement.

(a) Australia

This document does not constitute a disclosure document under Part 6D.2 of the Corporations Act 2001 of the Commonwealth of Australia (the “**Corporations Act 2001 (Cth)**”). Accordingly, this document does not necessarily contain all of the information a prospective investor would expect to be contained in an offering document or which he/she may require to make an investment decision. The offer to which this document relates is being made in Australia in reliance on Class Order 00/183 issued by the Australian Securities and Investments Commission. This document only constitutes an offer in Australia for sale of the Nil Paid Rights, the Fully Paid Rights and the New Ordinary Shares to persons who are Qualifying Shareholders.

As any offer for the issue of the Nil Paid Rights, the Fully Paid Rights and the New Ordinary Shares under this document will be made without disclosure in Australia under Part 6D.2, the offer of those Nil Paid Rights, the Fully Paid Rights and the New Ordinary Shares for resale in Australia within 12 months of their sale may, under section 707(3) of the Corporations Act 2001 (Cth), require disclosure to investors under Part 6D.2 if none of the exemptions in section 708 of the Corporations Act 2001 (Cth) apply to that resale.

This document is intended to provide general information only and has been prepared by the Company without taking into account any particular person’s objectives, financial situation or needs. Recipients should, before acting on this information, consider the appropriateness of this information having regard to their personal objectives, financial situation or needs. Recipients should review and consider the contents of this document and obtain financial advice (or other appropriate professional advice) specific to their situation before making any decision to accept the offer of the Nil Paid Rights, the Fully Paid Rights and the New Ordinary Shares. This document was prepared under the law and operating rules of a foreign market. The Company is not subject to the continuous disclosure requirements of the Corporations Act 2001 (Cth).

(b) Bermuda

The Nil Paid Rights, the Fully Paid Rights and the New Ordinary Shares may be offered or sold in Bermuda only in compliance with the provisions of the Investment Business Act 2003 of Bermuda which regulates the sale of securities in Bermuda. Additionally, non-Bermudian persons (including companies) may not carry on or engage in any trade or business in Bermuda unless such persons are authorised to do so under applicable Bermuda legislation. Engaging in the activity of offering or marketing the Nil Paid Rights, the Fully Paid Rights and the New Ordinary Shares in Bermuda to persons in Bermuda may be deemed to be carrying on business in Bermuda.

(c) Canada

If you are a resident of Canada and have received this document without a Canadian supplement attached to the front, you have received this document in error. In order to receive the document prepared for residents of Canada, please go to www.serco.com and select Canada in the drop-down list of countries. In order to participate in the Rights Issue, a resident of Canada (i) must be an “accredited investor” as defined in National Instrument 45-106 Prospectus and Registration Exemptions and either purchasing the New Ordinary Shares as principal for its own account, or deemed to be purchasing the New Ordinary Shares as principal by applicable law, and (ii) must complete and return a Canadian Accredited Investor Representation Letter not later than 11.00 a.m. on 16 April 2015.

(d) Japan

The Rights Issue has not been and will not be registered under the Financial Instruments and Exchange Law, as amended (the “**FIEL**”). This document is not an offer of securities for sale, directly or indirectly, of any Nil Paid Rights, Fully Paid Rights or New Ordinary Shares in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or entity organised under the laws of Japan) or to others for reoffer or resale, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan, except pursuant to an exemption from the registration requirements under the FIEL and otherwise in compliance with such law and any other applicable laws, regulations and ministerial guidelines of Japan.

(e) PRC

The Nil Paid Rights, the Fully Paid Rights and the New Ordinary Shares may not be offered or sold directly or indirectly within the PRC. This document or any information contained or incorporated by reference herein relating to the Nil Paid Rights, the Fully Paid Rights and the New Ordinary Shares does not constitute an offer to sell or the solicitation of an offer to buy any securities in the PRC. This document, any information contained herein and the Nil Paid Rights, the Fully Paid Rights and the New Ordinary Shares have not been, and will not be, submitted to, approved by, verified by or registered with any relevant governmental authorities in the PRC and thus may not be supplied to the public in the PRC or used in connection with any offer for the subscription or sale of the Nil Paid Rights, the Fully Paid Rights and the New Ordinary Shares in the PRC.

The Nil Paid Rights, the Fully Paid Rights and the New Ordinary Shares may only be invested by the PRC investors that are authorised to engage in the investment in the unit of the type being offered or sold. Investors are responsible for obtaining all relevant governmental approvals, verifications, licences or registrations (if any) from all relevant PRC governmental authorities, including, but not limited to, the State Administration of Foreign Exchange, the China Securities Regulatory Commission, the China Banking Regulatory Commission and other relevant regulatory bodies, and complying with all relevant PRC regulations, including, but not limited to, any relevant foreign exchange regulations and/or overseas investment regulations.

(f) Singapore

This document or any written materials issued in connection with the Rights Issue is not a prospectus as defined in the Securities and Futures Act, Chapter 289 of Singapore (the “SFA”). The offer of the Nil Paid Rights, the Fully Paid Rights and the New Ordinary Shares is made in reliance on the offering exemption under section 273(1)(cd) of the SFA. This document and any other document or material in connection with the offer or sale of the Nil Paid Rights, the Fully Paid Rights and the New Ordinary Shares may not be circulated or distributed, nor may the Nil Paid Rights, the Fully Paid Rights and the New Ordinary Shares be offered or sold, whether directly or indirectly, to any person in Singapore other than to a member of the Company pursuant to section 273(1)(cd) of the SFA or otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

(g) Switzerland

The Nil Paid Rights, the Fully Paid Rights and the New Ordinary Shares may not be publicly offered in Switzerland and will not be listed on the SIX Swiss Exchange (“SIX”) or on any other stock exchange or regulated trading facility in Switzerland. This document has been prepared without regard to the disclosure standards for issuance prospectuses under art. 652a or art. 1156 of the Swiss Code of Obligations or the disclosure standards for listing prospectuses under art. 27 ff. of the SIX Listing Rules or the listing rules of any other stock exchange or regulated trading facility in Switzerland. Neither this document nor any other offering or marketing material relating to the Nil Paid Rights, the Fully Paid Rights and the New Ordinary Shares or the Rights Issue may be publicly distributed or otherwise made publicly available in Switzerland.

Neither this document nor any other offering or marketing material relating to the Rights Issue, the Company, the Nil Paid Rights, the Fully Paid Rights and the New Ordinary Shares have been or will be filed with or approved by any Swiss regulatory authority. In particular, this document will not be filed with, and the offer of Nil Paid Rights, Fully Paid Rights and New Ordinary Shares will not be supervised by, the Swiss Financial Market Supervisory Authority FINMA (“FINMA”).

2.6.6 *Notice in the London Gazette*

In accordance with section 562(3) of the Companies Act, the offer by way of Rights to Qualifying Shareholders who have no registered address in an EEA State and who have not given to the Company an address in an EEA State for the serving of notices, will (subject to the other conditions of the Rights Issue) be made by the Company causing a notice to be published in the London Gazette on 30 March 2015 stating where copies of this document and the Provisional Allotment Letters may be obtained or inspected on personal application by or on behalf of such Qualifying Shareholders. Any person with a registered address, or who is resident or located, in the United States or any of the Excluded Territories who obtains a copy of this document or a Provisional Allotment Letter is required to disregard them, except with the consent of the Company.

However, in order to facilitate acceptance of the offer made to such Qualifying Shareholders by virtue of such publication, Provisional Allotment Letters will also be posted to Qualifying Shareholders who are Overseas Shareholders (other than, subject to certain exceptions, to those with registered addresses in, or who are resident in, the United States or any of the Excluded Territories). Such Shareholders, if it is lawful to do so, may accept the offer by way of Rights either by returning the Provisional Allotment Letter posted to them in accordance with the instructions set out therein or, subject to surrendering the original Provisional Allotment Letter posted to them, by obtaining a copy thereof from the place stated in the notice and returning it in accordance with the instructions set out therein. Similarly, Nil Paid Rights are expected to be credited to stock accounts in CREST of Qualifying CREST Shareholders who are Overseas Shareholders (other than, subject to certain exceptions, those with registered addresses, or who are resident in, the United States or any of the Excluded Territories).

2.6.7 Representations and warranties relating to Overseas Shareholders

(a) Qualifying non-CREST Shareholders

Any person accepting and/or renouncing a Provisional Allotment Letter or requesting registration of the New Ordinary Shares comprised therein represents and warrants to the Company and each of the Underwriters that, except where proof has been provided to the Company's satisfaction that such person's use of the Provisional Allotment Letter or the effecting of the instruction will not result in the contravention of any applicable legal or regulatory requirement in any jurisdiction, (i) such person is not accepting and/or renouncing the Provisional Allotment Letter, requesting registration of the relevant New Ordinary Shares or giving such instruction, from within the United States or any of the Excluded Territories; (ii) such person is not in any territory in which it is unlawful to make or accept an offer to subscribe for New Ordinary Shares or to use the Provisional Allotment Letter in any manner in which such person has used or will use it or to give such instructions; (iii) such person is not acting on a non-discretionary basis for, or on behalf of, or for the account or benefit of, a person resident or located within the United States or any Excluded Territory or any territory referred to in (ii) above at the time the instruction to accept, renounce or deal was given; and (iv) such person is not acquiring Nil Paid Rights, Fully Paid Rights or New Ordinary Shares with a view to the offer, sale, resale, transfer, delivery or distribution, directly or indirectly, of any such Nil Paid Rights, Fully Paid Rights or New Ordinary Shares into the United States or any Excluded Territory or any territory referred to in (ii) above. The Company may treat as invalid any acceptance or purported acceptance of the allotment of New Ordinary Shares comprised in, or renunciation or purported renunciation of, a Provisional Allotment Letter if it (x) appears to the Company to have been executed in or despatched from the United States or any Excluded Territory or otherwise in a manner which may involve a breach of the laws of any jurisdiction or if it believes the same may violate any applicable legal or regulatory requirement; (y) provides an address in the United States or any Excluded Territory (or any jurisdiction outside the UK in which it would be unlawful to deliver share certificates or sales advice); or (z) purports to exclude the warranty required by this paragraph 2.6.7(a).

(b) Qualifying CREST Shareholders

A CREST member or CREST sponsored member who makes a valid acceptance in accordance with the procedures set out in this Part III (*Terms and Conditions of the Rights Issue*) represents and warrants to the Company and each of the Underwriters that, except where proof has been provided to the Company's satisfaction that such person's acceptance will not result in the contravention of any applicable legal requirement in any jurisdiction, (i) he is not within the United States or any of the Excluded Territories; (ii) he is not in any territory in which it is unlawful to make or accept an offer to subscribe for New Ordinary Shares; (iii) he is not accepting on a non-discretionary basis for, or on behalf of, or for the account or benefit of, a person resident or located within the United States or any Excluded Territory or any territory referred to in (ii) above at the time the instruction to accept was given; and (iv) he is not acquiring Nil Paid Rights, Fully Paid Rights or New Ordinary Shares with a view to the offer, sale, resale, transfer, delivery or distribution, directly or indirectly, of any such Nil Paid Rights, Fully Paid Rights or New Ordinary Shares into the United States or any Excluded Territory.

The provisions of this paragraph 2.6.7 and any other terms of the Rights Issue relating to Overseas Shareholders may be waived, varied or modified as regards specific Shareholders(s) or on a general basis by the Company and the Underwriters in their absolute discretion. Subject to this, the provisions of this paragraph 2.6.7 supersede any terms of the Rights Issue inconsistent herewith. References in

this paragraph 2.6.7 to Shareholders shall include references to the person or persons executing a Provisional Allotment Letter and, in the event of more than one person executing a Provisional Allotment Letter, the provisions of this paragraph 2.6.7 shall apply to them jointly and to each of them.

2.7 Structure of the Rights Issue

The Rights Issue has been structured in a way that is expected to have the effect of providing the Company with the ability to realise distributable reserves approximately equal to the proceeds of the Rights Issue less the nominal value of the New Ordinary Shares issued by the Company.

The Company and J.P. Morgan Cazenove have agreed to subscribe for ordinary shares in Newco. J.P. Morgan Cazenove will apply the proceeds of issue received from Qualifying Shareholders and renounees and from subscribers of New Ordinary Shares not taken up by Qualifying Shareholders and renounees under the Rights Issue (less any premium above the Issue Price) to subscribe for redeemable preference shares in Newco.

The Company will allot and issue the New Ordinary Shares to those persons entitled thereto in consideration for J.P. Morgan Cazenove transferring its holdings of ordinary shares and redeemable preference shares in Newco to the Company. Accordingly, instead of receiving cash consideration for the issue of the New Ordinary Shares, the Company will (following completion of the Rights Issue) own the entire issued share capital of Newco, whose only asset will be the cash reserves representing an amount equal to the proceeds of the Rights Issue. The Company should be able to access those funds by redeeming the redeemable preference shares it holds in Newco or, alternatively, during any interim period prior to redemption, by procuring that Newco lends the amount to the Company. The ability to realise distributable reserves in the Company will facilitate any potential distribution to Shareholders made by the Company in the future.

Accordingly, by taking up New Ordinary Shares under the Rights Issue and submitting a valid payment in respect thereof, a Qualifying Shareholder or other person taking up the Rights under the Rights Issue instructs the Receiving Agent to hold such payment on behalf of J.P. Morgan Cazenove and (i) to the extent of a successful application under the Rights Issue (which has not been subsequently validly withdrawn), to apply such payment (after deduction of certain agreed fees, costs and expenses) on behalf of J.P. Morgan Cazenove solely for J.P. Morgan Cazenove to subscribe (as principal) for redeemable preference shares in Newco; and (ii) to the extent of an unsuccessful or validly withdrawn application under the Rights Issue, to return the relevant payment without interest to the applicant.

The Company may elect to implement the Rights Issue without using the structure described above if it deems it to be in the Company's interest to do so.

2.8 Times and dates

The Company shall (in consultation with the Underwriters but otherwise in its discretion) be entitled to amend the dates that the Provisional Allotment Letters are despatched or dealings in Nil Paid Rights commence or amend or extend the latest date for acceptance or instruction under the Rights Issue and all related dates set out in this document and in such circumstances shall notify the UKLA, and make an announcement on a Regulatory Information Service approved by the UKLA. **In the event that such an announcement is made, Qualifying Shareholders may not receive any further written communication in respect of such amendment or extension of the dates included in this document.**

If a supplementary prospectus is issued by the Company two or fewer Business Days prior to the latest time and date for acceptance and payment in full under the Rights Issue specified in this document (or such later date as may be agreed between the Company and the Underwriters), the latest date for acceptance or instruction under the Rights Issue shall be extended to the date that is three Business Days after the date of issue of the supplementary prospectus (and the dates and times of principal events due to take place following such date shall be extended accordingly).

2.9 Governing law

The terms and conditions of the Rights Issue as set out in this document and the Provisional Allotment Letters and any non-contractual obligations arising out of or in relation to the Rights Issue shall be governed by, and construed in accordance with, English law.

2.10 Jurisdiction

The courts of England and Wales are to have exclusive jurisdiction to settle any dispute which may arise out of or in connection with the Rights Issue, this document or the Provisional Allotment Letters (including any dispute relating to any non-contractual obligations arising out of or in connection with them). By accepting rights under the Rights Issue in accordance with the instructions set out in this document and (in the case of Qualifying non-CREST Shareholders only) the Provisional Allotment Letter, Shareholders and any other person who participates in the Rights Issue irrevocably submit to the jurisdiction of the courts of England and Wales and waive any objection to proceedings in any such court on the ground of venue or on the ground that proceedings have been brought in an inconvenient forum.

PART IV
INFORMATION ON THE SERCO GROUP

The following information should be read in conjunction with the information appearing elsewhere in, or incorporated by reference in, this document, including the financial and other information in, or incorporated by reference in, Part V (Operating and Financial Review of the Serco Group) and Part VI (Historical Financial Information Relating to the Serco Group).

1. OVERVIEW

Serco Group plc is the parent company of the Serco Group.

The Serco Group operates through six divisions, five of which (being UK Central Government, UK & Europe Local & Regional Government, Americas, Asia Pacific and the Middle East) provide a broad range of frontline public service operations to customers in various geographic regions and one (being the Global Services division) provides BPO services to the private sector globally.

The following table sets out revenue and Trading Profit by division and region between 2012 and 2014.

	Revenue (£million)			Trading Profit (£million)		
	2014	2013 (Restated)	2012 (Restated)	2014	2013 (Restated)	2012 (Restated)
UK Central Government	961.4	1,074.6	1,119.2	(242.8)	114.6	160.1
UK & Europe Local & Regional						
Government	959.8	963.0	922.5	(90.4)	17.8	18.2
Americas	708.1	764.6	752.7	16.5	65.1	73.8
Asia Pacific	706.0	870.6	701.2	(201.6)	78.2	45.2
Middle East	260.4	267.9	242.9	(0.2)	24.5	29.4
Global Services	359.3	343.5	318.3	(23.4)	7.8	29.0
Corporate	—	—	—	(90.2)	(50.6)	(45.0)
Total	<u>3,955.0</u>	<u>4,284.2</u>	<u>4,056.8</u>	<u>(632.1)</u>	<u>257.4</u>	<u>310.7</u>

The services offered by each division are set out below.

1.1 UK Central Government

The UK Central Government division comprises four business units: Defence, Home Affairs, Citizen Services and Transport.

- (a) The Defence business provides operational support services to the UK Ministry of Defence and Commands ranging from military base support services on sites such as RAF Cranwell through to engineering and training support such as to the Joint Services Command and Staff College at Shrivenham, as well as Serco's stake in the joint venture that operates the Atomic Weapons Establishment.
- (b) The Home Affairs business manages services for the Home Office and Ministry of Justice including the full management and operation of custodial facilities, prisoner escorting, and the provision of asylum seeker accommodation in the North West and the Scotland & Northern Ireland regions.
- (c) The Citizen Services business provides essential process support to UK Central Government customers such as the delivery of the Work Programme in the West Midlands and Yorkshire & the Humber, the management of the National Citizen Services programme and the management of the child maintenance payment process for the UK Department of Work and Pensions.
- (d) The Transport business manages Serco's stake in the joint ventures that operate Merseyrail and Northern Rail, as well as the direct operation of the Northern Isles Ferries and the Caledonian Sleeper service.

1.2 UK & Europe Local & Regional Government

The UK & Europe Local & Regional Government division comprises three business units: Health, Local Government BPO and European Agencies.

- (a) The Health business provides primarily non-clinical support services to hospitals such as Norfolk & Norwich and Forth Valley, as well as community health services in Suffolk and other support services to hospitals such as Guy's and St. Thomas' through a pathology joint venture.
- (b) The Local Government BPO business provides primarily middle and front office support services to local authorities such as Glasgow City Council and Hertfordshire County Council.
- (c) The European Agencies business provides ICT (information and communication technology) and BPO support to agencies such as the European Space Agency and the European Central Bank.

1.3 Americas

The Americas division comprises six business units: C4ISR (command, control, communications, computers, intelligence, surveillance and reconnaissance), National Security Services, Transportation and Infrastructure, Citizen and Defence Services, Centre for Medicare and Medicaid Services (“CMS”) and Canada. These business units cover services provided in Defence, Transport and Citizen Services as described below.

- (a) C4ISR provides Defence services including engineering, installing, testing and operations and maintenance services in support of military and complex networks and IT systems.
- (b) National Security Services provides program management and acquisition support services to the Department of Defense and Intelligence community.
- (c) Transport and Infrastructure provides intelligent transport systems (traffic management centres, bridge and tunnel operations, incident management etc.) for the States of Virginia and Georgia; air traffic control services for the Federal Aviation Authority; safety-critical operations, infrastructure and support services to owners or operators of National Airspace for the US Federal Aviation Administration; and integrated parking management services for cities such as San Francisco and Chicago.
- (d) Citizen and Defence Services provides military personnel support and logistics services to the US military.
- (e) CMS provides eligibility, enrolment and processing support services for government programmes with customers such as the National Benefits Centre and the Centers for Medicare and Medicaid Services in support of the implementation of the Affordable Care Act.
- (f) The Canada business unit supports a number of customers in Canada, including providing driver evaluation services in Ontario and providing base support services to the Canadian Department of National Defense at the 5 Wing Canadian Forces Base in Goose Bay.

1.4 Asia Pacific

The Asia Pacific division comprises six business units: Justice & Immigration, Defence, Transportation, Health, BPO and Facilities Management (“FM”).

In Justice & Immigration, the division manages the operations of custodial facilities in Australia and New Zealand, the entire onshore immigration detention estate for Australia including on Christmas Island currently caring for around 2,500 detainees, and provides prisoner escort services in Western Australia.

The Defence business provides support services such as those for the Royal Australian Navy, including supporting the operations and maintenance of the Armidale and Cape Class Patrol Boats as well as providing training services and simulator support.

The Transportation business manages parts of essential traffic infrastructure in Hong Kong and Australia, such as the Tsing Sha and Cross-Harbour tunnels in Hong Kong, and the Great Southern Rail in Australia (which Serco intends to dispose of as part of its new strategy). It also provides speed camera services in both Hong Kong and New South Wales.

In the Health business, Serco helped in the design and build of, and now operates the non-clinical support services for, Fiona Stanley hospital in Perth, which opened in October 2014.

The BPO business carries out public sector contact centre services, such as the provision of public transport information in Perth (Transperth).

The Facilities Management business provides FM services to customers such as Blue Scope Steel and Melbourne Parks & Gardens.

1.5 Middle East

The Middle East division provides services across Transportation, Defence, FM and Healthcare.

In Transportation, the division operates essential infrastructure across the region, including the Metro, Tram and Monorail services in Dubai and the Air Traffic Control services for the Dubai airport and others in the region.

The Defence business provides services to the military, including training and FM services. Along with Serco's partners (the UK Staff College and King's College London) Serco manages and operates the Staff College for the Qatari army, navy and air force. The division also provides logistical and FM services for the Australian armed forces on deployment in the Middle East.

The Middle East division provides FM support to major real estate infrastructure in the region such as Zayed University in the UAE, and has a growing Healthcare business providing non-clinical services to hospitals in Saudi Arabia and Abu Dhabi.

1.6 Global Services

Global Services provides onshore BPO services to private sector customers around the world, offshore services from India and knowledge services across the customer base. As set out in paragraph 10 in Part I (*Letter from the Chairman*), Serco intends to dispose of its private sector BPO business as part of its new strategy.

- (a) The onshore business supports private sector customers with primarily onshore BPO services in the UK, Europe, Asia, the Middle East and the Americas, supporting customers across the banking, financial services, insurance, retail, telecoms, utilities and travel sectors. In the UK, the division supports major retail clients with their customer support services such as Shop Direct and Aegon. In India, the business is the largest domestic provider of BPO services, including to customers such as Vodafone and Google; and in the Middle East the business supports clients such as Saudi Aramco and Etisalat. In the Americas, the division provides back office support to customers such as American Express.
- (b) The offshore business provides services for clients based in the UK, the US and other countries with facilities across India and the Philippines. The business unit supports clients such as Barclays, Apria and Orbitz.
- (c) The knowledge services business provides internal support in areas such as process excellence, operational consulting and analytics.

2. MARKET DRIVERS

The market for services to governments is underpinned by structural drivers of growth: the Directors believe that nearly all governments are going to be faced by inexorable pressure on four fronts: the growing costs of healthcare and the costs of supporting ageing populations; the need to reduce public debt and expenditure deficits; rising expectations of service quality amongst public service users; and the unwillingness of voters and corporate taxpayers to countenance tax increases.

In the UK, spending on age-related public services is rising faster than other categories, prompting a review of spending priorities, a demand for better productivity and, as a result, an acceptance of competition as a way to bring innovation and cost savings. For example, in the UK, spending on health, education, pensions and elderly care is forecasted by the Office of National Statistics and by the Office for Budget Responsibility to rise from approximately £368 billion in 2013 to approximately £400 billion in 2018, whilst spending on non-age related spending is forecasted by the Office for Budget Responsibility to remain largely flat. Furthermore, the Office for Budget Responsibility¹ forecasts that, if per capita public sector spend per age/gender remains constant, the UK will have to bridge a gap of approximately £39 billion (nominal) or approximately 1.9 per cent. of GDP by 2018/19 by finding savings elsewhere.

In the US, similar drivers are present. The Congressional Budget Office's ("CBO") budget outlook report for 2014 states that budget outlays are expected to increase from US\$3.5 trillion in 2014 to US\$6 trillion by

¹ In the Office for Budget Responsibility Fiscal Sustainability Report and Economic and Fiscal Outlook, July 2014.

2024. The CBO expects the number of people receiving benefits to grow by 3 per cent. every year on average to 2024, driving benefit spend up from 4.9 per cent. to 5.6 per cent. of GDP over the same period. Similarly, the CBO forecasts that spending on healthcare will soon exceed benefits spend, growing from 5.1 per cent. of GDP in 2015 to 6.8 per cent. of GDP by 2024, driven primarily by the implementation of the Affordable Care Act of 2010.

Similarly, the Australian Government is facing growing spend as a result of demographic change, whereas its aim is to keep government spend constant as a percentage of GDP over 2013-2018. For example, spending on health, welfare and education is forecasted by the Australian Bureau of Statistics to rise by approximately 4.2 per cent. from AUS\$234 billion in 2013 to AUS\$278 billion in 2018. Consequently, to keep overall spend in line with GDP, the Australian Bureau of Statistics forecasts that non-age related spend will have to shrink from approximately 11.5 per cent. of GDP in 2013 to approximately 10.5 per cent. of GDP in 2017-2018. Similarly to the UK, the Australian Government has declared that the current spending pattern is unsustainable and that there is a need to improve productivity and use competition as one mechanism to achieve this.

In the Middle East, over the last few decades, the markets in which Serco operates (being the UAE, Saudi Arabia, Bahrain and Qatar) have seen budget surpluses through oil-based income. However, the last half a decade has seen a socio-political shift in the region, with a desire to bridge inequalities in wealth, especially following the recent “Arab Spring”. As a result, governments have been spending significantly for development of public infrastructure and up-skilling the workforce. For example, EC Harris estimates an investment of nearly US\$640 billion in these markets between 2014-2019 on areas including construction, transport, energy and water. In Qatar, nearly US\$125 billion is expected to be spent on transportation infrastructure, including a new airport, roads and metro systems and the Saudi Arabian Government, in its plan for 2014, had laid out US\$29 billion in investment on healthcare and US\$10.7 billion on transportation. However, the region is not immune to the fiscal pressures faced by the UK, the US and Australia. The IMF has forecasted a gap of US\$175 billion in the region’s fiscal surpluses in 2015 as a direct result of lower oil prices. For example, the Saudi Arabian Government has estimated that the country’s surplus is expected to turn into a deficit of US\$39 billion in 2015.

3. STRATEGY

Following the arrival of Rupert Soames as the new Group Chief Executive in May 2014, the Company announced that it was carrying out a comprehensive Strategy Review, which encompassed an examination of the Group’s contracts and balance sheet. The objective of this review was to build a firm foundation upon which Serco could build a stronger business to deliver value to its stakeholders: to Serco’s customers, by providing excellent, reliable and innovative services; to Serco’s shareholders, by providing sustainable and growing returns on capital; to Serco’s lenders, by providing them with a solid and secure credit; and to Serco’s employees, by giving them interesting and rewarding careers.

The Strategy Review is now complete, the details of which are outlined below. The new strategy is for Serco to be a focused business-to-government (“B2G”) business, specialising in five segments: Justice & Immigration, Defence, Transport, Citizen Services and Healthcare. The Group will deliver these services internationally from operating units in North America, the UK & Europe, the Middle East and Australia & New Zealand.

3.1 Background to the Strategy Review and context

From 2000 to 2010, Serco saw strong growth through a combination of organic growth in existing markets and expansion into new countries, as well as through acquisitions. Governments were keen to benefit from involving the private sector in the provision of services, and many areas of activity were contracted out for the first time. As Serco and others were able to reduce costs and improve services, contract margins grew and revenue increased rapidly.

Towards the end of the decade, however, conditions became more difficult. Margins came under pressure as “first generation” contracts were re-tendered and governments, having gained experience from the early contracts, became more sophisticated purchasers. At the same time, the competitive landscape became more intense, as companies from outside the public service sector were attracted by the rapid growth and strong margins, and existing operators expanded into new segments. Overlaid upon this came the consequences of the financial crisis in 2008, which led to an intense focus on public expenditure deficits. In the UK, the election in 2010 of a new Government determined to cut spending to reduce the fiscal deficit, combined with US budgetary constraints leading to a series of continuing resolutions and reductions in

military expenditure, resulted in a sharp reduction in the rate of growth of the public sector outsourcing market.

Faced by these challenges, in 2010 Serco devised a strategy to reduce its dependence on frontline services and the public sector through the following means:

- Firstly, by building, largely through acquisition, a private sector BPO business that could bring skills and additional services to the public sector business, with the expectation that the public sector business could also add distribution, brand and heft to add value to the private sector business.
- Secondly, Serco sought to combat a slowing public sector market by bidding for new work, and entered new segments such as UK clinical healthcare and providing housing for asylum seekers.
- Finally, Serco sought to gain efficiencies and reduce costs by investing in an enterprise-wide SAP ERP system and building a shared services infrastructure covering IT, human resources and finance.

Whilst this strategy was a logical reaction to challenging conditions, in practice it proved extremely difficult to implement because the synergies between the private and public sector businesses were not as expected; the acquisitions that drove entry into the BPO market were not well integrated; some of the contracts in new markets proved to be more costly and more difficult to execute than was anticipated; and the implementation of a shared services infrastructure proved problematic. In addition, some of Serco's most profitable contracts were either lost on rebid (e.g. the contract with the Department of State's National Visa Center in the US), or were taken back in-house (e.g. the contract in relation to the National Physical Laboratory) or saw sharp reductions in volumes or margins (e.g. declining volumes on the Australian Immigration Services contract with the Australian Government Department of Immigration and Citizenship, and the contract with Northern Rail in the UK).

In addition, Serco's reputation and its relationship with its largest client, the UK Government, suffered a damaging setback when, in July 2013, the UK Secretary of State for Justice made a statement in the House of Commons that an independent audit of the billing arrangements of the Electronic Monitoring Contract had highlighted evidence of overbilling and other matters of potential concern to the Ministry of Justice. Serco agreed with the Ministry of Justice that it would cooperate fully with a detailed independent investigation into this contract and a separate review of other Ministry of Justice contracts. In addition, the UK Cabinet Office undertook a wider review across other major UK Central Government contracts operated by Serco, from which no further material issues were raised. The Electronic Monitoring Contract was also referred to the Serious Fraud Office. Further, in August 2013, the Ministry of Justice and Serco jointly asked the City of London Police to investigate allegations related to the misleading recording of key performance indicators under the PECS Contract. The City of London Police has discontinued its investigation into the PECS Contract and no charges were brought.

For more information regarding these matters, see Risk Factor 1.2 and paragraph 9 of this Part IV (*Information on the Serco Group*).

As a result of the contract issues identified, the UK Government required Serco to enter into a process of Corporate Renewal overseen by a UK Government Oversight Group and independent advisers. This programme was overseen within Serco by a Board Committee including Lord Gold as an independent third-party member of this Committee. To achieve this, Serco developed in the fourth quarter of 2013 the Corporate Renewal Programme to deliver organisational change and operational resilience across the Group. Key components of the Corporate Renewal Programme, put in place over the course of 2014, included:

- strengthening the contract bid review process to ensure appropriate bid governance involving relevant specialist and functional skills and participation of senior management, that pricing is appropriate with risks assessed and a robust operational solution is developed;
- commitment by leadership throughout the business to "do what is right" by always dealing with customers fairly and placing this above any other conflicting commercial interests;
- revising Serco's Code of Conduct, and restating Serco's Values Statement and Governing Principles, supported by training, induction and performance management to ensure these become embedded in the business;
- strengthening contract-level governance, including improved contract bid processes to ensure appropriate levels of operational resource and the delivery of sustainable performance;

- enhancing transparency and access, with robust reporting of operational and financial contract key performance indicators, and greater engagement with customers at contract and departmental level;
- splitting the UK division into two to bring senior management closer to the operational business units, thereby creating a separate division for the Group's UK Central Government work to achieve both focus and openness to the Government as a collective customer;
- redefining, with appropriate supporting training, the Group's management system to include more prescriptive guidance on required operational processes and procedures, supported by strengthened risk management and internal audit processes and capabilities;
- appointing three additional Non-Executive Directors to the Board of the Company, one of whom to chair a new Corporate Responsibility and Risk Committee to formalise the process of guidance and decision making on ethical issues;
- establishing Ethics Officers, and strengthening the focus on ethics, in each division, accompanied by the redesign of the Group's whistle-blowing process to the highest international standards; and
- measuring the progress of attitudinal change throughout the organisation with ongoing independent cultural and ethics reviews.

The scope and relevance of the Corporate Renewal Programme was assessed by the Oversight Group, with the input of the independent advisers appointed by the Government who monitored Serco's implementation against the agreed milestones in the implementation plan. In October 2014, the Corporate Renewal Programme was reported on by the UK Government's appointed advisors confirming that Serco had identified and understood the causes of previous issues and, through the Corporate Renewal Programme, has put in place cultural and governance structures designed to address those issues and sustain ongoing customer confidence. The Directors believe that the significant steps taken by Serco demonstrated commitment to rebuilding the confidence of the UK Government customer and ensuring that the issues that emerged in 2013 would not reoccur.

Faced with these challenges, the new management team commenced the Strategy Review in May 2014 to analyse the current market and competitive situation, to develop a new strategy that offers the greatest opportunity for value creation for shareholders, customers and employees, and to identify how best to implement the new strategy.

The Strategy Review had three distinct phases: first, properly understanding the causes and effects of the recent challenges; second, exploring the strategic options for the Group; and finally, having selected a strategy, planning the implementation of the strategy.

The causes of the challenges have been largely set out above. The effects are reflected in both the financial performance and the results of the Contract & Balance Sheet Reviews, which are described in more detail in paragraph 2.3 of Part I (*Letter from the Chairman*) and in Part V (*Operating and Financial Review of the Serco Group*) of this document. In 2014, the Company took provisions and charges to operating profit of £1.3 billion, of which £447.1 million relates to Onerous Contract Provisions, and £504.6 million to impairment of goodwill and intangibles on acquisitions and the balance of £347.3 million for asset impairments and other charges.

The Directors examined two strategic options in detail: the Company could either continue with the previous strategy of operating both in the private and public sector, or focus on one and exit the other. The private sector represented a very small proportion of the Group's economic profits; the Group's public sector customers proved extremely resistant to moving their middle or back office functions outside their jurisdictions; and the Company failed to add value to the private sector business using its public sector distribution and brand. It became clear that the disciplines required for international success in the private and public sector BPO markets are different, and to build a Group which could have the scale to be good at both would require significant investment. Therefore the Directors decided to focus investment and effort on the Group's core market of public sector services, where the Directors believed the Group had a strong position. Once the Group has addressed the issues in its core market, and earned the confidence of its stakeholders, the Directors believe that the Group will have more options in three to five years' time than those currently available.

The Strategy Review also identified that whilst the public service market presents a number of challenges, it also has many attractions. Most particularly, the market for the provision of public services by private companies is underpinned by structural growth. This is because in many areas of public service provision,

private companies, if properly managed, can deliver services of higher quality at a lower cost than government. Second, governments are likely to continue to face pressures to deliver more and better public services at a lower cost, and these pressures will lead them to focus on value for money and the quality of service provision. These pressures can be summarised as the following “Four Forces”:

- the growing costs of healthcare and the costs of supporting ageing populations;
- the need to reduce public debt and expenditure deficits;
- the rising expectations of service quality amongst public service users; and
- the unwillingness of voters and corporate taxpayers to countenance tax increases.

The Directors expect that these four forces will make Serco’s customers want more and better services, for less.

Whilst there has been great focus on “austerity” as a factor affecting public finances in the short term, the Directors believe that these Four Forces will continue to bear on public policy for many years to come, and drive growth in private sector provision of public services in the sectors that make up the Group’s new strategy (being Justice & Immigration, Defence, Transport, Citizen Services and Healthcare). Furthermore, the need for people intensive core public services, such as prisons, immigration, healthcare and transport, is likely to be resilient to social, economic and technological change, and thus supports a sustainable level of demand for the public services sector.

Core to the new strategy is the Directors’ belief that having a diversified portfolio of services in different segments and jurisdictions is an advantage. In a world where political priorities of changing governments can switch resources from defence to immigration control to healthcare and back again, being diversified by segment and jurisdiction should reduce risk and volatility, and is therefore valuable. Many of the Company’s closest competitors are specialists in either a particular segment, or within a particular region. The Directors believe that, while focused on public services, the Group can deliver better risk-adjusted returns and lower volatility in the long term if it has the capability to operate across more than one segment within the market, and in more than one jurisdiction.

The Directors also believe that governments across the world face similar challenges at many levels. At a detailed operational level, providing cleaning and catering services in a hospital is very similar in Western Australia and in Arkansas; likewise, escorting prisoners to court. At a higher level, having expertise in staff rostering and time management is globally applicable across segments, as is project and case management. Yet higher, building deep capability in “continuous improvement” projects is globally applicable. Finally, the Directors believe that where the Company has deep expertise in running public services in one territory, this provides credibility in another.

In becoming a more focused B2G supplier operating in fewer countries, Serco intends to initially reduce in size, concentrate on improving operational performance, reduce overheads and thereby return to sustainable profitable growth. The Rights Issue and proceeds from the Proposed Disposals will strengthen the Group’s capital structure and funding arrangements. Further, it is intended that the loss-making contracts will, where possible, be mitigated; the Company will focus business development spend on the chosen pillars, investing a greater proportion in the development of markets and pipelines, strengthening bid risk management through tightened procedures and more in-depth commercial reviews, and building stronger cross-business networks to share capability and best practice; the scale of the business will be better exploited through centres of excellence and use of shared services; and underlying infrastructure, management information and capability will be improved through common practices and continuous improvement programmes.

Over the next two years, the Directors expect the Group’s revenue to reduce as a result of attrition, disposals and the exit of loss-making contracts. Serco is developing plans to reduce overheads to match a smaller business, and achieving cost savings will be a key part of addressing the sub-standard returns the Group still expects to be earning in 2015 and 2016. In addition, Serco intends to reduce costs through continuing to de-layer, rolling out continuous improvement initiatives in its contract base, and making better use of its scale in procurement and the use of shared services; all led by dedicated leadership with external support. 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).

The Directors have made estimates of likely long-term growth rates and margins in Serco’s five core markets in the UK, Europe, Middle East, Asia Pacific and North America. 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.

	<u>Annual Market Growth</u>	<u>Margins</u>
Justice & Immigration	2 - 5%	5 - 7%
Defence	4 - 6%	5 - 7%
Transport	6 - 8%	3 - 5%
Citizen Services	5 - 7%	6 - 8%
Healthcare	6 - 8%	5 - 7%

The Directors estimate that, in the long term, the core sectors on which Serco will focus are likely to grow at an aggregate of 5 to 7 per cent. per annum, and that industry margins across Serco’s mix of business are likely to be in the range of 5 to 6 per cent. If this turns out to be correct, and markets turn out as expected, the Directors believe that after the initial years of restructuring and transformation, progress will be made towards bringing performance in line with the average of the Group’s peers.

The Directors believe that after 2016, improvements in margins can be achieved as a result of:

- (a) positive portfolio effects as loss-making contracts run out during the period;
- (b) improved win rates at market margins as sector expertise is brought to bear on fewer, more targeted opportunities;
- (c) contract-level margin improvements through the introduction of continuous improvement techniques;
- (d) cost of sales improvements from greater use of scale procurement;
- (e) a reduction in divisional and Group overheads driven by a reduction in the number of management layers and consequent support costs; and
- (f) further margin improvement at Group level through a redesign of support function operating models, and a transfer of activity to shared service centres.

3.2 Strategy implementation and priorities

Serco’s new strategy can be expressed in simple terms as follows: Serco’s ambition is to be a superb provider of public services, and it aims to achieve this by striving to become the best-managed business in its sector.

The strategy will be implemented with two timescales in mind:

- (a) Near term (2015-2017): make Serco a focused and efficient provider of public services

In the near term, Serco’s focus will be on four priorities:

- **Improving efficiency and increasing capability by transforming the Group’s operating model.** Serco has set up a Strategy implementation team tasked with delivering the Group-wide transformation identified in the Strategy Review. The implementation will create an operating model that is efficient, clear and unambiguous from which Serco can deliver better against its contract commitments. This will see a reduction in the number of management layers, reduced divisional and group overheads, and improved timeliness and clarity of decision making. Teams and processes will be moved into a shared services environment with improved systems so that the key requirements of the frontline are met quickly. This will require greater standardisation of work practices. During the implementation, Serco will also aim to gain greater benefit from the centralisation of procurement for some categories of expenditure. Serco aims to achieve through the implementation of the new strategy a reduction in the cost base alongside an associated restructuring cost.
- **Improving Serco’s ability to win high quality new business.** Serco’s ability to win high quality new business will be strengthened by improving the way it shares expertise and knowledge across the Group, develop compelling and innovative value propositions for its customers, and re-establishing the thought leadership which contributed to Serco’s rapid growth in the past. Serco also intends to invest in strengthening its the bidding processes to strengthen the assessment and management of risk and pricing.
- **Disposing of businesses and exiting activities which are not core to its future strategy.** As described in paragraph 10 of Part I (*Letter from the Chairman*) of this document, disposal processes are under way

for the UK Leisure and UK Environmental Services businesses, the majority of the private sector BPO business, and the Great Southern Rail business in Australia—all identified as non-core as part of the Strategy Review.

- **Mitigating the impact of loss-making contracts.** As set out in paragraph 2.3 of Part I (*Letter from the Chairman*), to the extent practicable, Serco intends to mitigate through both operational improvement and commercial negotiation to reduce the currently anticipated level of losses on contracts in respect of which Onerous Contract Provisions have been made.

Executing on these four priorities will deliver a business that is more focused, has greater capability and the ability to leverage expertise across Serco's geographies and sectors, and produces better returns.

(b) Medium to long term (2018-2020): drive growth and seek expansion

Having built a strong, competitive and winning foundation, in the medium term the Company will aim to drive growth and returns towards industry levels. Serco will seek to harvest the benefits from the near-term investments and portfolio simplification; increase its investment in business development as the business returns to growth; and underpin its people-based knowledge management with investments in underlying infrastructure and systems.

In the longer term, after substantial improvements have been seen in the business, the Company will seek to grow and expand into adjacent public sector markets and geographies. The Company will aim to invest or acquire to solidify its leadership position in its core markets; standardise best-in-class operating models and be recognised for them; and selectively expand into new geographies and adjacent markets where there is a compelling business case to do so. Throughout this period, the portfolio will be kept under continuous review.

4. SECTOR STRATEGIES AND COMPETITIVE ENVIRONMENT

Serco's strategy is to focus on its core competency of providing services to governments and other public service providers around the world. As a leading B2G service provider, Serco intends to focus on developing the strong portfolio of service offerings it has built in Justice & Immigration, Defence, Transport, Citizen Services and Healthcare. It will focus on the provision of these services across the UK & Europe, Americas, the Middle East and Australia & New Zealand, being markets where the provision of such public services is routinely subject to competition.

For the 2014 Financial Year, the Group's adjusted revenue (including joint ventures) for each of the core sectors was as follows:

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

Note: The adjusted revenue numbers above are provided for the purpose of this document only. They have been computed from the accounting records of the Group and revenue information provided by its joint ventures and do not represent the manner in which the Group currently manages its business. Therefore, these adjusted revenue amounts have not been audited. The adjusted revenue numbers include Serco's share of joint ventures revenue. Of the total of £4,753 million adjusted revenue (including joint ventures) shown above, £3,955 million is the revenue as defined under IFRS (i.e. excluding joint ventures) and shown in the Group's 2014 Financial Statements, and the remaining £798 million reflects Serco's share of joint venture revenues.

4.1 Justice & Immigration

The Directors estimate that, in the long term, the Justice & Immigration market across the UK, Europe, Middle East, Asia Pacific and North America is likely to grow at 2 to 5 per cent. per annum, with margins in the range of 5 to 7 per cent.

In this sector, Serco provides custodial services; immigration detention and services; and detainee transporting and monitoring.

The Justice & Immigration sectors support governments in providing logistics and rehabilitation support to prisoners as well as the management of asylum seekers and illegal immigrants. Justice remains a significant market opportunity in the medium to long term across the developed markets of UK, Australia and New Zealand. In these countries, it is believed that a significant majority of the prison population is still managed by the state. Globally, there is an increased demand for prison places driving new prison build and a shift to rehabilitation rather than secure accommodation. The global prison population has increased by approximately 25 to 30 per cent. over the 15 years to 2013² as a result of a gradual shifting of political policies towards longer sentences and more crimes being subject to custodial penalties. At the same time, the existing prison estate in the developed world has insufficient capacity to cope and in some economies is suffering from ageing infrastructure and inflexible operational practices. Old prisons are significantly more expensive to run, and tend to have worse outcomes than new-build facilities.

In Immigration, the growth in wealth and security in developed countries alongside continued turmoil in some countries has driven an increase in the flow of migration from approximately 33 million in the period 1995-2000 to just under 40 million in the period 2005-2010³ with Europe and North America seeing the highest levels of immigration. At the same time, most developed economies are under pressure to increase the quality of life of asylum seekers, whilst they are awaiting the outcome of their applications, which leads to both increasing costs and changes in the nature of the processes and regimes. As a result, existing detention capacity is often seen as inappropriate and regimes overly focused on security as opposed to preparation for community re-integration.

Managing Justice & Immigration services is demanding; it requires high level of assurance to maintain security and care around people in difficult circumstances and an increasing focus on rehabilitation and innovation in operational and commercial models. Few companies are able to do this, but they include: Serco, G4S, GEO, Corrections Corporation of America, Sodexo and Mitie.

Serco has a proposition for the rehabilitation of offenders in new build prisons, and has also helped improve the performance of public sector prisons through integrated contracts. Furthermore, Serco is an established player in the provision of immigration detention and related services. Serco's proposition, developed in its Australian immigration estate, is based on a detainee-centric model, recognising that detainees are not criminals. As such, the environment and associated programmes focus on reducing assaults, improving mental health, preparing for community integration and supporting the family.

In this market, Serco has many years of experience of managing the long-term operator contracts associated with PFI financing, has relationships with designers and constructors, and has expertise in rehabilitation interventions and regimes. Serco has experience of transferring a public prison to the private sector, improving operational service delivery as a result. Serco is also one of few players with experience of working under a payment by results mechanism, and doing so successfully. Serco's existing global prison estate is significant in its diversity. Serco has in this sector an opportunity to explore, capture and share operational best practice with the objective of driving down the cost of its solution, protecting itself against future rebids and strengthening its competitive proposition for future growth. Serco also has expertise and experience in related services such as escorting, electronic monitoring and prison healthcare.

Serco has particular capabilities in three services lines:

- Custodial services: the operation of prisons and rehabilitation programmes. Example contracts include the operation of Thameside, Dovegate, Lowdham Grange and Doncaster prisons in the UK; Acacia prison in Australia; and Mount Eden Correctional Facility and South Auckland prison in New Zealand.
- Immigration detention and services: the management of detention centres and support services for immigrants and asylum seekers. Example contracts include COMPASS asylum seeker accommodation in the UK and immigration detention centre management for the Department of Immigration and Border Protection in Australia.
- Detainee transport and monitoring: the tagging, monitoring and escorting of prisoners, immigrants and asylum seekers.

² Source: World Prison Population List 2013, International Centre for Prison Studies.

³ Source: Wittgenstein Centre, Global Migration Data Sheet 2005-10.

Serco's strategy in this sector is to retain its market position and expand penetration in the UK, Australia and New Zealand, where the vast majority of prisoners remain in state hands, whilst also seeking new markets for its services. Serco will monitor and explore opportunities to leverage the expertise of the Group into new geographies, such as the United States, and explore opportunities in adjacent markets such as case management, visa processing and community integration. Serco will also seek to improve underperforming contracts in the UK.

4.2 Defence

The Directors estimate that, in the long term, the Defence market across the UK, Europe, Middle East, Asia Pacific and North America is likely to grow at 4 to 6 per cent. per annum, with margins in the range of 5 to 7 per cent.

In this sector, Serco provides a wide range of support services to Defence customers in the UK, Australia, the US and the Middle East, including base and operational support, engineering and information services, and maritime services.

Serco's main Defence customers are in the UK, the US and Australia. Although overall defence spending in these countries has been declining in recent years, the need for economies and efficiency is driving further outsourcing of non-combat functions. Serco expects its role as a trusted partner to continue, helping its customers deliver cost savings in many areas in support of frontline combat.

In the UK, the MoD spending has declined from approximately £41 billion in 2010 to approximately £34 billion in 2014. In recognition of this pressure, the MoD has competed "Enabling Services" such as the Defence Infrastructure Organisation and Defence Business Services and is seeking to deploy the "Whole Force Approach" to deliver military and security capability with lower costs. As a result, growth in outsourced spending is expected as enterprises are transformed in their entirety, as cost pressures drive more integrated support to operations, and as private sector expertise is sought to support engineering and training.

The Defence market is large and mature with a large number of competitors ranging from the very large such as BAE Systems, Babcock, Lockheed Martin, Northrop Grumman through sector specialists such as QinetiQ to a multitude of small and medium size, and veteran owned businesses.

Serco has a long track record in the sector with a number of significant defence contracts as well as experience of operating in a high security environment, and offers a platform and technology agnostic services. Serco's large and experienced technician workforce have experience of working in sectors subject to high levels of regulatory compliance requirement and a deep knowledge of the customer mission.

Serco delivers four key service lines:

- Integrated support to operations: Serco has experience in assured service delivery, regulatory compliance, and ability to integrate and deliver a diverse range of technical site services.
- Engineering: Serco is a platform agnostic service delivery partner with experience in delivery and regulatory compliance.
- Intelligence, surveillance, target acquisition, and reconnaissance ("ISTAR"): Serco has global "design, build and operate" capabilities and works across space, low earth orbit and airspace.
- "Whole Enterprise Transformation": Serco offers a range of commercial and operational solutions that will reduce cost and improve the efficiency and effectiveness of operations, such as those provided in the management of the Defence Business Services contract.

Serco's strategy in this sector is to build a pipeline of major opportunities in the UK and strengthen its position in the engineering sector in particular; grow in the US supported by the existing framework contracts the Company is already engaged in and target expansion in army welfare and naval systems. In the Middle East, the aim will be to build on early successes in training and base logistics support and bring the global capabilities from the UK and the US in particular to grow revenues. Serco's presence in Australia and New Zealand in this sector is limited, and the market will be monitored closely for opportunities to also bring across global capabilities. Serco will also seek to improve underperforming contracts in the UK.

4.3 Transport

The Directors estimate that, in the long term, the Transport market across the UK, Europe, Middle East, Asia Pacific and North America is likely to grow at 6 to 8 per cent. per annum, with margins in the range of 3 to 5 per cent.

Serco operates rail systems in the UK and the Middle East, air traffic control services in the US and the Middle East, ferry services in the UK and provides road traffic management services in the US.

Across the Middle East, governments are investing heavily in upgrading urban infrastructure; up to £130 billion is reported by MENA Rail News to be invested in building urban rail infrastructure between 2013 and 2030⁴. Governments across the region are keen to provide a high quality urban transport experience and hence seek partners who can strike the best balance between cost and customer service. Furthermore, governments are keen to maximise local employment and choose partners with a track record of success in employing local communities.

Across the US, state transportation departments are making a concerted effort to regenerate city centres, driving significant infrastructure investment in urban mass transit systems and active traffic management, both of which are viewed as crucial support to economic regeneration. A pipeline of some 50 transit systems are currently under consideration.⁵ The Directors also believe that at state level there is likely to be significant investment in traffic management systems. In Australia, rail passenger industry revenue is expected to reach AU\$8.6 billion in 2014-15, representing an increase of 3.5 per cent. over the year.⁶

In the UK, funding support to rail franchises declined from £6.3 billion to £4.5 billion between 2006 and 2012. In addition, citizens are demanding higher levels of customer service, driving high levels of franchisee investments to support revenue and patronage growth through refurbishments and digitisation. As a consequence, despite some fare increases, the profitability of franchised passenger train operators is under significant pressure, and Serco is going to be selective in its approach to this market which is notable for its high bidding costs. However, the Directors are confident opportunities will appear over the coming years across both ferries and rail.

The Transport market is large and globally competitive, particularly in the management and operation of railways. Competitors across this sector are international and include First Group, Go Ahead, Keolis, Deutsche Bahn, MTR and Keolis.

Serco has a long history of providing service in the transport market. Serco is an established provider in the sector across the Middle East, having provided air traffic control services across the region since 1947, and more recently at Dubai (DXB and DWC), Sharjah, Bahrain and Baghdad, and having successfully mobilised the world-leading Dubai Metro. A recent example of success in this region is the contract Serco has won with the Saudi Railway Company to be its partner, providing management and technical support for operations on the North South Railway. Serco also has a strong heritage in the UK, having operated the Docklands Light Rail successfully for 17 years, including during the London Olympics in 2012; Northern Rail since 2004, and Merseyrail since 2003. In 2014, Serco was selected to run the Caledonian Sleeper service under a 15-year franchise. In the US, Serco provides Intelligent Transportation Systems with experience in fully integrated State-based traffic management from its experience in Virginia and has developed proprietary traffic and road visualisation and management systems. Serco believes its competitive advantage stems from its ability to integrate at pace across international OEMs to construct the most effective operation, its ability to mobilise and work with local employees and drive significant productivity improvement, and its strong brand and track record in the public transport sector.

Serco is well positioned within three key service lines:

- Rail and ferries: the provision of full service management of light and heavy rail systems and ferry operations. Example contracts include Northern Rail, Mersey Rail, Caledonian Sleepers and Northern Isles Ferries in the UK; and the Dubai Metro in the Middle East.
- Road traffic management: the delivery of traffic and transport management services. Example contracts include for the Virginia Department of Transport and the Georgia Department of Transport in the US; and the management of road tunnels in Hong Kong.

⁴ Source: MENA Rail News September 2013, Rail Development in Middle East.

⁵ US Department of Transport, Federal Transit Administration, Capital Investment Program Project Profiles: FY 2015-03-10.

⁶ Ibisworld Rail Passenger Transport in Australia: Market Research Report, October 2014.

- Air traffic control: the full service delivery of aircraft navigation services. Example contracts include Dubai aviation and Baghdad aviation in the Middle East; and a series of towers for the Federal Aviation Authority in the US.

Serco's strategy in this sector is to maintain a strong operational and market position in the UK through continuously improving operational performance and development of best practice; consolidate a strong regional position in the Middle East in air traffic control and rail opportunities; build and grow from the first mover position held in the US in intelligent traffic system management; and identify and win an entry project in Australia and New Zealand based on global expertise and experience.

4.4 Citizen Services

The Directors estimate that, in the long term, the Citizen Services market across the UK, Europe, Middle East, Asia Pacific and North America is likely to grow at 5 to 7 per cent. per annum, with margins in the range of 6 to 8 per cent.

Serco provides public sector citizen contact services, middle and back office services and employment and skills services in the UK, US, Australia and New Zealand and the Middle East.

The US Citizen Services market is driven by an ageing population requiring increased benefits, the consequent applications and enrolments (such as pension and disability benefits) and healthcare reforms. Hence, while near-term growth in the US is largely driven by the need to use technology and scale to lower processing costs of healthcare-related transactions, future growth is expected to come from demand for automated systems, document processing, case management, eligibility and enrolment and data management.

The UK Central Government Citizen Services market has similar drivers, although requiring different propositions, such as the digital transformation of interaction with citizens, automation of the middle office and the outsourcing of complex case management under payment by results style commercial models. In the UK, the rising cost of social care and demographic change, a drive for multi-agency integration (e.g. health, justice and education) around citizen needs, a rising legislative burden and the devolution of responsibilities and budgets are all driving the Government to consider transformational change to its operating models.

The competition is widespread, ranging from providers of services through to providers of IT software and hardware, including companies such as Capita, BT, CGI and IBM.

Serco provides services in the front and middle office areas of Citizen Services—acting as government agents in delivering policy outcomes and decisions. Within the front and middle office segments in the UK local government sector, Serco takes on more complex case management, often under more results-based commercial models, and by offering expertise in reducing care costs while improving citizen experience. Serco is able to reduce citizen care costs by increasing shifts to self-care, integrating agencies and by constructing and managing more efficient care pathways across the many channels through which citizens contact government bodies. Similarly in the front and middle office activities in the UK Central Government sector, Serco manages the citizen experience in complex and sensitive areas such as child and family benefits, where it focuses on improving care, process and information controls and productivity.

Competing in these segments plays to Serco's strengths in understanding the "customer journey" and using that understanding as a basis for process redesign. This approach integrates operational knowledge with channel shift and the deployment of self-serve and customer relationship management technology. Where the requirement is more manpower-based, Serco has expertise in large scale recruitment and mobilisation, or public to private transfers. Serco is building a lean, standardised, cost competitive and replicable delivery model and developing an evidence-based value proposition for each of its focus markets. Serco's operations in adjacent markets, such as property management and ICT, also enable it to bid for bundled or multi-service packages.

Serco is well positioned in three service lines:

- Citizen contact: front and middle office case management services for government programmes. Example contracts include Glasgow Access, Hertfordshire Council and the Child Maintenance Group in the UK; Centers for Medicare and Medicaid Services in the US and the Driver Examination Service in Canada.

- Middle and back office services: internal process management of records, data and employee services. Example contracts include service centre operations support services, patent application support for PG-PUBS and work with the Federal Retirement Thrift Investment Board in the US; Anglia Support Partnership and the Tax Office in Australia.
- Employment and skills services: providing better outcomes for jobseekers and apprentices. Example contracts include the Work Programme and National Citizen Services in the UK.

Serco's strategy in this sector is to build a position with local authorities, widen the offer around contact centres in particular, and build a strong complex case management and work programme offer in the UK; build on the success of existing contracts in the US to grow wider eligibility, case management and contact centre opportunities; and codify best practice from the US and the UK to seek opportunities to enter this sector in Australia, New Zealand and the Middle East.

4.5 Healthcare

The Directors estimate that, in the long term, the Healthcare market across the UK, Europe, Middle East, Asia Pacific and North America is likely to grow at 6 to 8 per cent. per annum, with margins in the range of 5 to 7 per cent.

Serco primarily provides non-clinical support services such as facilities management and patient administration to hospitals in the UK, Middle East and Australia.

Healthcare presents a significant market opportunity in the medium to long term across the developed markets of the US, the UK and Australia, and the developing markets of the Middle East. In the developed markets, the twin pressures of shrinking budgets and rising demands for quality of care are prompting a need for "whole system" reform leading to greater participation of private sector players. In the developing markets such as the Middle East, there is likely to be significant growth in hospital-enabling services driven by significant building of new hospitals to meet rising demand for healthcare in the region.

Healthcare systems across the developed world are under pressure from rising demands, increasing affluence and longer lifespans, severe budgetary constraints and increasing regulatory pressures to maintain or improve quality of care. This is prompting an urgent need for system-wide reform to reduce the cost of delivery while maintaining or improving quality of care. For example, the National Health Service in the UK is expected to face a funding gap of up to £30 billion by 2021/22, with 80 per cent. of acute trusts already in deficit in 2014-15 according to the UK National Audit Office. At the same time, the Care Quality Commission is also demanding acute hospitals improve their patient experience and outcomes. Similarly, in the US, Medicare expenditures of \$583 billion in 2013 are projected to increase in future years at a faster pace than either aggregate workers' earnings or the economy overall, whilst at the same time administrative costs accounted for over 25 per cent. of total US hospital expenditures—a percentage that is increasing and is significantly higher than that seen in England.

The Directors believe that consumers and employers are also increasingly focusing on quality of care when choosing their providers and that healthcare reform will also drive demand for higher levels of customer service, requiring in turn the support of eligibility and enrolment programs and more efficient electronic case management.

As a response, healthcare providers in the developed markets are seeking to reduce their cost base and increase productivity and asset utilisation. In doing so, they are beginning to seek private sector partners who can provide services using their economies of skill and scale. In the UK, spending by hospitals on estates management totalled £7.3 billion in 2013/14, of which £2.2 billion was outsourced.

In the Middle East, regional private players have begun expanding their presence. In addition, there is an increasing trend, particularly in Saudi Arabia, of partnering with international private players to improve the quality of healthcare in the region. Serco has been providing services to Arzanah (Healthpoint) and Cleveland Clinic in Abu Dhabi and Sulaiman Al-Habib joint venture in Saudi Arabia.

Competition in this sector outside of clinical support and management of private hospitals tends to be an extension of a larger facilities management or construction capability. In this regard, competitors include Sodexo, Carillion and ISS.

Serco provides non-clinical support services for new build hospitals based on its experience working with hospitals such as Forth Valley in the UK and Fiona Stanley in Australia, where it designs efficient patient flows, infection control innovations, effective management information and integration of the complex

supply chain of non-clinical providers. Similarly for existing hospitals, Serco provides sector specialised non-clinical support such as facilities management and patient administration. The Company intends to focus on non-clinical healthcare, but will also assess opportunities in the clinical sector as opportunities arise.

Serco is positioned in three service lines:

- Non-clinical support services: full service offering covering all non-clinical aspects of support to acute hospitals. Example contracts include Norfolk and Norwich, Forth Valley and East Kent hospitals in the UK; and Fiona Stanley hospital in Australia.
- Clinical Support: clinical solutions in community health and pathology. Example contracts include Suffolk Community healthcare and Guys and St. Thomas' pathology joint venture in the UK.
- Patient contact and administration: the management of patient journey and experience alongside BPO in a healthcare environment. No contracts are currently held for just this service, although elements are found within many of the hospital contracts identified above.

Serco's strategy in this sector is to focus on building a pipeline of non-clinical services opportunities in the UK, developing and improving best practice in this sector; generate a new business pipeline in Australia based on the work undertaken at the Fiona Stanley Hospital; target new hospital builds across the Middle East based on best practice from the UK and Australia; and explore market entry opportunities for non-clinical support and patient contact and administration in the US. Serco will also seek to improve underperforming contracts and exit the poor performing clinical segment in the UK.

5. SOURCES OF COMPETITIVE ADVANTAGE

Serco's new strategy can be expressed in simple terms as follows: Serco's ambition is to be a superb provider of public services, and it aims to achieve this by striving to become the best-managed business in its sector.

Serco intends to become the best-managed business in its sector by concentrating on developing four key attributes: being experts within the five sectors in which Serco specialises; using its wide geographic reach and sector diversity to give itself a portfolio of growth opportunities; developing effective risk management; and building capability within its business to deliver operational excellence.

5.1 Sector specialism

First and foremost, Serco has specialist capability within each of the sectors in which it intends to focus, as described above. In all of Serco's core sectors the Directors believe that Serco has, or has the potential to develop, sources of competitive advantage and Serco intends to continue to build its knowledge to develop and retain such sources of competitive advantage.

5.2 Geographic and sector diversity

Serco provides a discrete set of services across multiple geographies. Typically, competitors focus on offering one service in more than one country or offering several services in a single country. The Directors believe that Serco has the potential to offer all of its services across the UK, the US, Australia, New Zealand and the Middle East, which are markets in which governments are comfortable with the idea of engaging private companies in the provision of public services. This gives Serco scale economies in country or region, and enables well-developed relationships with, and deep understanding of, government procurement; as well as the ability to pass lessons learned quickly from the challenges one country faces to another.

Similarly, Serco's multi-sector approach means that it can transfer skills learned in one sector to other sectors where similar skills are needed. Core, cross-sector skills such as large-scale staff mobilisation or transfer from the public sector; complex case management; hands on social care; and face to face citizen service, can be developed, improved and fed into new solutions for new customers. Part of Serco's strategic plan involves formalising its international approach to markets by developing centres of excellence which will allow the Company to improve its capability in key markets.

5.3 Risk management

The new strategy drives Serco to focus its current and future business in those core areas where it has experience, track record and demonstrated competence and expertise. Such focus will enable Serco to manage the risks associated with its operations in a more controlled manner. Firstly, Serco will have an evidence base of similar operations which will help to assess core risks (for example, typical cleaning costs per square foot or relative success of rehabilitation programmes). Such knowledge would reflect both inputs (such as labour rates and inflation, materials costs etc.) as well as outputs (Serco would only accept such risks where it has a deep and informed view of the risk and an established ability to manage the risk, such as offender rehabilitation of welfare to work). Areas that have caused the Group issues in the past have been identified and plans are in place to minimise risk through a focus on core markets (where expertise and experience is greatest) as well as through the strengthening of risk management processes and governance. Secondly, as Serco builds its expertise and international experiences, it will also understand and be able to influence contracting models to help its customers place risk where it can be most effectively managed and priced. Finally, where operational issues do arise, Serco will have a greater depth of focused expertise to be able to understand and resolve such issues.

Serco's Risk Management Policy and the organisation's risk management capability delivers across three principal areas:

- (a) definition of risk management standards and capability (roles, processes, tools and skills);
- (b) managing and reporting of risk; and
- (c) assurance obtained from risk management activities.

Serco adopts a Risk Operating Model ("ROM") to deliver these service needs, comprising:

- (a) Risk Policy and Standard: corporate commitment and minimum requirements;
- (b) Risk Organisation Structure: roles and responsibilities;
- (c) Risk Management Lifecycle: mandated processes, controls, tools, guidance and skills/training; and
- (d) Risk Assurance Process: assessing compliance and assuring effective process application.

The ROM will be maintained so as to be appropriate and proportionate to the nature of the organisation's risks and will be regularly reviewed (at least annually) to ensure the risks facing the Group continue to be effectively identified, managed and mitigated.

Furthermore, Serco has taken action to better manage the risks of taking on new business, including:

- weekly divisional bid reviews now carried out by divisional executive management rather than committees;
- the threshold for bids to be referred to the investment committee has been lowered, criteria broadened and the earlier involvement of the investment committee enforced; and
- a new Group General Counsel was appointed, who is also a member of the investment committee.

5.4 Operational excellence

All of Serco's markets are competitive and many of its customers are under severe cost pressure. As a result, it is incumbent on Serco to manage and deliver world class services at an affordable cost. This requires a service focused on providing consistently great service everywhere and an uncompromising approach to cost and risk management. In addition, Serco's portfolio of contracts contains a small number of large profitable contracts that need to be protected and expanded if possible; a large number of contracts making small profits where the need is to reduce the overhead burden and improve contract profitability; and a small number of significantly loss-making contracts where losses need to be mitigated and Serco needs to avoid entering into similar new contracts.

The Corporate Renewal Programme and the early stage of strategy implementation have focused on improving Serco's systems, processes and management information and reducing the cost base, making better use of scale economies.

Serco has substantially rewritten its system of management control, in particular as it relates to bid development and approval and contract management; developed an approach to management information and review that focuses equally on operational as well as financial performance; and materially

strengthened its processes of management assurance, risk assessment, and internal audit, as well as its Board. Specifically, monthly reviews are now undertaken at divisional and executive levels reviewing balanced business metrics to assess underlying performance, including:

- business development and pipeline;
- people metrics—turnover and engagement;
- performance to customer contractual commitments; and
- identification and mitigation of operational issues.

With regards to reducing costs and making better use of scale, Serco has:

- reduced its spans of management control, establishing two UK divisions—one for UK Central Government and one for UK & Europe Local & Regional Government—where there was one before;
- brought operational management closer to the executive direction of the business, such as, for example, by having the management of the Asia Pacific and Middle East regions report directly to the Chief Executive Officer;
- appointed a Chief Transformation Officer from an external firm to lead the implementation of changes to the operating model;
- rationalised business units within divisions and removed layers;
- rationalised the Company’s property portfolio;
- begun the process of centralisation and rationalisation of divisional support;
- increased controls over contractors, consultants and new hires; and
- implemented reductions in discretionary spend.

In addition, Serco intends to invest in building deep capability within the business. To achieve this, Serco has:

- made seven new appointments to the Executive Committee including (among others) divisional CEOs for the UK Central Government division and UK & Europe Local & Regional Government division and the Group General Counsel, and has appointed a new Chief Transformation Officer to oversee the implementation of the cost saving programme;
- made five new appointments to the Board, including the Group Chief Executive, Group Chief Financial Officer and three Non-Executive Directors; and
- undertaken extensive training including in relation to contract management, business development and bidding, ethical leadership and the Serco management system.

Furthermore, the strategy implementation will aim to make further improvements in Serco’s systems, structures and processes to identify and share best practice and sector knowledge; deliver further contract level training focused on continuous improvement techniques; undertake the development of a “Leadership Academy”; rebuild the leadership recruitment pipeline; and redesign the reward strategy for leaders.

6. HISTORY AND DEVELOPMENT

Serco’s origin dates back to 1929, when the Radio Corporation of America established a UK subsidiary providing technical services to cinemas. In the years leading up to 1987, the UK subsidiary diversified its services to cover facilities management, systems engineering and support services. Following a management buy-out in 1987, the Company was subsequently listed on the London Stock Exchange as Serco Group plc. Throughout the eighties and nineties, Serco was at the forefront of the emerging outsourcing market in the UK, pioneering in areas such as large scale transfers of staff under Transfer of Undertakings (Protection of Employment) Regulations 2006 and in being the operations contractor as part of early PFI schemes. During this period Serco also expanded into other geographies, in particular Australia and the United States.

Between 2005 and 2011 Serco achieved further expansions through selected acquisitions, including expansion into the US through the acquisitions of RCI in 2005 and SI International in 2008; expansion into

the BPO sector through the acquisitions of ITNet, TLC and Vertex in the UK in 2005, 2011 and 2012 respectively, and Infovision and Intelenet in India in 2008 and 2011 respectively.

7. CUSTOMERS

The Serco Group predominantly provides services to central and local governments and departments and other public sector bodies, in the UK, the US, Australia and the Middle East. The Group's business model offers services primarily to such government customers primarily on medium to long-term contracts.

In the 2014 Financial Year, approximately 52 per cent. of the Serco Group's revenue came from contracts with UK Central Government and UK local governments; approximately 13 per cent. from the US Government; 14 per cent. from the Australian Government and 4 per cent. from governments in the Middle East.

Most of Serco's contracts with governments and public sector bodies are won as a result of a competitive public tender process. Contracts are typically awarded through a tender process based mainly on factors such as price, service quality, reliability, safety record, maintenance capabilities, experience and reputation.

8. REGULATORY ENVIRONMENT AND LICENCES

8.1 Regulatory environment

The Serco Group operates in a number of jurisdictions and business areas. The Serco Group's primary customers are central and local governments and departments and other public sector bodies that provide public services or operate in publicly regulated business environments. Regulations applying to the Group emanate from local, federal, national or international levels, and application of such regulations may be enforceable against the Group as a whole, the Group's divisions or business units or directly to the services being carried out under the Group's customer contracts. Compliance with applicable regulations is the responsibility of each division and Serco aims to comply with all applicable regulations. Each aspect of the regulatory environment in which the Serco Group operates is subject to change, which may be retrospective. There are currently no material breaches of applicable regulations.

8.2 Licences

The Serco Group has a wide range of licences, permissions and other consents granted by various regulatory and other public bodies in connection with its business. Certain of the licences, permissions and other consents held by members of the Serco Group require periodic renewal and, while there are no current issues with such renewals, it is not possible to predict whether the Serco Group will be able to renew such licences, permissions or other consents or whether material changes in conditions for such renewal will be imposed. There are currently no material breaches of applicable licences, permissions and other consents.

9. LITIGATION AND INVESTIGATIONS

9.1 Electronic Monitoring Contract and PECS Contract

In November 2013, the UK's Serious Fraud Office announced that it had opened an investigation, which remains ongoing, into the Group's Electronic Monitoring Contract entered into between Serco Limited and the Ministry of Justice through which Serco Limited provided electronic monitoring services to persons subject to bail or other court orders. The Group is cooperating fully with the Serious Fraud Office's investigation which is still in the early stages and it is not possible to predict the outcome, however, in the event that the Serious Fraud Office decides to prosecute, the range of possible adverse outcomes is any one or a combination of the following: (i) that the Serious Fraud Office prosecutes the individuals involved; (ii) that the Serious Fraud Office prosecutes the Serco Group entities involved; or (iii) that the Serious Fraud Office and the relevant Serco Group entities enter into a deferred prosecution agreement (the consequences of which are described further below).

If the Serious Fraud Office decides to prosecute the individuals involved then it is possible that contracting authorities take the view that the Serco Group should be subject to discretionary debarment from future contracts with UK Government entities.

If the Serious Fraud Office decides to prosecute the Serco Group entities involved, potential outcomes are that (a) the Serco Group entities involved defend the action successfully, or (b) the Serco Group entities involved are convicted, resulting in financial penalties and mandatory debarment from pre-qualifying for

future contracts with UK Government entities. Under the “self-cleaning” provisions of the Public Contract Regulations 2015, any such Serco entity could provide evidence to the relevant contracting authority to demonstrate its reliability as public contractor with the UK Government despite the conviction. If such contracting authority considers such evidence to be sufficient, such Serco entity would not be excluded from a contract bid or rebid.

If any Serco Group entity enters into a deferred prosecution agreement with the Serious Fraud Office, potential outcomes could include significant financial penalties and discretionary debarment from pre-qualifying for future contracts with UK Government entities. Such debarment would be at the discretion of a contracting authority to which the relevant Serco Group entity submits a pre-qualification questionnaire for any given bid or rebid.

Any discretionary debarment could be removed if the Group was able, under the “self-cleaning” provisions of the Public Contract Regulations 2015, to provide sufficient evidence to a contracting authority to demonstrate its reliability as a public contractor with the UK Government.

Such “self-cleaning” provisions would require that the Group demonstrate to a contracting authority that it has (i) paid compensation in respect of any damage caused by the conviction or misconduct, (ii) clarified the facts and circumstances in a comprehensive manner by actively collaborating with the relevant investigating authorities and (iii) taken concrete technical, organisational and personnel measures that are appropriate to prevent further criminal offences or misconduct.

It is possible that further actions beyond those being implemented under the Corporate Renewal Programme may need to be taken by the Group to remove any mandatory or discretionary debarment, or that such debarment will not be removed for a significant period of time.

In August 2013, the Ministry of Justice and the Group made announcements regarding the joint request to the City of London Police to investigate allegations related to the misleading recording of key performance indicators under the PECS Contract operated by Serco Limited. Having investigated, on 19 December 2014, the City of London Police announced that it had concluded that there was no evidence of corporate-wide conspiracy or an intention to falsify figures to meet the key performance indicators by senior Serco management or at the board level of Serco Limited in relation to the PECS Contract. The City of London Police were also satisfied there was no evidence to support the request of a charging decision from the Crown Prosecution Service in relation to Serco or its staff in relation to the PECS Contract, a decision that has been accepted by the Crown Prosecution Service on the basis of the force’s preliminary investigative findings.

Following the launch of the EM/PECS Investigations, the Serco Group agreed with the UK Government that it would institute the Corporate Renewal Programme, and in December 2013, reached a settlement with the Ministry of Justice comprising a payment by Serco of £64.3 million in respect of issues arising on the Serco Group’s Electronic Monitoring Contract, with the following provisos, namely, that (i) the UK Government may seek additional payments if it identifies any new evidence or new heads of claim relating to Serco’s performance on the Electronic Monitoring Contract or that relate to anti-competitive behaviour or (ii) the UK Government may re-open the settlement agreement entirely upon a conviction of one or more of the Group’s current or former employees or entities with respect to the ongoing Serious Fraud Office investigation. The Serco Group also agreed to make a payment of £2 million in past profits received with respect of the PECS Contract and to forgo future profits on that contract.

A criminal conviction of a Serco entity or of one or more of the Group’s current or former employees as a result of the Serious Fraud Office investigation would allow the Ministry of Justice to re-open the settlement with respect to the Group’s Electronic Monitoring Contract described above. In such circumstances, the UK Government may seek additional payments from Serco.

Upon any such conviction or possibly following entry into a deferred prosecution agreement, the Group would be subject to enhanced scrutiny with respect to its other contracts with the UK Government, including potential designation as a “High Risk” supplier by the Cabinet Office, which could result in the UK Government reducing the additional work given to the Group under its existing UK Government contracts and requiring the Group to undertake certain further organisational actions to remove such designation. Following such conviction, the UK Government could potentially also terminate certain contracts it has with the Group.

9.2 Other litigations and investigations

Serco is party to certain other legal proceedings and investigations, most of which are routine and all of which are incidental to its business. Some matters involve claims for damages as well as other relief. Other than the proceedings set out below (including the ongoing investigations in relation to the Electronic Monitoring Contract summarised above), Serco believes that, if any or all of these legal proceedings or investigations are determined against it, they will not have a material adverse effect on its financial position or results of operations. However, the outcome of legal proceedings can be extremely difficult to predict with certainty. The main ongoing proceedings and investigations are set out below.

- Suit was filed in Fairfax County Circuit Court in May 2014 in which L3 Communications Corporation and L3 Applied Technologies, Inc. (“**L3**”) allege that departed employees established a competitive entity and misappropriated L3’s proprietary information to perform work as a subcontractor to Serco on a US Air Force program. Serco is alleged to have been complicit in this and L3 claims over US\$50 million in damages from Serco (with the possibility of this being trebled to US\$150 million in certain circumstances).
- In May 2014, the US Department of Labor opened an investigation into Serco’s Army Career and Alumni Program contract with the US Army in Hawaii. The Department of Labor alleges that Serco has misclassified certain employees as exempt from the Fair Labor Standards Act and Service Contract Act. Possible consequences are damages in the form of back pay and benefits to an amount currently estimated at approximately US\$4.3 million. Additional potential consequences of an adverse finding as a result of the investigation could include debarment from future contracts with the US Government. Serco is cooperating fully with the investigation. The Group believes that the risk of debarment is very remote.
- Suit was filed in the US District Court for the Southern District of California in December 2012 concerning alleged false claims made by Serco for payment from the US Government pursuant to a contract for project management services provided by Serco Americas to the US Government. The suit was brought by relator party Darryn Kelly in the name of the US Government, with the US Government declining to intervene. The claimant submitted a settlement demand of \$20 million, which Serco refused. The court granted Serco’s motion for summary judgment in October 2014 and the claimant filed a notice of appeal in November 2014. The matter is pending on appeal.
- RCR Resolve FM Pty Ltd (“**Resolve**”) provided facilities management services to Serco Immigration Services at a number of Australian detention facilities between 2010 and 2014. When the contract ended in February 2014, a contractual dispute arose over outstanding payments. In August 2014, Resolve instituted proceedings in the New South Wales Supreme Court, claiming AU\$1,404,452.21 for disputed invoices and AU\$6,308,669.95 for payments owed as a result of an alleged increase in the number of detention facility assets that they are being required to maintain beyond the contractually agreed amount. A hearing is scheduled for September 2015.
- Arbitration proceedings are currently underway between Sparsh BPO Services Limited, a subsidiary of Serco (“**Sparsh**”), and Bharat Sanchar Nigam Limited (“**BSNL**”) regarding the operation of various call centres in India and repeated non-payment by BSNL for services rendered by Sparsh pursuant to the service contract between the parties. In November 2013, Sparsh filed an arbitration claim for monies owed in an amount of INR 298,387,789. BSNL has filed a counterclaim for INR 3,877,588,388.
- Proceedings are currently underway in the High Court of England & Wales arising from a claim brought in November 2014 by Proxima, an outsourcing specialist, against Serco under an agreement for the provision of procurement services signed in December 2012 which was terminated in March 2014. Proxima’s claims for payment amount to approximately £2.7 million, plus damages, interest and costs. Serco has filed its defence and counterclaims in amounts to be quantified. A trial date has not yet been set.
- In November 2014, Serco received a summons from the Marine & Coastguard Agency regarding certain alleged offences under the Merchant Shipping Act 1995 and the Merchant Shipping and Fishing Vessels (Health and Safety at Work) Regulations 1997 regarding Serco’s alleged operation of one of its ships, operating as part of the Woolwich Free Ferry, a passenger ferry service, in an unsafe manner and its alleged failure to ensure the health and safety of its workers on board that same vessel. The incident resulted in the death of one of its employees. While the occurrence of such accidents is unpredictable and the Serco Group has policies in place to minimise such risks, this occurrence may

nonetheless subject the Group to reputational harm and, depending on the outcome of the proceedings, if the Group is found culpable, potential fines and costs estimated to be between £375,000 to £1.6 million.

- Serco is awaiting a ruling by the India High Court on a taxation matter relating to the Group's Intelenet acquisition in India in 2011, and specifically with respect to the Group's decision not to withhold tax from payments made to the sellers of Intelenet. Serco is asking the Indian High Court either to decide the matter itself or to remit it to the Indian Authority for Advance Rulings. This claim was heard in November 2014 and the High Court reserved judgment. Should the matter be decided against Serco, it would be liable for withholding tax of £27 million together with accrued interest to 31 December 2014 of £11 million. A possible penalty could be levied in an amount equal to the outstanding withholding tax.

10. PROPERTY, PLANT AND EQUIPMENT

Serco's headquarters are located in Hook in the UK. The divisional offices for UK Central Government division, UK & Europe Local & Regional Government division and Global Services division are also located in Hook. The head office for the Americas division is based in Reston, Virginia, in the United States; for the Asia Pacific division, in Sydney, Australia; and for the Middle East division in Dubai, United Arab Emirates. Other properties, plant and equipment are held at contract sites and local to customers for delivery of contracted services.

Most of Serco's offices are subject to short to medium term leases so as to maintain operational flexibility. The Serco Directors believe that the properties leased by Serco are adequate for its current needs and that suitable additional or replacement space would be available to the extent required.

As at 31 December 2014, the value of property, plant and equipment excluding assets classified as held for sale on Serco's consolidated balance sheet was £38.4 million, consisting of £2.6 million of freehold land and buildings, £11.5 million of short-leasehold building improvements and £24.3 million of machinery, motor vehicles, furniture and equipment.

11. HEALTH, SAFETY AND ENVIRONMENT

Serco delivers a wide range of services, some of which (such as services relating to prisoner escorting or custody or the operation of immigration centres) present relatively high health and safety risks and require effective health and safety management. Serco also operates in a number of regulated environments (such as aviation, health, nuclear, rail) which demand stringent safety requirements and are subject to approvals or monitoring by the relevant regulators.

Serco records, monitors and reports health and safety incidents through an online reporting system and reports health and safety performance to the Executive Committee and the Corporate Responsibility and Risk Committee of the Board on a quarterly basis. Training sessions on health and safety are conducted as part of induction and on a regular basis dependent upon the assessed health and safety risk. Serco operates a "speak up" process which enables safety concerns to be raised and investigated. Competent safety leaders undertake assurance of health and safety processes at a frequency appropriate to assessed risk and regulatory requirements.

Serco's safety performance in 2014 continues to show an improvement over previous years. The "Lost Time Incident" rate (the "LTI rate") for the Group in 2014 reduced by 9 per cent. compared to 2013. This reflects ongoing continuous improvements which have seen a 29 per cent. improvement in Serco's LTI rate over the last five years and a 58 per cent. improvement over the last 10 years.

Serco recognises its responsibility to reduce the amount of carbon produced and to promote the sustainable use of global resources. Serco is a participant in the UK Government's Carbon Reduction Commitment Energy Efficiency Scheme. In the latest Climate Disclosure Leadership Index FTSE 350 report, Serco achieved a score of 97 per cent. and achieved a rating of B in the Carbon Performance Leadership Index.

12. EMPLOYEES

In the 2014 Financial Year, the Serco Group employed an average of 119,304 staff worldwide. In the 2013 Financial Year and the 2012 Financial Year, the Serco Group employed an average of 120,500 and 114,176

staff worldwide, respectively. The staff figures above and in the table below are provided on a head-count basis and includes staff employed under Serco's proportionate share of joint ventures.

The following table sets out the average number of staff employed by the Serco Group by division in the 2012, 2013 and 2014 Financial Years.

Division	Financial Year		
	2012	2013	2014
Americas	8409	8977	9825
Asia Pacific	9833	10294	9954
Global Services	54409	58707	58791
Middle East	2914	2848	3029
UK Central Government	22775	23267	21044
UK & Europe Local & Regional Government	14536	15124	15106
Group Functions	146	163	395
Group Corporate Shared Services	1136	1073	1109
Historic unit: Serco AMEAA—Corporate	12	35	51
Historic unit: Serco AMEAA—India	6	12	—
Total	114,176	120,500	119,304

13. SIGNIFICANT SUBSIDIARIES AND ASSOCIATED UNDERTAKINGS

Serco is the parent company of the Serco Group.

The following is a list of the principal subsidiaries and associated undertakings of Serco (each of which is considered by Serco to be likely to have a significant effect on the assessment of the assets, liabilities, the financial position and/or the profits and losses of the Serco Group) as at the Latest Practicable Date.

The businesses listed below operate principally in the country in which they are incorporated.

Name of subsidiary undertaking	Country of origin/ incorporation	Percentage holding of shares and voting rights (%)	Nature of business
Serco Limited	United Kingdom	100	Activities of head offices; provider of professional, technology and management services
Serco Australia Pty Limited . .	Australia	100	Provider of professional, technology and management services
Serco BPO Private Limited . .	India	100	Business process outsourcing
Serco Inc.	USA	100	Provider of professional, technology and management services
AWE Management Limited . .	United Kingdom	33	Management and operation of the Atomic Weapons Establishment on behalf of the UK Government
Northern Rail Holdings Limited	United Kingdom	50	Holding company of the train operating company which provides local and regional rail services across the north of England

PART V
OPERATING AND FINANCIAL REVIEW OF THE SERCO GROUP

1. OVERVIEW

Serco is an international service company that predominantly delivers public services under long-term contracts with government customers. Serco operates through six divisions, five of which provide a wide range of primarily “frontline services” (delivered directly to members of the public) that are organised by customer geographic region (UK Central Government; UK & Europe Local & Regional Government; Americas; Asia Pacific; and the Middle East) and a sixth division (Serco Global Services) that provides private sector BPO services. Further explanation of the Serco business is included in Part IV (*Information on the Serco Group*) of this document.

2. RECENT DEVELOPMENTS

(a) Contract wins

On 23 February 2015, the Group announced that a Serco-led consortium had signed a five-year contract with the Saudi Railway Company (“SAR”), with an overall value to Serco of about £120 million over the five years. Serco is the prime contractor, with particular responsibility for technical support, interim management and training for passenger operations. In partnership with SAR, the consortium will provide management and technical support for operations on the 2,750 km North-South Railway. This links the capital, Riyadh, with Al-Haditha, a town close to the border with Jordan. Ultimately, the railway will connect to the regional network that is being developed with the bordering countries of Qatar, UAE and Oman.

(b) Revised terms for Existing Finance Agreements

On 12 March 2015, Serco entered into further agreements with its Lenders and Noteholders to amend and restate the Existing Finance Agreements on revised terms.

For more information, see paragraph 3.6 “*Funding strategy and changes in the Group’s indebtedness*” of this Part V (*Operating and Finance Review of the Serco Group*) and paragraphs 9.5, 9.6 and 9.7 of Part X (*Additional Information*) of this document.

3. SIGNIFICANT FACTORS AFFECTING RESULTS OF OPERATIONS AND FINANCIAL POSITION

3.1 Business model

Serco’s operating and financial results are driven by the underlying business model of the Group. This involves (i) identification of a pipeline of long-term contract opportunities that are anticipated to be procured by customers and determining which of those opportunities to pursue; (ii) bidding for and winning opportunities in this pipeline; (iii) committing to a long-term contract with the customer, including specified pricing, service levels and scope of delivery; (iv) delivering on these contracted commitments at the contracted price and managing Serco’s costs and performance under the contract; and (v) on contract expiry, either winning a rebid or managing a contract exit.

(a) Pipeline of opportunities

A key factor affecting the success of the Group’s business model is the size and nature of market opportunity that it is targeting, one measure of which is the total opportunity pipeline, which is defined as the estimated value of all future potential new, rebid and extension opportunities that are clearly defined and identifiable. The size of the Group’s pipeline of opportunities can be affected by a wide variety of external and internal factors relating to a specific sector and region or country. The Group’s spread of business across many geographies, including the UK, Australia, the Middle East and the US, lessens its reliance on a single customer, economy or group of economies. A favourable economic environment generally drives growth in the opportunity pipeline across all of the Group’s business. A challenging economic environment, including periods of recession or deflation, may have an adverse impact on the pipeline of opportunities, including prices, basis of payment and demand for Serco’s services, particularly if governments’ budgets, spending and procurement are negatively affected. In addition, following the Group’s Strategy Review in 2014, the Group intends to exit the private sector BPO market through the sale of Serco’s private sector operations and will seek to become a B2G provider focussing on fewer sectors and targeted geographical markets.

Over the last 12 months the Group has further developed its Serco management system and policies to enhance controls over the pipeline bidding process in an effort to ensure the opportunities pursued are in line with the Group's new strategy (the "**Serco Management System**"). Specifically, before inclusion in the pipeline, opportunities must pass an approval gate, which includes a requirement that the identified opportunity is in line with the Group's corporate strategy; discussions have been held with the customer in general and the customer has confirmed it is likely to procure; that the risk profile of the opportunity is within the Group's risk tolerances; and that expected financial returns are appropriate. Once it receives initial approval, an opportunity is captured in a contract opportunity database at an estimated total contract value. The database is reviewed centrally and estimated contract values are excluded or adjusted downwards for any data quality issues or uncertainty over whether the opportunity is appropriately valued. The total opportunity pipeline is then calculated as the aggregate estimated value of these opportunities.

The total opportunity pipeline is a measure of opportunities that could be bid, although as the opportunity matures and customer requirements become clearer, a decision may be taken not to pursue the opportunity further.

The value of the total opportunity pipeline was £27.5 billion as at 31 December 2013 (£29.4 billion as at 31 December 2012). However, at 31 December 2014, the total opportunity pipeline had reduced to £18.7 billion. This was primarily a result of several large bids that were lost in Australia during 2014 and therefore moved out of the pipeline, along with a downturn in UK opportunities for the Group. The UK pipeline was particularly affected by the impact on the Group of the EM/PECS Investigations.

To ensure that the total opportunity pipeline measure is consistent with the Group's revenue measure as reported in its 2014 Financial Statements, which exclude the impact of joint venture arrangements, the Group also excludes the impact of joint venture arrangements in calculating the total opportunity pipeline. As at 31 December 2014 Serco's proportional share of the pipeline values of joint venture arrangements was an additional £0.0 billion (£1.7 billion as at 31 December 2013; £1.2 billion as at 31 December 2012).

Serco also tracks a narrower near-term pipeline which measures new bid decisions in the two years immediately following the date at which the pipeline is calculated. This is defined as the aggregate estimated value of potential new contracts that are anticipated to be bid in the next two years, where annual revenue for each is estimated to be in excess of £10 million and where the estimated total contract value of each is capped at £1 billion. This near-term pipeline is a subset of the total opportunity pipeline.

As at 31 December 2013, the estimated value of the pipeline of new bid decisions was £12.2 billion. As at 31 December 2014 the pipeline had reduced to £5.3 billion. This was a result of (i) £1.1 billion of new opportunities that were won and therefore moved out of the pipeline, including operation of the Caledonian Sleeper train service in the UK and provision of contact centre services to JD Williams in the UK; (ii) £5.2 billion of new opportunities that were bid for and lost and therefore removed from the pipeline; (iii) £9.2 billion of opportunities that were not bid; and (iv) £6.4 billion of new opportunities added. Of the pipeline of 40 major opportunities at the start of 2014, 19 have been lost whilst 5 have been won. Together with other movements in the pipeline, there are now around 30 major opportunities on which the Group is focused.

In 2015, there are several new factors beyond the Group's control that could affect the number of opportunities open to Serco; including the forthcoming general election and potential change in Government in the UK, from the EM/PECS Investigations and, in the US, the outcome of the legal challenge to the US Affordable Care Act under review by the US Supreme Court.

(b) Win rates

Serco secures new business principally through four routes, namely (i) contract extensions, where the customer extends the term of the contract as permitted under the existing terms and conditions; (ii) winning rebids, where, as contract expiry approaches, the customer undertakes a competitive procurement for a service where Serco is the incumbent; (iii) winning new bids from the pipeline of opportunities in a competitive procurement process; and (iv) increasing the scope of existing contracts.

A significant factor affecting financial performance is therefore the success rate of new bids, rebids and extensions. As opportunities proceed along the Serco sales process, they must pass further internal approval procedures in accordance with the Serco Management System before a bid is submitted.

Opportunities recorded in the total opportunity pipeline (as defined in the section above) may not progress beyond this point because of, for example, changing customer requirements or a low win probability. For those opportunities that do progress to the bid stage, Serco calculates a win rate statistic, being the number

(and estimated value) of opportunities won divided by the number (and estimated value) of opportunities for which a bid has been submitted over the reporting period.

The table below summarises the win rates (by number and estimated value) of the Group over the last two years, excluding joint venture arrangements.

Financial Year	Win Rates by Number—New Bids	Win Rates by Number—Rebids/ Extensions	Win Rates by Value—New Bids	Win Rates by Value—Rebids/ Extensions
	Per cent.			
2014	47	91	12	64
2013	53	90	21	73

In 2014, Serco saw its win rates by value reduce to 12 per cent. for new bids (2013: 21 per cent). The reduction in win rate for new bids by value was driven by the loss of two very large bids, each with total contract revenues of over £1 billion. Bidding performance in the UK in 2014 was also impacted by the EM/PECS Investigations. Further background detail is provided in Part IV (*Information on the Serco Group*) of this document.

In 2014, Serco saw its win rates by value reduce to 64 per cent. for rebids and extensions (2013: 73 per cent). The reduction in win rate for rebids and extensions is primarily driven by the 2014 loss of the DLR rebid in the UK.

The Group’s win rates have historically been influenced by the following key factors, which the Group believes may continue to affect the Group’s win rates and, correspondingly, its financial performance, in the future: (i) the Group’s reputation amongst its new and existing customers for its capability and performance in the activities covered by the proposed contract, (ii) customer satisfaction with the Group’s delivery on its existing contracts, particularly for the Group’s large government customers in the UK and US with which the Group has multiple contracts; (iii) the Group’s ability to successfully partner with joint venture and other bidding partners or agents, particularly in the Middle East, where partnering with a local operator may be required or brings a competitive advantage, and increasingly in the US, where new procurement rules favour bids from small and medium-sized suppliers; (iv) the Group’s ability to competitively price bids while maintaining quality of service; and (v) the Group’s expertise within a particular sector, service area and geography.

(c) Delivering to agreed pricing and service requirements

Serco’s customer contracts contain specific pricing and service requirements which the Group is required to meet and by which the Group’s performance is measured on an ongoing basis. Customers often require such pricing and service requirements to be fixed at the bidding stage and remain in place for the duration of the contract term. The terms of such contracts often include key performance indicators and stipulations that may lead to financial penalties if they are not met. Consequently, a significant factor affecting the performance of the Group is the ability to correctly assess the risks and costs inherent in delivering a contracted service when bidding on a contract and agreeing contract terms. As most of the Group’s contracts are long-term contracts, the Group must make certain estimates and assumptions in bidding for such contracts. Such estimates and assumptions can prove to be inaccurate during the term of the contract, which, in turn, can affect the Group’s results of operations for the term of such contract. If the contract is mispriced, due to either the Group incorrectly assessing the risks involved or changes in political, economic or other circumstances that were not predictable at the bidding stage or were beyond the Group’s control, and costs exceed revenues, significant financial losses can be incurred. For example, this can include cases where the level of manpower required to deliver the required service standard is higher than anticipated or where the planned IT solution is not delivered within time or on budget. Annual losses can aggregate to substantial sums over the life of the long-term contract.

Furthermore, customers, particularly government customers, are increasingly seeking to pass on more risk to the service provider, which requires the Group to conduct increasingly careful forward looking analysis of terms, pricing and factors that may affect cost, which may be difficult to predict. For example, in the UK, the Group has been awarded contracts where payment is partly dependant on achieving a Government policy objective, such as in the welfare to work market, where the Group has entered into a contract supporting the long-term unemployed returning to work, and Serco’s revenues are partially dependent on the extent of continued employment success.

In recent years, there have been material loss-making contracts in the Serco portfolio where the costs of delivery have far exceeded revenues due to a variety of factors, including, amongst others, under estimating

costs in pricing the original bid and operational issues arising from providing the service, as a result of which Serco has established Onerous Contract Provisions. In late 2014, the Group undertook the Contract & Balance Sheet Reviews of the contractual portfolio and balance sheet position. On 12 March 2015 Serco announced that an Onerous Contract Provision of £447.1 million for future contract losses (including UK frontline clinical health exceptional provisions) had been recognised at 31 December 2014. Approximately 75 per cent. of the value of these Onerous Contract Provisions relates to five contracts. Further information is provided in paragraph 3.4 “*Impact of Contract & Balance Sheet Reviews*” of this Part V (*Operating and Financial Review of the Serco Group*) below.

A related factor affecting the Group’s financial performance results from the fact that the outsourcing of public services is often complex, both from an operational perspective, in terms of what services are to be provided and standards of service, as well as which risks are being passed on to service providers such as the Group, the pricing mechanism and subcontracting arrangements. As a result, the legal contracts, particularly with the Group’s government customers, can be lengthy and complex. This can lead to misunderstandings and differing interpretations, resulting in contract disputes.

(d) Long-term contracts with customers

Serco’s contract portfolio contains predominantly long-term service contracts. Contracts are typically between 3 and 5 years, and can range up to 30 years in length. This base of long-term contracted work is valued as the order book, which is defined as the estimated value of future revenue based on all existing signed contracts. It excludes contracts at the preferred bidder stage and excludes the award of new Indefinite Delivery, Indefinite Quantity (“**IDIQ**”) contracts and Multiple Award Contracts (“**MACs**”) where Serco is one of a number of companies able to bid for specific task orders issued under the IDIQ or MAC. The value of any task order is recognised within the order book when subsequently won. The order book is then calculated as an aggregate of an estimated revenue value for each separate signed contract. Joint venture arrangements are also now excluded to be consistent with the definition of revenue as now reported by Serco.

Many of the contracts in the order book have either a fixed pricing mechanism or a well understood set of pricing terms allowing future revenues to be relatively predictable. For contracts where pricing mechanisms are subject to many variables, revenue is typically earned according to the volume of services provided. This includes, for example, Serco’s Australian Immigration Services contract, which varies according to the number of people in the Group’s care, and project work secured on otherwise fixed price contracts. In such instances, the order book records an estimate of such volumes of activity, based on customer forecasts where available and Serco’s past experience. Given the Group’s broad range and variety of service contracts across various sectors and geographies, the Group must assess each contract individually and make certain assumptions and estimates to generate what the Group believes to be the estimated order book value of such contract, which may not reflect the actual revenues that will be earned. If the Group under-estimates the order book value of a contract this could result in financial performance on that contract being higher than expected, while the Group’s over-estimate of the order book value of a contract could result in the financial performance of such contract being lower than expected. In the aggregate, such over or under-estimates of the order book may cause the Group’s financial performance on contracts, and therefore its financial results, to significantly differ from the Group’s order book value. See Risk Factor 1.19.

In calculating the order book value at any given year end, the Group removes from the total value of the order book the revenue which has been recognised (in accordance with IFRS) in the Group’s income statement during the year.

The estimated value of new contracts signed is added in to the order book.

The order book is maintained in local currency and translated to pound sterling at the average of the market monthly exchange rates for the 12 months preceding the date of the order book valuation. For acquisitions, the value of the order book associated with the entity being acquired is added to the Group’s order book at the date of the acquisition, while for disposals, the value of the order book associated with the entity being disposed is removed from the Group’s order book at the date of the disposal.

The table below summarises movements in the financial value of the Group's order book over the 2014, 2013 and 2012 Financial Years.

<u>Financial Year</u>	<u>Revenue booked</u>	<u>New contracts signed</u>	<u>Order book value at year end</u>
		£ billion	
2014	4.0	3.1	12.6
2013	4.3	3.5	13.6
2012	4.1	4.0	14.9

This order book data excludes joint venture arrangements. Serco's proportional share of joint venture arrangements order book value as at 31 December 2014 was an additional £3.2 billion (£3.5 billion as at 31 December 2013; £4.2 billion as at 31 December 2012).

The total order book value represents work to be completed in the coming years; potentially up to 30 years in the future. The following table summarises the value of work for delivery in the next year, in terms of the level of revenue visibility that existed at 31 December 2014, 2013 and 2012. This is calculated separately at each year end by expressing the estimated value of the order book that relates to each subsequent year as a percentage of the Group's target revenue for each of these subsequent years, where target revenue is based on the Group's strategic plan for that year. This revenue visibility data excludes joint venture arrangements.

<u>As at</u>	<u>Per cent. of strategic plan targeted revenue in order book</u>
	1 Year ahead
31/12/2014	81
31/12/2013	79
31/12/2012	74

For example, at the end of 2013, 79 per cent. of 2014 target revenue was already contracted for and recorded in the Group's order book. The remaining 21 per cent. of revenue to be secured was dependent on expanding the scope of existing contracts, contract extensions, winning rebids and winning new work.

Within a typical year, recurring task orders, project work and expansion of scope on existing contracts can add to the order book, while customer cancellations, unexpected lower operated volumes and unanticipated contract changes can reduce order book values. Furthermore, contracts which are expiring may either be extended by the customer (under existing contract terms and conditions) or subject to rebid, which provides further opportunity for Serco to grow revenues beyond those contracted at the start of the year. Finally, new bid wins may also contribute in-year revenues.

There is the potential for changes to the largest contracts in the order book to materially affect Serco's results. The top 10 contracts by revenue in 2012 represented 31 per cent. of the Group's revenues for 2012 (calculated on a basis which includes joint ventures). In the subsequent two years to the end of 2014, Serco saw the following changes to these key contracts:

<u>Contract Name</u>	<u>Description</u>	<u>Reason for loss or reduction</u>
DIBP (Department of Immigration and Border Protection)	Providing onshore immigration detention services in Australia	Reduced volumes. Approximately 20 per cent. reduction in revenue between 2012 and 2014.
DLR	Light rail franchise	Contract expired December 2014. Lost rebid.
US Department of Defense	Systems engineering and technical assistance contracts.	Reduced volumes and lost rebids. Approximately 65 per cent. reduction in revenue between 2012 and 2014.
National Physical Laboratory	Management of National Physical Laboratory	Contract expired December 2014. Contract taken back by government on expiry.
C4I2TSR	Services for the US Air Force Space Command	IDIQ contract vehicle expired in 2014 and not being rebid. Approximately 47 per cent. reduction in revenue between 2012 and 2014.

By the end of 2014, the top 10 contracts from 2012 had seen a reduction of £183 million of annual revenues.

The top 10 contracts by revenue in 2014 represented 32 per cent. of the Group's revenues for 2014 (calculated on a basis which includes joint ventures). Within these top 10, the contracts for the operation of the DLR and National Physical Laboratory ended in 2014, while the Northern Rail contract expires in February 2016 and is the only contract out of this top 10 that expires within the next two years.

Whilst this is the current contractual position for these top 10 contracts, there is the potential for customers to request changes to contracting arrangements, subject to commercial negotiation over existing contract terms.

3.2 New strategy

An explanation of the new strategy developed as a consequence of the Group's Strategy Review is set out in Part I (*Letter from the Chairman*) of this document. The Directors believe that the future of the Serco Group lies in being a leading provider of public services, where its customers are governments or others operating in the public sector, and where Serco benefits from scale, expertise and diversification by operating internationally. In pursuit of this strategy, the Group intends to exit the BPO private sector through the sale of the majority of Serco's private-sector operations, and to focus on the public sector market as a leading public service provider. The Group intends to focus on five pillars in public service, Justice & Immigration; Defence; Transport; Citizen Services and Healthcare delivered across four geographies: North America, UK & Europe, Middle East and Australia/New Zealand.

Consequently, the Group has determined that a number of its businesses are not core to its future strategy, and may be more valuable to others than they are to Serco. As announced on 10 November 2014, the Group has developed a disposals programme, the proceeds of which will contribute to reducing net debt. The Group is looking to dispose of its Environmental and Leisure businesses in the UK, its Great Southern Rail business in Australia, and the majority of its private sector BPO business, being mainly the activities of Intelenet and The Listening Company. For more information on these businesses and their historical contribution to Group's Trading Profit, see paragraph 10 of Part I (*Letter from the Chairman*).

In becoming a focused public services provider operating in fewer countries, Serco will initially reduce in size, concentrate on improving operational performance, seek to reduce overheads consistent with its smaller size, and thereby seek to return to sustainable profitable growth. The Group will seek to mitigate loss-making contracts; use the Rights Issue and proceeds from disposals to strengthen the Group's capital structure and funding arrangements; seek to rebuild the Group's business development, accompanied by better management and oversight of risk; seek to benefit from the scale of the business through networks of expertise and improved use of shared services across the Group's divisions; and seek to improve the Group's underlying infrastructure, management information and capability through common practices and continuous improvement programmes.

Across the two financial years to 31 December 2016, the Directors expect that the Group's revenues will reduce as a result of attrition, disposals and the exit of loss-making contracts. The Directors estimate that, in the long term, the core sectors on which Serco will focus are likely to grow at an aggregate of 5 to 7 per cent. per annum, and that industry margins across Serco's mix of business are likely to be in the range of 5 to 6 per cent. If this turns out to be correct, and markets develop as expected, the Directors believe that after the initial years of restructuring and transformation, progress will be made towards bringing performance in line with the average of the Group's peers.

3.3 Electronic Monitoring Contract and PECS Contract settlement

The Group has entered into settlement arrangements with the UK Government with respect to the Electronic Monitoring Contract and PECS Contract. In December 2013, Serco agreed a settlement comprising a payment by Serco of £64.3 million in respect of issues arising on the Serco Group's Electronic Monitoring Contract, which may be re-opened upon a conviction by the Serious Fraud Office. The settlement with respect to the Electronic Monitoring Contract had the following provisos, namely, that (i) the UK Government may seek additional payments if it identifies any new evidence or new heads of claim relating to Serco's performance on the Electronic Monitoring Contract or that relate to anti-competitive behaviour or (ii) the UK Government may re-open the settlement agreement entirely upon a conviction of one or more of the Group's current or former employees or entities with respect to the ongoing Serious Fraud Office investigation. The Serco Group also agreed to make a payment of

£2 million in past profits received with respect of the PECS Contract and to forgo future profits on that contract. For more information regarding the Serious Fraud Office's investigation, see Risk Factor 1.2 and paragraph 9 of Part IV (*Information on the Serco Group*) of this document.

3.4 Impact of Contract & Balance Sheet Reviews

In 2014, Serco announced a review of major contracts and the balance sheet (the “**Contract & Balance Sheet Reviews**”), which was part of the Strategy Review. The Contract & Balance Sheet Reviews were based on management accounts at 30 September 2014 with a particular focus on the carrying value of assets and of contracts that were experiencing operational challenges.

The Contract & Balance Sheet Reviews were undertaken in the second half of 2014, assisted by the accountancy firm, Ernst & Young LLP, and involved Serco's divisional finance teams and contract managers.

The scope of the work extended to the Group's contracts and balance sheets throughout all of the Group's divisions. The contract reviews were based on a structured interview process with the relevant business and divisional teams assessing contractual features, operational and financial performance and outlook. The contracts were categorised as high, medium or low risk, based on the level of risk, uncertainty and judgement existing in each contract. High risk contracts underwent a full scope review including a full financial review of the contract, a review of the accounting model including challenging and stress testing the assumptions as well as a contract balance sheet review. Those contracts deemed to be medium risk were subject to a review of specific contract risks as well as a focus on the financial impact of the key contractual clauses and a review of the contract balance sheet. Where a contract was deemed low risk, no further work was undertaken. Full scope reviews were carried out on 19 contracts and specific scope reviews on 114 contracts. The balance sheet reviews assessed the recoverability of assets including goodwill, property, plant, and equipment, intangibles and receivables, as well as a review of potential unrecorded liabilities. These reviews also encompassed balance sheet items pertaining to financial instruments and tax. Charges to operating profit resulting from the Contract & Balance Sheet Reviews were the principal reason for the 31 December 2014 balance sheet showing net liabilities of £66.2 million compared to net assets of £1,095.9 million at 31 December 2013.

On 21 January 2015, Serco received a letter from the Conduct Committee of the Financial Reporting Council (the “**FRC**”), the committee of the UK's independent regulator responsible for the monitoring and enforcement of accounting and auditing standards. The letter raised a number of matters including the Group's assessment of the materiality of any prior period adjustments to be recorded in the Group's 2014 Financial Statements in respect of Onerous Contract Provisions, impairments or other losses arising out of the Contract & Balance Sheet Reviews. The Group has been in preliminary communication with the FRC regarding the matters raised and has sought to address the regulator's concerns in its 2014 Financial Statements.

As well as the Contract & Balance Sheet Reviews, the Group has also undertaken a number of commercial and legal reviews of key contracts as part of the Strategy Review. The findings of these reviews were considered as part of the Contract & Balance Sheet Reviews.

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

Charge to operating profit from the Onerous Contract Provisions, asset impairments and other provisions

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

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

The Company has recognised a prior year adjustment to reflect the restatement of financial instruments, giving rise to a net charge of £5.6 million against prior year reported profits, which included a net credit to the 2013 income statement of £3.0 million. These amounts had previously been taken directly to reserves, and as a consequence there was no adjustment required to restate the net assets or cash flows of the Group as at 31 December 2013 or prior years. The adjustment arose from the fact that the appropriate documentation required to support hedge accounting treatment was not fully in place for two hedges, which is more fully explained in note 4 to the Company’s Annual Report 2014. The Group concluded that all other charges are changes in estimates rather than errors. The events that occurred during 2014 and the detailed review led the Group to conclude that all other charges are changes in estimate in nature. See Risk Factor 1.1.

3.5 Onerous Contract Provisions and related impairments

Included in the charge to Trading Loss were £557.5 million of charges related to onerous contracts. The largest element of this charge was £433.4 million related to the recognition of future year projected cumulative trading losses on contracts up to the contractual end date, including attributable overheads and, where the impact of the time value of money was significant, discounting. Attributable overheads, such as IT and finance costs, are included in the provision and relate to the allocation of shared costs that

can be linked to the contract activity performed. The costs are allocated on the basis of the key cost drivers except where this is impracticable, where contract revenue is used as the basis. The balance of the charge to Trading Loss relating to onerous contracts was £124.1 million, and comprised impairment of contract balances which were predominantly non-cash in nature.

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

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

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

Armidale Class Patrol Boats (“ACPB”) contract

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

In 2009, Australia faced a rapid and unforeseen increase in illegal arrivals by sea. The Armidale Class patrol boats were heavily used for detection and interception, and transporting immigrants to places of

safety. Consequently, the patrol boats began to operate at a greatly increased operational tempo, and spent much more time in areas where sea conditions are hostile and extremely stressful on vessels. Neither the customer, nor Serco anticipated such a change in use of the patrol boats. As a consequence, the vessels have been operated in a manner beyond that originally anticipated and for which they were specified, which has resulted in increased repair and maintenance costs, longer periods in port, and consequent penalties being imposed by the customer for vessel non-availability. The contract expires in 2022. The Group is currently in negotiations with the Australian Defence Materiel Organisation with a view to agreeing the implementation of a remedial programme and improving the terms of the contract.

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

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

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

Given the fact that the extent of cracking and corrosion and remediation cost was not apparent until the second half of 2014, compounded by the deterioration in the customer relationship during the year and the loss of one vessel through fire in August 2014, Serco has concluded that this is a change in accounting estimate in 2014, and not a prior period error. The above amount is considered to be the most appropriate charge to reflect the best estimate of future losses along with other write offs and impairments. However, Serco remains in ongoing discussions with the customer and is pursuing all avenues to mitigate losses.

Commercial and Operational Managers Procuring Asylum Support Services ("COMPASS") contract

The second largest Onerous Contract Provision for future year losses relates to Serco's COMPASS contract with the UK Home Office, which is for the provision of accommodation, transportation and subsistence payments for asylum seekers whilst their claims are being processed. Claim processing can take from a few months to several years. This contract commenced in 2012 and provides services in two of the six administrative regions of the contract in the UK: (i) the North West, comprising 14 local authority areas in England; and (ii) Scotland & Northern Ireland. The contract runs to December 2017, with a further extension of up to two years at the option of the customer.

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

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

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

As a result of these factors, a provision of £112.3 million has been recognised to cover anticipated losses over the remaining five years of the contract (including the two extension years), and there have been asset impairments and other charges of £3.0 million. This represents the Group's current best estimate of the likely outcome, although the losses on the contract are closely linked to the volume of asylum seekers, which is not in Serco's control, and the range of potential outcomes is wide, given that there is no contractual cap on the total number of service users that could be assigned to Serco. As the triggers for these charges have been the recent significant changes in volumes and the consequent activation of the volume price reduction, Serco has concluded that the charge is a change in accounting estimate in 2014, and not a prior period error.

Future Provision of Marine Services ("FPMS") contract

The FPMS contract, which has a 15-year duration, provides marine support services to the UK Ministry of Defence dockyard ports of Portsmouth, Plymouth and Faslane as well as support to military exercises and training and to the Raasay Ranges. Serco has been delivering services to the MoD under the FPMS

contract since its inception in 2007 and operational performance against key performance indicators has remained consistently strong.

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

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

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

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

Prisoner Escort and Custody Services (PECS) Contract

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

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

The total Onerous Contract Provision at 31 December 2014 is £14.1 million to cover future anticipated losses over the remaining three years and eight months of the contract, with asset impairments and other charges of £12.8 million. The principal factors driving this estimate are the extent and speed of Serco's ability to reduce the level of staff overtime and, through planned operation improvements, reduce the need for short-term agency resources.

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

Ashfield prison

The HMP Ashfield PFI contract commenced in 1999 and runs through to 2024. In 2013 the operational role of Ashfield was changed from a young offender institution to an adult male sex offenders' prison, resulting in a changed cost base. Such changes are normal in the life of a 25-year contract, and there is an established process for agreeing resultant price changes. However, since the change of operational role of the prison, the Ministry of Justice has imposed a level of pricing which Serco disputes, and which would

result in substantial losses over the remaining life of the contract. Serco remains in negotiation with the Ministry of Justice but progress has been slow and agreement has not yet been reached. Should the Group continue to be unable to reach a resolution with the Ministry of Justice, the Group will have to invoke contractual remedies, including the dispute resolution mechanism under the terms of the contract. Since the outcome of any such process is uncertain, the Group has recognised an Onerous Contract Provision of £15.3 million to cover anticipated future losses, as well as impaired certain other assets totalling £3.5 million, making an aggregate charge against the contract of £18.8 million. As the adjustment is the result of the failure to resolve pricing in 2014, the adjustment is considered to be a change in accounting estimate in 2014, and not a prior period error.

Other Onerous Contract Provisions charged to Trading Loss

Total other Onerous Contract Provisions charged to Trading Loss for future year losses of £105.9 million related to contracts which each had cumulative future year Trading Losses of up to £15 million. These contracts were individually reviewed as part of the Contract & Balance Sheet Reviews and arise from one or more of the following factors in the second half of 2014: a change to the strategic direction of the business, a reassessment of the likely outcome of disputed items, and adverse operational results arising from external factors leading to a reassessment of the future profitability. These factors led to these contracts becoming onerous and provisions being recognised at the lower of the net costs to fulfil contracts and, where applicable, the costs to end contracts early. In each case, it was concluded that as the triggering events arose in 2014, these provisions were changes in estimates. There was also £29.4 million of related asset impairments and charges charged to Trading Loss in 2014.

Onerous Contract Provision projected utilisation

Projecting the future utilisation of the Onerous Contract Provision is not easy given the inherent uncertainties of predicting future contract performance, particularly when the performance on a number of key contracts depends on future service demand and volume which are factors Serco does not control. It is hard to forecast, for example, the number of asylum seekers entering the United Kingdom. However, given the fact that projected utilisation correlates with the estimated cash impact of these future contract losses, the Group has estimated the projected phasing below. The projected utilisation reflects, where the impact was significant, discounting of the future contract losses and this has reduced the total provision on the balance sheet by £21 million. In future years, the Group will review its contract performance regularly and update the Group's estimate of Onerous Contract Provisions and associated projected future utilisation.

	<u>2015</u>	<u>2016</u>	<u>2017 onwards</u>	<u>Total</u>
	<u>£ million</u>			
Projected provision utilisation*	139	83	225	447

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

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

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

Other Impairments and Charges to Trading Loss

Included in management's best estimate of outcomes from the Contract & Balance Sheet Reviews were £187.8 million of charges to Trading Loss.

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

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

Impairment of Intangibles Arising on Acquisition

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

Exceptional items related to the Contract & Balance Sheet Reviews

Onerous contract losses and related impairments

During the year there were additional provisions of £16.1 million relating to the re-evaluation of the forecast losses of the UK clinical health operations. See paragraph 5.2 “*Comparison of 2013 Financial Year with 2012 Financial Year—Other exception operating items*” of this Part V (*Operating and Financial Review of the Serco Group*).

Other impairments and charges

The reviews identified (i) a non-cash exceptional impairment of goodwill of £466.0 million in relation to reducing the carrying value of net assets to the estimated recoverable amounts in the cash-generating units of the Group; (ii) a £20.1 million provision for a legal claim; and (iii) a £39.2 million impairment of Global Services assets. See paragraph 5.2 “*Comparison of 2013 Financial Year with 2012 Financial Year—Other exception operating items*” of this Part V (*Operating and Financial Review of the Serco Group*).

3.6 Funding strategy and changes in the Group's indebtedness

The Group has stated a target range of leverage (the ratio of average net debt to Consolidated EBITDA) of between 1.0x and 2.0x. It should be noted that the Group's average net debt has historically been higher than net debt at the end of each reporting period.

Given the relatively low-margin and long-term nature of a proportion of its contracts, the Group has a preference where appropriate for fixed rate debt over floating rate debt and for debt with longer maturities.

The Group maintains access to liquidity through committed funding. The Group also targets diversity in this committed funding by maintaining an appropriate mix of bank and non-bank debt.

Given the international nature of its business, the Group seeks an appropriate match of the currency denomination of its debt to the currency of its earnings. This is achieved either by borrowing in the appropriate currency or through the use of derivative instruments.

The Serco Group has entered into Amendment Agreements with the Lenders and the Noteholders, under the terms of which the Existing Finance Agreements will be amended immediately upon receipt of the net proceeds of the Rights Issue and the Company committing to pay down of £225 million drawn under the US Note Purchase Agreements and £225 million (or, if less, the amount then drawn) under the Facility Agreement from such proceeds as the Amended and Restated Facility Agreement, the Amended Receivables Financing Agreement and the Amended US Note Purchase Agreements (together, the “**Amended Agreements**”). The Amended Agreements will contain substantially similar financial covenants

to those in the existing agreements, with amendments to avoid an anticipated future breach of the covenants by the Group.

The Group's principal committed debt facilities currently comprise a £730 million Revolving Credit Facility under the Amended and Restated Facility Agreement maturing in March 2017 with a syndicate of banks and approximately £584 million of US Private Placement Notes maturing at various dates in the period to May 2024.

In December 2014, in order to remain in compliance with its covenants under the Existing Finance Agreements for the 12-month test ended 31 December 2014, the Serco Group negotiated (i) a one-time waiver of its covenants under the Facility Agreement and the Receivables Financing Agreement to permit a delay in the delivery of the covenant compliance certificates for such period and (ii) a temporary amendment of its covenants under the Facility Agreement, the Receivables Financing Agreement and the US Note Purchase Agreements. The effect of these amendments is to ensure that the Serco Group will not breach such covenants provided that the Rights Issue completes before 31 May 2015. As part of these negotiations, the Company agreed with the Noteholders that for the financial period ending on 30 June 2015, the financial covenants under the US Note Purchase Agreements shall be calculated on the basis that Consolidated EBITDA would be zero. The consequence of this covenant is that the Group will automatically default under its US Note Purchase Agreements unless the Amended US Note Purchase Agreements become effective.

In order to remain in compliance with its covenants prospectively, the Serco Group has, amongst other actions, launched the Rights Issue and has entered into the Amendment Agreements to further amend the terms of the Existing Finance Agreements.

Proceeds from the Rights Issue will be used primarily to reduce the Group's net debt. Of the expected approximate £528 million net proceeds from the Rights Issue, up to £450 million is expected to be applied to reduce the Group's borrowings under its Facility Agreement (£225 million or, if less, the amount then drawn) and the US Private Placement Notes (£225 million), with the balance (after approximately £30 million fees and expenses are paid in connection with the reduction of the Group's borrowings and the amendments to the Existing Finance Agreements) to be used by the Group for general corporate purposes.

3.7 Impact of changes in foreign exchange rates

The international nature of Serco's business means it is exposed to fluctuations in foreign currency exchange rates in relation to various currencies, primarily the US dollar, the Australian dollar, the euro and the Indian rupee. These impacts can affect the sterling value of reported revenues and profits if there are changes in exchange rates for non-sterling currencies.

The Group's currency exposures in respect of trading during 2014 arose principally from movement in US dollar and Australian dollar exchange rates. A movement of US dollar of 1 per cent. during 2014 would have affected revenue by £7 million and trading profit by £0.4 million. A movement of Australian dollar of 1 per cent. during 2014 would have affected revenue by £7 million and trading profit by £0.4 million.

The Group's currency exposures in respect of monetary items at 31 December 2014 that result in net currency gains and losses in the income statement and equity arise principally from movement in US dollar and Indian rupee exchange rates. At 31 December 2014, if both had weakened by 10 per cent. against sterling, with all other variables held constant, post-tax profit for the year would have increased by £13.0 million (2013: £17.1 million increase (restated)), comprising USD £19.7 million increase and INR £6.7 million decrease and equity would have decreased by £0.4 million (2013: £0.9 million decrease), comprising USD £0.4 million.

3.8 Impact of changes in interest rates

The Group's policy is to minimise the impact of interest rate volatility on earnings to provide an appropriate level of certainty to cost of funds. Exposure to interest rate risk arises principally on changes to US dollar and sterling interest rates.

Exposure to interest rate fluctuations is mitigated through the issuance of fixed rate debt and the use of interest rate derivatives.

The effect of a 100 basis point increase in LIBOR rates on the net financial liability position at the balance sheet date, with all other variables held constant, would have resulted in a reduction in post-tax profit for the year to 31 December 2014 of £0.1 million (2013: £0.7 million).

4. BASIS OF PREPARATION

4.1 IFRS reporting

The Serco Group reports its historical financial information under IFRS as adopted by the EU. The Serco Group has also prepared supplementary financial key performance indicators (“KPIs”) which are non-IFRS measures used by the Group explained below.

During the three year period to 31 December 2014, there were certain changes in reporting bases as follows:

- Adoption of new and revised accounting standards
- Adoption of “trading” measures, replacing previous “adjusted” measures
- Segmental reporting in line with the divisional structure in effect at 31 December 2014

In accordance with IFRS, the impact of certain of these changes in reporting bases on the prior period financial information has been retrospectively reflected in the consolidated financial statements issued in the year that those changes were adopted. Accordingly, for the purposes of providing comparable information, the historical financial information included in this section for 2014 and 2013 has been derived from the 2014 Financial Statements incorporated by reference in this document without any adjustments. The historical financial information included herein for 2012 has been derived from the 2013 audited consolidated financial statements, also incorporated by reference in this document, after restating segmental results for the new divisional structure in effect at 31 December 2014 and after adjustment for the 2012 impact of the re-statement of certain financial instruments identified in 2014 relating to hedge accounting.

(a) Adoption of new and revised accounting standards

The IFRS results reported for the 2012 calendar year have been restated for subsequent changes in IFRS, namely:

IFRS 11 Joint Arrangements (IFRS 11) removed the option for the proportional consolidation of joint ventures and instead requires equity accounting. A restatement of the 2012 results for these changes reduced statutory reported revenue by £852.9 million and profit before tax by £15.1 million. Joint ventures are now reported in accordance with equity accounting where joint venture results are shown in one line in each of the Group income statement, balance sheet and cash flow. In particular, the Group’s proportionate share of after tax joint venture profits are included in the Group’s operating profit result, and joint venture dividends received are included under investing activities in the Group’s cash flow.

IAS 19 (revised) Employee Benefits (IAS 19) requires pension interest return to be calculated using the value of scheme assets multiplied by the discount rate rather than the expected rate of asset return. The Group has applied IAS 19 (revised) retrospectively and in accordance with the transitional provisions as set out in that standard. The impact of this change is to reduce pre tax profits by £5.8 million and to reduce post tax profits by £4.9 million in 2012. IAS 19 (revised) also introduces more extensive disclosures in the presentation of the defined benefit cost.

Both of these changes were adopted for reporting the Group’s 2013 results; restated 2012 numbers were disclosed in the Group annual report and accounts for 2013; paragraph 5 “*Results of Operations Reported Under International Financial Reporting Standards*” provides an analysis of the financial impact for 2012 on the income statement and balance sheet.

There have been no other changes to IFRS which have had a material impact on the 2013 or 2014 results.

(b) Segmental analysis

Segments are presented according to the management structure and internal reporting that Serco has put in place for 2015 as a result of actions from the Corporate Renewal Programme and the Strategy Review. The UK Central Government division is now a separate unit which brings together Serco’s work for the UK Central Government. It also brings together all transport operations, including those for devolved authorities that were previously included in the UK and Europe Local and Regional Government division. The UK and Europe Local and Regional Government division now incorporates public sector BPO operations previously included in the Global Services division, together with Citizen Services previously included in the Central Government division. All public sector BPO operations are therefore now brought together in this division. The AMEAA region is now reported as two separate divisions—“AsPac” (the

Asia Pacific region, consisting principally of Serco's operations in Australia and New Zealand) and the Middle East. Americas remains as a distinct regional division. The Global Services division now consists of BPO operations only in the private sector.

The Group has also simplified its reporting by ending the sharing of income statement reporting of certain contracts between two segments. This shared reporting of contracts occurred predominantly between the AsPac and UK segments, with these contracts now being solely reported within the segment that delivers the contract to the end customer. Further segmental information is included at note 5 to the accounts, while segmental information on the previous structure, as reported to the Board during 2014, is included at note 42.

The segmental results for this new divisional structure and reporting policy for shared contracts are presented for 2012, 2013 and 2014 in this document.

(c) Restatement of 2013 and 2012 for prior period adjustments

As explained in note 4 of the consolidated financial statements of Serco for the 2014 Financial Year, two prior period adjustments relating to hedge accounting were identified. The 2013 and 2012 financial information presented herein has been adjusted to reflect the impact of these adjustments. The 2012 Financial Statements and 2013 Financial Statements incorporated by reference in Part VI (*Historical Financial Information Relating to the Serco Group*) do not reflect these adjustments.

4.2 Non-IFRS financial measures

In 2014, the Group has re-assessed the historical supplemental financial KPIs used by management with the intent of aligning these measures closely with IFRS and introducing a return on capital measure. These measures, defined in detail below, are presented for 2012, 2013 and 2014 in this document and will also be adopted for future reporting periods. These supplemental measures used by management are not measures of performance or liquidity under IFRS and should not be considered by investors in isolation to, or as a substitute for, a measure of profit, or as an indicator of operating performance or cash flows from operating activities or earnings per share as determined in accordance with IFRS.

(a) Organic revenue growth per cent.

Management believes that discussing organic revenue growth provides a better understanding of the Company's revenue performance and trends because it allows for meaningful comparisons of current period revenue to that of prior periods.

Serco's reporting currency is pound sterling. However, the Group's significant international operations give rise to fluctuations from movements in foreign exchange rates. To remove the impact of movements in foreign exchange rates and to illustrate the underlying change in revenue and profit from one year to the next, the Group has adopted the practice of discussing results in both reportable currency (local currency results translated into pound sterling at the prevailing foreign exchange rate) and constant currency (current year local currency results translated into pound sterling at the prior year prevailing foreign exchange rate).

To translate foreign currency revenue results to pound sterling, for each currency a market exchange rate for each month is applied to all transactions in that month to calculate a sterling value for each month. These months are then aggregated to provide an annual value. For reportable currency results, the exchange rate for the month of reporting is used; for constant currency results, the exchange rate for the month in the prior year is used.

Management also reviews the Group's businesses on an organic basis, in which current year actual results on a constant currency basis are compared with the prior year after adjusting to exclude any impact of acquisitions or disposals.

(b) Trading Profit/(Loss) and trading earnings per share

The term "trading" is used for items in the income statement to denote the exclusion of (i) amortisation and impairment of intangibles arising on acquisition; (ii) exceptional items; and (iii) where applicable, the tax effect of these items. The definition of these KPIs in terms of IFRS measures is as follows, where the IFRS measures are shown in inverted commas:

"**Trading Profit/(Loss)**" is defined as "operating profit/(loss)" *excluding* "other expenses—amortisation and impairment of intangibles arising on acquisition" and *excluding* exceptional items. Exceptional items

consist of “exceptional profit on disposal of subsidiaries and operations” and “other exceptional operating items”.

“**Trading profit after tax**” is defined as “Profit/(Loss) for the year” *excluding* “other expenses—amortisation and impairment of intangibles arising on acquisition” and *excluding* “exceptional items” and *excluding* the tax effect of these exclusions. Exceptional items consist of “exceptional profit on disposal of subsidiaries and operations” and “other exceptional operating items”.

“**Trading earnings per share**” is calculated by dividing Trading profit after tax *less* “non-controlling interests”, by the weighted average number of ordinary shares outstanding during the period. The weighted average number of ordinary shares during the period is calculated in accordance with IFRS.

Trading Profit/(Loss) and trading earnings per share are presented herein as (i) they are used by management to measure operating performance, in presentations to the Serco Directors, and as a basis for strategic planning and forecasting, and (ii) they represent similar measures to those that are widely used by certain investors, securities analysts and other parties as supplemental measures of performance. These measures enhance management’s and investors’ understanding of the financial performance of the Group by excluding items that are outside of ongoing operations as specified above. However Trading Profit/(Loss) and trading earnings per share are not measures of performance defined under IFRS and should not be considered by investors in isolation to, or as a substitute for, a measure of profit, or as an indicator of operating performance or earnings per share as determined in accordance with IFRS. Trading Profit/(Loss) and trading earnings per share as defined herein, may not be comparable to similarly titled measures as presented by other companies due to differences in the way non-IFRS earnings measures are calculated for purposes of this document. Investors are encouraged to consider the limitations of these measures.

The reconciliation of operating profit to Trading Profit/(Loss) and trading earnings per share is presented below in paragraph 5.3 “*Reconciliation of financial KPIs to IFRS results*”.

(c) Return on invested capital (“**ROIC**”)

This KPI measures the capital efficiency of the Group. This is Trading profit for the period divided by Invested capital. Invested capital is defined in terms of balances extracted from the IFRS balance sheet at the end date of the reporting period. The balance sheet items used are operating assets, being gross assets less trade and other payables (current and non-current) and excluding provisions, pension, derivatives, financing, tax and cash balances. Invested capital includes assets and liabilities classified as held for sale.

For the 2014 Financial Year, the financial impact of the balance sheet and contract reviews (as explained above) has resulted in a loss for the year. Consequently, to present a more meaningful measure and a clear comparator for future periods, the ROIC for 2014 has been calculated using Trading Profit/(Loss) before the impact of these reviews divided by the invested capital as at the 2014 year end.

(d) Trading cash flow and free cash flow

A new format for management cash flow has been adopted for 2014. This comprises a re-aggregation of the IFRS cash flow disclosures into totals for “trading cash flow” and “free cash flow”. A full reconciliation to the IFRS cash flow is presented below in paragraph 5.3 “*Reconciliation of financial KPIs to IFRS results*”. Essentially, the trading cash flow measure represents the cash generated by the business before acquisition/disposal activity and before interest, tax, dividends paid or debt repayments/draw downs. Free cash flow is trading cash flow after deducting interest and tax. Both measures are after capital expenditure and exclude exceptional items. The definition of these KPIs in terms of IFRS measures is as follows, where the IFRS measures are shown in inverted commas:

“**Trading cash flow**” is defined as “net cash inflow from operating activities” *excluding* exceptional items *excluding* “tax paid” *plus* “dividends received from joint ventures” *plus* “proceeds from disposal of property plant and equipment” *plus* “proceeds from disposal of intangible assets” *less* “purchase of other intangible assets” *less* “purchase of property, plant and equipment”. Exceptional items consist of the Special contributions to defined benefit schemes and Other exceptional items.

“**Free cash flow**” is defined as Trading cash flow *plus* “interest received” *less* “interest paid” *less* “tax paid”.

In addition, the Group evaluates cash generation performance through two measures; (i) conversion of Trading Profit/(Loss) to cash, being Trading Profit expressed as a percentage of trading cash flow; and (ii) conversion of Trading Profit/(Loss) after tax to cash, being Trading Profit after tax expressed as a percentage of free cash flow.

Trading cash flow, free cash flow and cash generation performance measures noted above are presented herein as (i) they are used by management to measure operating cash generating capacity by the Group, in presentations to the Serco Directors, and as a basis for strategic planning and forecasting, and (ii) they represent similar measures to those that are widely used by certain investors, securities analysts and other parties as supplemental measures of cash generating capacity. These measures enhance management's and investors' understanding of the cash flows of the Group by excluding items that are outside of ongoing operations as specified above. However trading cash flow, free cash flow and cash generation performance measures noted above are not measures of operating cash flow as defined under IFRS and should not be considered by investors in isolation to, or as a substitute for, a measure of operating cash flow as determined in accordance with IFRS. Trading operating cash flow, free cash flow and cash generation performance measures noted above as defined herein, may not be comparable to similarly titled measures as presented by other companies due to differences in the way non-IFRS operating cash flows are calculated for purposes of this document. Investors are encouraged to evaluate these items and the limitations for purposes of analysis in excluding them.

5. RESULTS OF OPERATIONS REPORTED UNDER INTERNATIONAL FINANCIAL REPORTING STANDARDS

The financial information in the table below setting forth the Serco Group's consolidated income statement for the 2014 and 2013 Financial Years has been extracted without material adjustment from Serco Group's 2014 Financial Statements as reported under IFRS.

As explained in note 4 of the consolidated financial statements of Serco for the 2014 Financial Year, two prior period adjustments were made to reflect the restatement of certain financial instruments which were not appropriately designated in a hedging relationship in accordance with IFRS. In particular, the impact of these items were retrospectively restated in the consolidated balance sheet as of 1 January 2013 and the consolidated balance sheet at 31 December 2013 and the consolidated income statement, consolidated statement of comprehensive income and consolidated statement of changes in equity for the year then ended. Although these adjustments were retrospectively adjusted for the 2013 Financial Year in the 2014 Financial Statements, the 2013 Financial Statements incorporated by reference in Part XI (*Documents Incorporated by Reference*) of this document do not reflect these adjustments.

The consolidated income statement for 2012 included in the table below has been extracted from Serco Group's 2013 audited consolidated income statement adjusted as necessary (i) to be consistent with the format of presentation used in the 2014 consolidated income statement and (ii) to give impact to the two prior period adjustments outlined above as of 1 January 2012 and its resultant change to the consolidated income statement for 2012 Financial Year. Therefore, the financial information presented below for 2012 will differ from that presented in the 2012 Financial Statements, incorporated by reference in Part XI (*Documents Incorporated by Reference*) of this document.

	For Financial Year		
	2014	2013 (restated)	2012 (restated)
	£ million		
Revenue	3,955.0	4,284.2	4,056.8
Cost of sales	(4,019.7)	(3,788.9)	(3,576.5)
Gross profit	(64.7)	495.3	480.3
Administrative expenses			
General and administrative expenses	(597.4)	(285.0)	(232.1)
Exceptional (loss)/profit on disposal of subsidiaries and operations	(5.4)	19.2	5.6
Other exceptional operating items	(656.1)	(109.7)	(5.0)
Other expenses—amortisation and impairment of intangibles arising on acquisition	(23.7)	(21.4)	(24.1)
Share of profits in joint ventures, net of interest and tax	30.0	47.1	62.5
Operating (loss)/profit	(1,317.3)	145.5	287.2
Operating (loss)/profit before exceptional items	(655.8)	236.0	286.6
Investment revenue	6.2	5.2	6.4
Exceptional other gain	—	—	51.1
Finance costs	(42.9)	(42.4)	(48.6)
(Loss)/profit before tax	(1,354.0)	108.3	296.1
Tax on (loss)/profit before exceptional items	(11.1)	(38.7)	(45.5)
Tax on exceptional items	18.0	28.8	6.5
Tax credit/(charge)	6.9	(9.9)	(39.0)
(Loss)/profit for the year	(1,347.1)	98.4	257.1
Attributable to:			
Equity owners of the Company	(1,347.3)	98.4	256.5
Non-controlling interests	0.2	—	0.6
Earnings per share (EPS)			
Basic EPS	(258.4p)	20.1p	52.2p
Diluted EPS	(258.4p)	19.7p	51.0p
Non IFRS financial KPIs:			
Organic revenue growth per cent.	(2.5)	6.9	0.3
Trading (Loss) / Profit	(632.1)	257.4	310.7
Trading (loss) / profit margin per cent.	(16.0)	6.0	7.7
Trading EPS (p)	(131.0)	36.0	44.2
Return on invested capital per cent.	N/A	13.9	17.3

The IFRS financial information presented in the tables above has been supplemented with the financial KPIs described above. Furthermore, a detailed reconciliation from the IFRS numbers to the non-IFRS financial KPIs is presented below in paragraph 5.3 “*Reconciliation of financial KPIs to IFRS results*”.

The Group’s loss per share excluding exceptional items was 135.0 pence (2013: earnings per share 32.7 pence). Measures of basic EPS are calculated on a weighted average share base of 521.5 million (2013: 489.0 million), the increase reflecting the 49.9 million of new shares issued following the share placing completed on 7 May 2014.

The following sections review the financial performance of the Group, explaining movements between 2013 and 2014, and then movements between 2012 and 2013.

5.1 Comparison of 2014 Financial Year with 2013 Financial Year

Serco faced an unprecedented set of challenges in the 2014 Financial Year, and financial performance in 2014 was very poor. Some of these challenges arose in 2014 as a direct result of the issues encountered in Serco’s relationship with the UK Government in 2013 and other key customers, and had a substantial impact in 2014 on the Group’s ability to win new business and to satisfactorily resolve contractual issues; other challenges were due to some valuable contracts being lost or taken back in house; while on certain other contracts the cost of providing services rose significantly. In particular,

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

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

As part of the Strategy Review, the Contract & Balance Sheet Reviews were undertaken ahead of the year end. Onerous Contract Provisions and impairments had a material impact on the trading result for the year, and include the impact of the new strategic direction of the Group and management's best estimate as to the likely outcome on key multi-year contracts.

The trading loss for the year was £632.1 million (2013: Trading Profit £257.4 million) including charges of £745.3 million from Onerous Contract Provisions, asset impairments and other provisions (excluding charges of £745.3 million from Onerous Contract Provisions, asset impairments and other provisions the trading profit for the year was £113.2 million). In addition, exceptional losses of £661.5 million included £466.0 million of non-cash charges from the impairment of goodwill.

For the 2013 Financial Year, there was good revenue growth, predominantly driven by further volume-related growth in Australian immigration services. Signed contracts totalled £3.5 billion, which was less than the revenue booked for the year, resulting in a net overall reduction in the value of the Group's order book. Trading profitability declined compared to the previous year, principally due to less work with UK Central Government and fewer wins in the BPO market.

Results are explained in more detail below.

(a) Revenue, Trading Profit/(Loss) and operating profit/(loss) before exceptional items

An analysis of revenue and operating profit/(loss) before exceptional items by division for 2014 and 2013 is set out below, followed by an explanation of the principal movements between the years by division. This explanation first considers revenue and Trading Profit movements by division. It then explains movements in amortisation and impairment of intangibles arising on acquisition. These two measures aggregate to give operating profit/(loss) before exceptional items.

2014	CG	LRG	Americas	AsPac	Middle East	Global Services	Corporate	Total
	£ million							
Revenue	961.4	959.8	708.1	706.0	260.4	359.3	—	3,955.0
Change	(10.5)%	(0.3)%	(7.4)%	(18.9)%	(2.8)%	4.6%	—	(7.7)%
Change at constant currency	(10.5)%	(0.4)%	(1.5)%	(8.7)%	3.3%	10.8%	—	(3.5)%
Trading Profit/(Loss)*	(242.8)	(90.4)	16.5	(201.6)	(0.2)	(23.4)	(90.2)	(632.1)
Amortisation of intangibles arising on acquisition	(0.1)	(1.7)	(2.3)	(2.2)	—	(5.1)	—	(11.4)
Impact of Onerous Contract Provisions, asset impairments and other charges on impairment of intangibles arising on acquisition	—	(5.5)	—	(6.4)	—	(0.4)	—	(12.3)
Operating (loss)/profit before exceptional items	(242.9)	(97.6)	14.2	(210.2)	(0.2)	(28.9)	(90.2)	(655.8)
* Included in the 2014 Trading Loss were the following charges from Onerous Contract Provisions, asset impairments and other charges:	(300.8)	(93.8)	(26.7)	(237.1)	(19.3)	(30.3)	(37.3)	(745.3)

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

The substantial charges in 2014 for provisions, impairments and other review items reflect principally a number of significantly loss-making contracts for UK Central Government that require Onerous Contract Provisions, together with other related impairments and charges. COMPASS has charges of £115 million, reflecting the latest volume assumptions in a rapidly changing environment and the latest view of the Group's estimated costs over the remaining five years of the contract. The FPMS contract has charges of £66 million, reflecting updated vessel utilisation and maintenance cost assumptions through to 2022. The PECS Contract and the HMP Ashfield contract have charges of £27 million and £19 million, respectively.

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

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

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

(ii) *UK & Europe Local & Regional Government Division ("LRG")*

Revenue in LRG decreased by £3.2 million, or 0.3 per cent., to £959.8 million for the 2014 Financial Year compared to £963.0 million for the 2013 Financial Year.

Divisional revenue on a constant currency and a reported currency basis was broadly flat in 2014. Excluding the impact of disposals, organic growth was 3 per cent. Growth was supported by new European Agency contracts with the European Commission and European Space Agency, together with an expansion of certain local authority BPO operations and a full-year contribution of additional environmental waste services contracts started part-way through 2013; there was partial offset to this from volume-related reductions on the National Citizen Service and Work Programme contracts.

Trading profit/(loss) in LRG decreased by £108.2 million, or 607.9 per cent., to a £90.4 million trading loss for the 2014 Financial Year compared to a £17.8 million Trading Profit for the 2013 Financial Year. The trading loss margin for the 2014 Financial Year was 9.4 per cent., compared to a Trading Profit margin of 1.8 per cent for the 2013 Financial Year. The trading loss of £90.4 million in 2014 included a charge of £93.8 million from Onerous Contract Provisions, asset impairments and other charges.

Divisional Trading Profit, before the impact of onerous contract provisions, asset impairments and other charges, reduced much more significantly than revenue. There were increased costs including

the effect of operating this new division separately, together with the effect of some challenging contracts such as the National Citizen Service, and a lower level of typically higher margin public sector BPO project work and consulting.

Contracts operated by the UK and Europe Local and Regional Government division that are loss-making include Suffolk Community Healthcare, where an exceptional Onerous Contract Provision and related asset impairments of £16 million has been driven by a greater loss rate due to unanticipated increases in volume, for which there is no additional revenue, along with having to use greater numbers of agency staff to deliver improved performance; the contract is due to end in September 2015. The charge to Trading Profit for provisions, impairments and other review items of £93.8 million includes those for other loss-making contracts, the largest of which is the Hertfordshire County Council BPO services contract.

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

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

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

(iii) *Americas*

Revenue in Americas decreased by £56.5 million, or 7.4 per cent., to £708.1 million for the 2014 Financial Year compared to £764.6 million for the 2013 Financial Year.

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

Trading profit in Americas decreased by £48.6 million, or 74.7 per cent., to a £16.5 million trading profit for the 2014 Financial Year compared to a £65.1 million Trading Profit for the 2013 Financial Year. The trading loss margin for the 2014 Financial Year was 2.3 per cent., compared to a Trading Profit margin of 8.5 per cent for the 2013 Financial Year. The trading profit of £16.5 million included a charge of £26.7 million arising from Onerous Contract Provisions, asset impairments and other charges.

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

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

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

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

(iv) *Asia Pacific*

Revenue in Asia Pacific decreased by £164.6 million, or 18.9 per cent., to £706.0 million for the 2014 Financial Year compared to £870.6 million for the 2013 Financial Year.

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

Trading Profit/(Loss) in Asia Pacific decreased by £279.8 million, or 357.8 per cent., to a £201.6 million trading loss for the 2014 Financial Year compared to a £78.2 million Trading Profit for the 2013 Financial Year. The Trading Loss margin for the 2014 Financial Year was 28.6 per cent., compared to a Trading Profit margin of 9.0 per cent. for the 2013 Financial Year. The loss of £201.6 million in 2014 included a charge of £237.1 million arising from Onerous Contract Provisions, asset impairments and other charges.

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

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

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

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

(v) *Middle East*

Revenue in Middle East decreased by £7.5 million, or 2.8 per cent., to £260.4 million for the 2014 Financial Year compared to £267.9 million for the 2013 Financial Year.

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

Trading Profit/(Loss) in Middle East decreased by £24.7 million, or 100.8 per cent., to a £0.2 million trading loss for the 2014 Financial Year compared to a £24.5 million Trading Profit for the 2013 Financial Year. The Trading Loss margin for the 2014 Financial Year was 0.1 per cent., compared to a Trading Profit margin of 9.1 per cent. for the 2013 Financial Year. The Trading Loss of £0.2 million in 2014 included a charge of £19.3 million arising from Onerous Contract Provisions, asset impairments and other charges.

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

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

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

Looking ahead, rebids to secure in 2015 include Sowwah Square facilities management, Baghdad air navigation services, Palm Jumeirah Monorail operations and logistics and base support services provided to the Australian Defence Force in the region; these accounted in aggregate for 22 per cent.

of 2014 divisional revenue. Whilst new bid win rates have been lower in 2014, there remains a vibrant public service outsourcing market in the region and Serco has strong references to continue expanding. Major opportunities include light rail across the region and other transport operations, as well as further non-clinical healthcare and defence training support.

(vi) *Global Services*

Revenue in Global Services increased by £15.8 million, or 4.6 per cent., to £359.3 million for the 2014 Financial Year compared to £343.5 million for the 2013 Financial Year.

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

Trading Profit/(Loss) in Global Services decreased by £31.2 million, or 400.0 per cent., to a £23.4 million trading loss for the 2014 Financial Year compared to a £7.8 million Trading Profit for the 2013 Financial Year. The Trading Loss margin for the 2014 Financial Year was 6.5 per cent., compared to a Trading Profit margin of 2.3 per cent. for the 2013 Financial Year. The £23.4 million loss in 2014 included a charge of £30.3 million arising from Onerous Contract Provisions, asset impairments and other charges.

Divisional Trading Profit, before the impact of onerous contract provisions, asset impairments and other charges, reduced much more significantly than revenue. Cost reduction activity announced last year has delivered savings in 2014, but these were offset by profit decreases on certain contracts moving from transformation to full operational phase and an increase in costs associated with internal systems. The exit of low margin or loss-making work has also had the impact of a number of delivery centres in the UK and India becoming underutilised in the short term.

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

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

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

(vii) *Corporate*

Corporate overhead increased by £39.6 million, or 78.3 per cent., to £90.2 million for the 2014 Financial Year compared to £50.6 million for the 2013 Financial Year.

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

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

(b) Other expenses—amortisation and impairment of intangibles arising on acquisition

Amortisation and impairment of intangibles arising on acquisition (before the impact of the Contract & Balance Sheet Reviews) decreased by £10.0 million, or 46.7 per cent. to £11.4 million for the 2014 Financial Year compared to £21.4 million for the 2013 Financial Year.

(c) Exceptional net profit or loss on disposal of subsidiaries and operations

Exceptional net profit on disposal of subsidiaries and operations decreased by £24.6 million, or 128.1 per cent. to £5.4 million loss for the 2014 Financial Year compared to £19.2 million profit for the 2013 Financial Year.

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

The 2013 explanations are set out below in paragraph 5.2 “*Comparison of 2013 Financial Year with 2012 Financial Year*”.

(d) Other exceptional operating items

	2014	2013
	Financial Year	Financial Year
	Total (£ million)	
Costs associated with UK Government review	(9.2)	(11.6)
Settlement amount relating to UK Government reviews	—	(66.3)
UK frontline clinical health contract provisions	(16.1)	(17.6)
Restructuring costs	(32.7)	(14.9)
Provision for settlement relating to DLR pension deficit funding dispute . .	(35.6)	—
Other provision for legal claims	(20.1)	—
Impairment and related charges of Australian rail business	(37.2)	(9.6)
Impairment of Global Services business transferred to assets held for sale .	(39.2)	—
Deferred consideration adjustment relating to prior year acquisition	—	10.3
Impairment of goodwill	<u>(466.0)</u>	<u>—</u>
Total other exceptional items	<u>(656.1)</u>	<u>(109.7)</u>

Exceptional operating items increased by £546.4 million, or 498.1 per cent. to £656.1 million for the 2014 Financial Year compared to £109.7 million for the 2013 Financial Year.

During 2014, there were exceptional costs totalling £9.2 million associated with the UK Government reviews, and the Corporate Renewal Programme. This reflected external costs incurred and included external adviser costs related to these reviews and the Corporate Renewal Programme.

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

In 2014, as a result of analysis of the cost structures in the businesses and initial actions from the Strategy Review, an exceptional restructuring charge of £32.7 million was taken in the year reflecting £19.8 million in relation to headcount reductions, £6.9 million in relation to property-related exit costs and related asset impairments and £6.0 million of adviser costs associated with the Strategy Review and the Contract & Balance Sheet Reviews. These have been treated as exceptional costs as they have arisen directly as a result of restructuring in response to the impact of the UK Government reviews and the Strategy Review.

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

In 2014, there is a charge totalling £20.1 million in relation to a provision for a legal claim where management's best estimate is that it is probable to result in a settlement to this value.

An impairment review that was performed in 2014 on the Great Southern Rail, the Australian rail business, resulted in a charge totalling £37.2 million. This consisted of an impairment of £23.1 million to reduce the carrying value of its net assets to the estimated recoverable amount and a charge of £14.1 million in relation to the break costs of leases relating to the business. There is an ongoing sale process in respect of this business that we would expect to complete later this year.

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

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

The output of the Strategy Review identified a non-cash exceptional impairment of goodwill of £466.0 million in relation to the reduction in the carrying value of net assets to the estimated recoverable amounts in the CGUs of the Group. These impairments arose in the following cash generating units:

	2014 Financial Year
	Total (£ million)
UK Local & regional Government: Local Services	(57.6)
UK Local & regional Government: UK Health	(22.9)
Americas	(100.7)
Global Services	(284.8)
Total exceptional goodwill impairment charge	<u>(466.0)</u>

The impairments arise as a result of two key issues. Firstly, forecasts of cash flows have been significantly impacted by the Strategy Review undertaken during the year, and secondly, the discount rates applied in the impairment calculations have increased to reflect the changing level of risk associated with the business and the fall in the Group's market capitalisation.

The 2013 explanations are set out below in paragraph 5.2 "*Comparison of 2013 Financial Year with 2012 Financial Year*".

(e) Investment revenue

Investment revenue increased by £1.0 million, or 19.2 per cent. to £6.2 million for the 2014 Financial Year compared to £5.2 million for the 2013 Financial Year.

(f) Exceptional other gain

Serco has not recognised any exception other gains in 2014 or 2013.

(g) Finance costs

	<u>Financial Year</u>		<u>change</u>	<u>change per cent.</u>
	<u>2014</u>	<u>2013</u>		
	<u>£ million</u>			
Interest payable on non-recourse loans	0.8	0.8	0.0	0.0
Interest payable on obligations under finance leases	3.2	2.5	0.7	28.0
Interest payable on other loans	25.6	31.5	-5.9	-18.7
Facility fees and other charges	13.3	6.1	7.2	118.0
Movement in discount on provisions and deferred consideration	0	1.5	-1.5	-100.0
Total	<u>42.9</u>	<u>42.4</u>	<u>0.5</u>	<u>1.2</u>

Finance costs increased by £0.5 million, or 1.2 per cent. to £42.9 million for the 2014 Financial Year compared to £42.4 million for the 2013 Financial Year.

(h) Tax

The income tax expense for 2014 is based on the blended UK statutory rate of corporation tax for the period of 21.5 per cent. (2013: 23.3 per cent.). The impact of changes in statutory tax rates relates principally to the reduction of the UK corporation tax rate from 23 per cent. to 21 per cent. from 1 April 2014, which was enacted on 17 July 2013.

The income tax expense decreased by £16.8 million, or 169.7 per cent. to a £6.9 million credit for the 2014 Financial Year compared to a £9.9 million charge for the 2013 Financial Year.

The £6.9 million income tax credit in 2014 consists of a £11.1 million tax charge on profit before exceptional items and a tax credit of £18.0 million relating to tax on exceptional items.

The £9.9 million income tax expense in 2013 consists of a £38.7 million tax charge on profit before exceptional items, which is offset by a tax credit of £28.8 million relating to tax on exceptional items.

5.2 Comparison of 2013 Financial Year with 2012 Financial Year

Serco's results for the 2013 Financial Year are explained below.

Serco's results for the 2012 Financial Year represented a peak in profitability. Organic revenue growth was positive, reflective of volume-related growth in the Australian Immigration Services contract as well as some significant new contract awards; the value of signed contracts, including new, rebid and extended work, totalled £4.0 billion, greater than the revenue booked for the year, resulting in a net overall increase in the value of the Group's order book. Additionally, there was growth from acquisitions, predominantly related to the expansion in private sector BPO services. The Group's Trading Profit margin was 7.7 per cent.

(a) Revenue, Trading Profit/(Loss) and operating profit/(loss) before exceptional items

An analysis of revenue and operating profit/(loss) before exceptional items by division for 2013 and 2012 is set out below, followed by an explanation of the principal movements between the years by division. This explanation first considers revenue and Trading Profit movements by division. It then explains movements in amortisation and impairment of intangibles arising on acquisition. These two measures aggregate to give operating profit/(loss) before exceptional items.

2013 Financial Year (restated)	CG	LRG	Americas	AsPac	Middle East	Global Services	Corporate	Total
	£ million							
Revenue	1,074.6	963.0	764.6	870.6	267.9	343.5	—	4,284.2
Growth	– 4.0%	4.4%	1.6%	24.2%	10.3%	7.9%	0.0%	5.6%
Trading (Loss)/Profit	114.6	17.8	65.1	78.2	24.5	7.8	(50.6)	257.4
Other expenses—amortisation and impairment of intangibles arising on acquisition	(0.4)	(1.7)	(11.3)	(2.4)	—	(5.6)	—	(21.4)
Operating (loss)/profit before exceptional items	114.2	16.1	53.8	75.8	24.5	2.2	(50.6)	236.0
	£ million							
Revenue	1,119.2	922.5	752.7	701.2	242.9	318.3	—	4,056.8
Trading Profit/(Loss)	160.1	18.2	73.8	45.2	29.4	29.0	(45.0)	310.7
Other expenses—amortisation and impairment of intangibles arising on acquisition	(1.1)	(2.9)	(13.7)	(0.3)	—	(6.1)	—	(24.1)
Operating profit/(loss) before exceptional items	159.0	15.3	60.1	44.9	29.4	22.9	(45.0)	286.6

Total revenue for Serco increased by £227.4 million, or 5.6 per cent., to £4,284.2 million for the 2013 Financial Year compared to £4,056.8 million for the 2012 Financial Year. Organic growth, which excludes the impact of currency, acquisitions and disposals was 6.9 per cent.

Revenue movements are explained in detail within the divisional review of results below.

Total Trading Profit for Serco decreased by £53.2 million, or 17.1 per cent., to £257.4 million for the 2013 Financial Year compared to £310.6 million for the 2012 Financial Year. The Trading Profit margin for the 2013 Financial Year was 6.0 per cent., compared to a margin of 7.7 per cent., for the 2012 Financial Year. Trading Profit/(Loss) movements are explained in detail within the divisional review of results below.

(i) *UK Central Government Division (“CG”)*

Revenue in CG decreased by £44.6 million, or 4.0 per cent., to £1,074.6 million for the 2013 Financial Year compared to £1,119.2 million for the 2012 Financial Year.

This decrease in revenues is a consequence of the disposal of Technical Consulting Services and reductions in scope on e-borders, and Gibraltar being partially offset by the COMPASS contract win and an increase in scope on the Defence Science and Technology Laboratory contract.

Trading profit in CG decreased by £45.5 million, or 28.4 per cent., to £114.6 million for the 2013 Financial Year compared to £160.1 million for the 2012 Financial Year. The Trading Profit margin for the 2013 Financial Year was 10.7 per cent., compared to a margin of 14.3 per cent., for the 2012 Financial Year, with margin deteriorating due to contract scope changes resulting in lower margin contracts and contracts won at lower than average margins.

(ii) *UK & Europe Local & Regional Government Division (“LRG”)*

Revenue in LRG increased by £40.5 million, or 4.4 per cent., to £963.0 million for the 2013 Financial Year compared to £922.5 million for the 2012 Financial Year.

The increase in revenue is a consequence of the Vertex acquisition in 2013 and NNUH procurement and Suffolk community services contract wins being partially offset by the Germany and Learning disposals and reduction in scope on the Leicester Royal Infirmary and State Street contracts.

Trading profit in LRG decreased by £0.4 million, or 2.2 per cent., to £17.8 million for the 2013 Financial Year compared to £18.2 million for the 2012 Financial Year. The Trading Profit margin for the 2013 Financial Year was 1.8 per cent., compared to a margin of 2.0 per cent., for the 2012

Financial Year. This is due to contract wins/losses and scope changes to existing contracts being dilutive at a Trading Profit level.

(iii) *Americas*

Revenue in Americas increased by £11.9 million, or 1.6 per cent., to £764.6 million for the 2013 Financial Year compared to £752.7 million for the 2012 Financial Year.

Revenue growth was driven by the impact of major new contracts with the United States Department of Health and Human Services' Centers for Medicare & Medicaid Services and the Virginia Department of Transportation. These wins were supplemented with volume and task order increases on existing contracts such as Sea Enterprise and Army Career Alumni Programme. This increase was offset partially by volume related decreases on the VA4Vets contract and underlying reductions on contracts such as C4I2TSR.

Trading Profit in Americas decreased by £8.7 million, or 11.8 per cent., to £65.1 million for the 2013 Financial Year compared to £73.8 million for the 2012 Financial Year. The Trading Profit margin for the 2013 Financial Year was 8.5 per cent., compared to a margin of 9.8 per cent., for the 2012 Financial Year. The decrease in margin includes the benefit of higher margin project work performed during the year, further cost reduction activity being more than offset by reductions in higher margin contracts.

(iv) *Asia Pacific*

Revenue in Asia Pacific increased by £169.4 million, or 24.2 per cent., to £870.6 million for the 2013 Financial Year compared to £701.2 million for the 2012 Financial Year.

Revenue growth was driven by the acquisition of Defence Maritime Services (“DMS”), higher volumes on the Australian Immigration Services contract and an increase in scope on the Fiona Stanley contract.

Trading Profit in Asia Pacific increased by £33.0 million, or 73.0 per cent., to £78.2 million for the 2013 Financial Year compared to £45.2 million for the 2012 Financial Year driven by the growth in the Australian Immigration Services contract. The Trading Profit margin for the 2013 Financial Year was 9.0 per cent., compared to a margin of 6.4 per cent., for the 2012 Financial Year in part reflecting the operational leverage impact of higher volumes on the Australian Immigration Services contract.

(v) *Middle East*

Revenue in Middle East increased by £25.0 million, or 10.3 per cent., to £267.9 million for the 2013 Financial Year compared to £242.9 million for the 2012 Financial Year.

Revenue growth was driven by increases in scope of the JBI and Dubai Metro contracts.

Trading Profit in Middle East decreased by £4.9 million, or 16.7 per cent., to £24.5 million for the 2013 Financial Year compared to £29.4 million for the 2012 Financial Year. The Trading Profit margin for the 2013 Financial Year was 9.1 per cent., compared to a margin of 12.1 per cent., for the 2012 Financial Year. While there was continued organic revenue growth, higher bidding and overhead costs resulted in a lower Trading Profit margins.

(vi) *Global Services*

Revenue in Global Services increased by £25.2 million, or 7.9 per cent., to £343.5 million for the 2013 Financial Year compared to £318.3 million for the 2012 Financial Year.

Revenue growth was driven by new contracts such as Shop Direct and AEGON and also supported by higher volumes in the domestic India business. The revenue increase was offset by reductions in the scope of the Walsall, SKYUK, Southwark and Businesslink.gov.uk contracts.

Trading Profit in Global Services decreased by £21.2 million, or 73.1 per cent., to £7.8 million for the 2013 Financial Year compared to £29.0 million for the 2012 Financial Year. The Trading Profit margin for the 2013 Financial Year was 2.3 per cent., compared to a margin of 9.1 per cent., for the 2012 Financial Year. The significant margin reduction reflected increased costs of contract bidding and new market development activity, the reduced level of typically higher margin project work and the transitional stage of the major new contracts which tend to involve greater upfront investment.

(vii) *Corporate*

Corporate overhead increased by £5.6 million, or 12.4 per cent., to £50.6 million for the 2013 Financial Year compared to £45.0 million for the 2012 Financial Year.

(b) Other expenses—amortisation and impairment of intangibles arising on acquisition

Amortisation and impairment of intangibles arising on acquisition decreased by £2.7 million, or 11.2 per cent. to £21.4 million for the 2013 Financial Year compared to £24.1 million for the 2012 Financial Year. Amortisation of intangibles arising on acquisition relates to customer relationships, licenses and franchises.

(c) Exceptional net profit on disposal of subsidiaries and operations

Exceptional net profit on disposal of subsidiaries and operations increased by £13.6 million, or 242.9 per cent. to £19.2 million for the 2013 Financial Year compared to £5.6 million for the 2012 Financial Year.

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

During 2012, the Group disposed of its Technical Services business which provided consulting and project solutions, resulting in a profit of £57.6 million. In addition, the majority of Serco's German operations was sold as well as the UK data hosting operations and education software businesses, resulting in losses of £27.7 million, £11.5 million and £12.8 million respectively.

(d) Other exceptional operating items

	Financial Year	
	2013	2012
	£ million	
Settlement amount relating to UK Government reviews	(66.3)	—
Costs associated with UK Government reviews, Strategy Review and Contract & Balance Sheet Reviews	(11.6)	—
UK frontline clinical health contract provisions	(17.6)	—
Restructuring costs	(14.9)	—
Impairment and related charges of Australian rail business	(9.6)	—
Deferred consideration adjustment relating to prior year acquisition	10.3	—
Exceptional donation to Serco Foundation		(5.0)
Other exceptional operating items	(109.7)	(5.0)

Other exceptional operating items increased by £104.7 million, or 2094 per cent. to £109.7 million for the 2013 Financial Year compared to £5.0 million for the 2012 Financial Year.

In December 2013, following a review of the Electronic Monitoring Contract by the Ministry of Justice, a settlement of £64.3 million was reached in respect of contractual claims. The settlement was full and final in respect of contractual claims with the proviso that additional payments might be sought in limited circumstances, such as if criminality were to be established. In addition, a £2.0 million settlement was reached on the PECS Contract which was also subject to Government review to reflect repayment of past profit earned on this contract.

In 2013, there were external adviser and other directly related incremental costs related to the UK Government reviews that amounted to £11.6 million.

During 2013, the Group completed a review of its clinical health operations in the UK. As a result, the Group expects to exit two contracts early. These contracts, together with a third loss-making contract, required contract provisions for estimated losses in future years and the impairment of operating assets which in total amounted to a non-cash exceptional charge of £17.6 million.

As a result of a wider assessment of the Group's operations in 2013, a restructuring charge of £14.9 million was taken, with £13.3 million directly related to the corporate renewal process.

As a result of a review of under-performing businesses and operations in 2013, an impairment charge of £9.6 million was taken in relation to the carrying value of fixed assets in Great Southern Rail, a rail tourism business based in Australia, reflecting more challenging conditions in that market.

On assessment against the earn-out criteria in 2013, an adjustment was made to the deferred consideration arising on the Intelenet acquisition in 2011 of £10.3 million.

In 2012, to mark Serco's 25th year as a publicly traded company dedicated to service excellence, Serco established the Serco Foundation as an independent charitable foundation. An exceptional payment of £5.0 million was made in 2012 to establish the charitable foundation.

(e) Investment revenue

Investment revenue decreased by £1.2 million, or 18.8 per cent. to £5.2 million for the 2013 Financial Year compared to £6.4 million for the 2012 Financial Year. This decrease is due to lower net interest receivable on retirement benefit obligations, which is partially offset by increase in movement in discount on other debtors.

(f) Exceptional other gain

On 15 November 2012, Serco acquired the remaining 50 per cent. equity stake in Defence Maritime Services ("DMS"), taking its equity ownership to 100 per cent. DMS was formerly accounted for as a joint venture and following the acquisition of further shares it became a wholly owned subsidiary. In accordance with IFRS 3 (Revised 2008) Business Combinations, before accounting for the purchase of the remaining equity stake, the value of the previously held 50 per cent. shareholding was restated to fair value on the acquisition date. This resulted in an exceptional gain of £51.1 million being recognised in the income statement in 2012. There were no exceptional other gains in 2013.

(g) Finance costs

	Financial Year		change	change per cent
	2013	2012		
	£ million			
Interest payable on non-recourse loans	0.8	0.9	(0.1)	(11.1)
Interest payable on obligations under finance leases	2.5	2.8	(0.3)	(10.7)
Interest payable on other loans	31.5	30.8	0.7	2.3
Facility fees and other charges	6.1	12.2	(6.1)	(50.0)
Movement in discount on provisions and deferred consideration	1.5	1.9	(0.4)	(21.1)
Total	<u>42.4</u>	<u>48.6</u>	<u>(6.2)</u>	<u>(12.8)</u>

Finance costs decreased by £6.2 million, or 12.8 per cent. to £42.4 million for the 2013 Financial Year compared to £48.6 million for the 2012 Financial Year. This was driven mainly by lower facility fees.

(h) Tax

The income tax expense for 2013 was based on the blended UK statutory rate of corporation tax for the period of 23.3 per cent. (2012: 24.5 per cent.). The impact of changes in statutory tax rates relates principally to the reduction of the UK corporation tax rate from 24 per cent. to 23 per cent. from 1 April 2013, which was enacted on 17 July 2012.

The income tax expense decreased by £29.1 million, or 74.6 per cent. to £9.9 million for the 2013 Financial Year compared to £39.0 million for the 2012 Financial Year.

The £9.9 million income tax expense in 2013 consists of a £38.7 million tax charge on profit before exceptional items, which is offset by a tax credit of £28.8 million relating to tax on exceptional items.

The £39.0 million income tax expense in 2012 consists of a £45.5 million tax charge on profit before exceptional items, which is offset by a tax credit of £6.5 million relating to tax on exceptional items.

5.3 Reconciliation of financial KPIs to IFRS results

(a) Trading Profit/(Loss)

The following table reconciles operating profit/(loss) for the year under IFRS to the non-IFRS measure of Trading Profit/(Loss) for the 2014, 2013 and 2012 Financial Years.

	Financial Year		
	2014	2013	2012
	£ million		
Operating (loss) / profit	(1,317.3)	145.5	287.2
Other expenses—amortisation and impairment of intangibles arising on acquisition	23.7	21.4	24.1
Exceptional loss / (profit) on disposal of subsidiaries and operations	5.4	(19.2)	(5.6)
Other exceptional operating items	656.1	109.7	5.0
Trading (Loss) / Profit for the year	(632.1)	257.4	310.7

(b) Trading EPS

The following table reconciles profit/(loss) for the year attributable to equity owners of the company to trading earnings for the 2014, 2013 and 2012 Financial Years. Trading EPS non-IFRS benchmark is also calculated below for the 2014, 2013 and 2012 Financial Years.

	Financial Year		
	2014	2013	2012
	£ million		
Profit / (loss) for the year	(1,347.1)	98.4	257.1
Other expenses—amortisation and impairment of intangibles arising on acquisition	23.7	21.4	24.1
Exceptional loss / (profit) on disposal of subsidiaries and operations	5.4	(19.2)	(5.6)
Other exceptional operating items	656.1	109.7	5.0
Exceptional other gain	—	—	(51.1)
Tax effect of above items	(21.0)	(34.3)	(11.9)
Trading Profit / (Loss) after tax	(682.9)	176.0	217.6
Non-controlling interest	(0.2)	—	(0.6)
Trading earnings	(683.1)	176.0	217.0
Weighted average number of shares (m)	521.5	489.0	491.2
Trading EPS (p) = (trading earnings ÷ weighted average number of shares) × 100	(131.0)	36.0	44.2

(c) Return on invested capital (“ROIC”)

The following table details the calculation of ROIC as at 31 December 2014, 31 December 2013 and 31 December 2012.

	As at 31 December 2014	As at 31 December 2013	As at 31 December 2012	As at 1 January 2012
	£ million			
Net (liabilities) / assets	(66.2)	1,095.9	1,128.9	1,003.8
Retirement benefit assets	(143.9)	(64.2)	(69.7)	(122.3)
Deferred tax assets	(37.4)	(57.9)	(40.1)	(25.0)
Current tax assets	(16.5)	(19.5)	(24.6)	(9.2)
Cash and cash equivalents	(180.1)	(125.1)	(142.8)	(194.6)
Derivative financial instruments	4.8	32.6	35.5	31.3
Current tax liabilities	12.6	10.4	9.6	6.4
Obligations under finance lease	26.5	68.0	50.2	44.9
Provisions	577.9	61.1	56.2	64.0
Loans	797.3	808.3	725.8	834.9
Retirement benefit obligations	17.4	11.3	38.0	75.8
Deferred tax liabilities	9.2	34.4	30.4	21.9
Invested capital at year end	1,001.6	1,855.3	1,797.4	1,731.9
Trading Profit	(632.1)	257.4	310.7	—
ROIC %	N/A	13.9	17.3	—
Trading Profit excluding impact of Onerous Contract Provisions, asset impairments and other charges on impairment of intangibles arising on acquisition . . .	113.2	257.4	310.7	—
ROIC % (excluding impact of Onerous Contract Provisions, asset impairments and other charges on impairment of intangibles arising on acquisition)	11.3	13.9	17.3	—

(d) Organic revenue reconciliation

The following table details the calculation of organic revenue growth for the 2014, 2013 and 2012 Financial Years.

Financial Year	Calculation for 2014		Calculation for 2013		Calculation for 2012	
	2014	2013	2013	2012	2012	2011
	£ million					
Revenue reported	3,955.0	4,284.2	4,284.2	4,056.8	4,056.8	3,788.5
Foreign exchange impact	177.9	—	37.5	—	(116.4)	—
Less revenues relating to acquisitions and disposals	(24.1)	(68.0)	(42.6)	(52.4)	(315.5)	(174.6)
Revenue for organic growth calculation	4,108.8	4,216.2	4,279.1	4,004.4	3,624.9	3,613.9
Organic Revenue Growth	(107.4)	—	274.7	—	11.0	—
Organic Revenue Growth Per Cent	(2.5)	—	6.9	—	0.3	—

(e) Reconciliation from former non-statutory measures

In order to provide comparability the tables presented show reconciliations from the Group's former non-statutory measures of Adjusted Revenue and Adjusted Operating Profit to the new performance measures of Revenue and Trading Profit.

	Financial Year		
	2014	2013 (restated)	2012 (restated)*
	£ million		
Adjusted Revenue	4,753	5,140	4,910
Less: Share of revenue of joint ventures	(798)	(856)	(853)
Revenue	<u>3,955</u>	<u>4,284</u>	<u>4,057</u>
Adjusted Operating (Loss)/Profit**	(580.4)	293.7	329.1
Transaction-related costs	(0.9)	(3.5)	(3.7)
Share of interest and tax of joint ventures	(7.9)	(11.8)	(14.7)
Management estimate items relating to UK Government reviews**	<u>(42.9)</u>	<u>(21.0)</u>	<u>—</u>
Trading (Loss)/Profit**	(632.1)	257.4	310.7
Amortisation and impairment of intangibles arising on acquisition	<u>(23.7)</u>	<u>(21.4)</u>	<u>(24.1)</u>
Operating (loss)/profit before exceptional items	(655.8)	236.0	286.6
Exceptional (loss)/profit on disposal of subsidiaries and operations	(5.4)	19.2	5.6
Exceptional other items	<u>(656.1)</u>	<u>(109.7)</u>	<u>(5.0)</u>
Operating (loss)/profit	(1,317.3)	145.5	287.2
Net Finance cost	(36.7)	(37.2)	(42.2)
Exceptional other gain	<u>—</u>	<u>—</u>	<u>51.1</u>
(Loss)/profit before tax	(1,354.0)	108.3	296.1
Tax credit/(charge)	6.9	(9.9)	(39.0)
(Loss)/profit after tax	<u>(1,347.1)</u>	<u>98.4</u>	<u>257.1</u>
Recourse net debt	(642.7)	(725.1)	(606.9)
Net debt	<u>(642.7)</u>	<u>(745.4)</u>	<u>(632.0)</u>
	<u>pence</u>	<u>pence</u>	<u>pence</u>
Trading earnings and loss per share	(130.99)	35.99	44.18
Earnings and loss per share before exceptional items	(134.96)	32.74	40.37
Earnings and loss per share	(258.35)	20.12	52.22
Dividend per share	3.10	10.55	10.10

* Restated for IFRS 11 and IAS 19R and a restatement of financial instruments

** Included in 2014 Trading Profit were charges totalling £745.3 million arising from the Contract & Balance Sheet Review undertaken in 2014, with £718.0 million charged to Adjusted Operating Profit and £27.3 million charged to Management estimate of items relating to UK Government reviews.

6. LIQUIDITY AND CAPITAL RESOURCES

6.1 Capitalisation and Indebtedness

(a) Capitalisation

The table below sets out the capitalisation of the Serco Group as at 31 December 2014.

The capitalisation and indebtedness information as at 31 December 2014 has been extracted without material adjustment from the Group's financial information incorporated by reference in Part VI (*Historical Financial Information Relating to the Serco Group*) of this document.

<u>31 December 2014</u>	<u>Directly identified</u>	<u>Held for sale</u>	<u>Total</u>
		£ million	
Total current debt			
Guaranteed	23.7	3.7	27.4
Secured	—	—	—
Unguaranteed/unsecured	20.2	0.8	21.0
	<u>43.9</u>	<u>4.5</u>	<u>48.4</u>
Total non-current debt (excluding current portion of long-term debt)			
Guaranteed	742.8	20.3	763.1
Secured	—	—	—
Unguaranteed/unsecured	10.6	—	10.6
	<u>753.4</u>	<u>20.3</u>	<u>773.7</u>
Shareholder's equity			
Share capital	11.0	—	11.0
Share premium account	327.9	—	327.9
Capital redemption reserve	0.1	—	0.1
Retained earnings	(306.0)	—	(306.0)
Retirement benefit obligations reserve	(89.0)	—	(89.0)
Share-based payment reserve	71.4	—	71.4
Own shares reserve	(64.5)	—	(64.5)
Hedging and translation reserve	(18.9)	—	(18.9)
Shareholder's equity total	<u>(68.0)</u>	<u>—</u>	<u>(68.0)</u>

The table above excludes amounts owed under finance leases. There has been no material change in the Company's capitalisation since 31 December 2014.

(b) The following table sets out the Company's net indebtedness as at 31 December 2014.

<u>31 December 2014</u>	<u>Directly identified</u>	<u>Held for sale</u>	<u>Total</u>
		£ million	
Cash and cash equivalents	180.1	22.4	202.5
Trading securities	—	—	—
Liquidity	<u>180.1</u>	<u>22.4</u>	<u>202.5</u>
Current financial receivable	<u>1.0</u>	<u>—</u>	<u>1.0</u>
Current bank debt	—	—	—
Current portion of non-current debt	(23.7)	—	(23.7)
Other current financial debt	(20.2)	(4.5)	(24.7)
Current financial debt	<u>(43.9)</u>	<u>(4.5)</u>	<u>(48.4)</u>
Net current financial indebtedness	<u>137.2</u>	<u>17.9</u>	<u>155.1</u>
Non current bank loans	(182.5)	—	(182.5)
Bonds issued	(560.3)	—	(560.3)
Other non current loans	(10.6)	(20.3)	(30.9)
Non current financial indebtedness	<u>(753.4)</u>	<u>(20.3)</u>	<u>(773.7)</u>
Net financial indebtedness	<u>(616.2)</u>	<u>(2.4)</u>	<u>(618.6)</u>

The Group has no indirect and contingent indebtedness.

The Group maintains committed credit facilities to ensure that it has sufficient liquidity to maintain its ongoing operations.

As at 31 December 2014, £185.0 million was drawn and £545.0 million undrawn under the Revolving Credit Facility. As at 10 March 2015, £275 million was drawn under the Revolving Credit Facility. The £730.0 million Revolving Credit Facility was signed in March 2012 and matures in March 2017. It is unsecured and contains financial and non-financial covenants and obligations typical of these arrangements.

In addition, at 31 December 2014 the Group had outstanding US Private Placement Notes of £584.8 million, £23.7 million of which is currently due to be repaid in 2015. The remaining £561.1 million is currently due as bullet repayments between 2016 and 2024. The size of these scheduled repayments will be reduced by the anticipated repayments to be made under the US Private Placement Notes from the Rights Issue proceeds, as described below.

At 31 December 2014, the Group also had drawn receivable financing facilities of £32.8 million (2013: £27.1 million) and had total facilities under the Receivables Financing Agreement of £60 million (2013: £60 million).

On 18 December 2014, Serco announced that it had reached agreement with the Lenders and the Noteholders to amend its financial covenants, including deferral of the next covenant testing date under the Facility Agreement and the Receivables Financing Agreement to 31 May 2015.

On 12 March 2015, Serco entered into further agreements with the Lenders and the Noteholders to amend and restate the Existing Finance Agreements on revised terms.

The main changes to the terms of the Facility Agreement include: (i) amendments to the terms of the financial covenants to avoid an anticipated future breach of the covenants by the Group; (ii) an extension of the term of the Revolving Credit Facility from March 2017 to the fourth anniversary of the completion of the Rights Issue, with an option for the parties to further extend to the fifth anniversary of the completion of the Rights Issue; and (iii) the reduction of the size of the Revolving Credit Facility from £730 million to £480 million (of which up to £200 million can be drawn by way of bonds).

The main changes to the terms of the Receivables Financing Agreement include: (i) reducing the size of the facility from £60 million to £30 million and (ii) extending the term to December 2016.

The main changes to the terms of the US Note Purchase Agreements are amendments to the terms of its covenants to avoid an anticipated future breach of the covenants by the Group under such agreements. The interest rates payable in respect of the different series of US Private Placement Notes will increase by between 0.20 per cent. and 1.45 per cent. depending on maturity. The amendments to the covenants under the US Note Purchase Agreements will be broadly identical to the amendments to the covenants under the Facility Agreement.

The amendments to the Existing Finance Agreements will only become effective upon the receipt by the Serco Group of the proceeds of the Rights Issue and the payment by the Company of £225 million under the US Note Purchase Agreements and confirmation that it will pay down £225 million (or, if less, the amount drawn) under the Facility Agreement from such proceeds.

(c) Debt covenants

The Revolving Credit Facility and the US Private Placement Notes are unsecured and have financial and non-financial covenants and obligations typical of these arrangements. The principal financial covenants (as defined) require leverage not to exceed 3.5 times Consolidated EBITDA and Consolidated EBITDA to cover interest at least 3.0 times. In December 2014, agreement was reached for the Group to defer its December 2014 covenant test until 31 May 2015, along with certain other amendments to ensure that the Group remained in compliance. In March 2015 further amendments were agreed, conditional on the receipt of Rights Issue proceeds and pay-down of up to £450 million of gross debt.

The covenant definition of consolidated total net borrowings represents Group recourse net debt at the balance sheet date adjusted to exclude encumbered cash, loan receivable amounts, and also adjusted to reflect the impact of currency hedges associated with recourse loans. The covenant definition of Consolidated EBITDA is as set out in paragraph 9.5 of Part X (*Additional Information*) of this document. The covenant test for 31 December 2014 has been deferred until 31 May 2015. When this is calculated at

that time, the covenant definitions will have been amended so that Consolidated EBITDA also excludes the impact of charges arising from the Contract & Balance Sheet Reviews and consolidated total net borrowings is calculated as if the net proceeds from the Rights Issue had been applied to reduce debt as at 31 December 2014.

For more information, see paragraph 3.6 “Funding strategy and changes in the Group’s indebtedness” above and in paragraphs 9.5, 9.6 and 9.7 of Part X (*Additional Information*) of this document.

6.2 Cash flows

(a) Overview

IFRS cash flow

The financial information in the table below setting forth the Serco Group’s consolidated cash flow statement for the 2014, 2013 and 2012 Financial Years has been extracted without material adjustment from the Serco Group’s published financial results as reported under IFRS.

	Financial Year		
	2014	2013	2012
	£ million		
Net cash inflow from operating activities before cash spend on special pension contribution and other exceptional items	103.5	111.3	225.9
Special contribution to defined benefit pension scheme	—	(19.7)	—
Other exceptional items	(40.4)	(83.7)	(5.0)
Net cash inflow from operating activities	63.1	7.9	220.9
Investing activities			
Interest received	2.7	2.6	2.5
Increase in security deposits	—	(0.2)	—
Dividends received from joint ventures	34.8	51.5	80.6
Proceeds from disposal of property, plant and equipment	5.8	4.6	20.9
Proceeds from disposal of intangible assets	1.1	0.4	0.1
Proceeds on disposal of subsidiaries and operations	1.9	40.6	131.0
Acquisition of subsidiaries, net of cash acquired	(6.5)	(18.6)	(141.8)
Acquisition of other investments	(3.5)	—	—
Purchase of other intangible assets	(20.0)	(27.8)	(49.9)
Purchase of property, plant and equipment	(23.4)	(38.9)	(47.4)
Net cash (outflow)/inflow from investing activities	(7.1)	14.2	(4.0)
Financing activities			
Interest paid	(42.3)	(40.8)	(47.1)
Dividends paid	(53.1)	(51.5)	(41.9)
Non-controlling interest dividends paid	—	(0.6)	(0.4)
Repayment of loans	(36.0)	(77.5)	(365.3)
Repayment of non recourse loans	(3.1)	(10.2)	(8.7)
New loan advances	17.4	176.5	216.3
Capital element of finance lease repayments	(18.2)	(4.9)	(2.4)
Purchase of own shares for Employee Share Ownership Trust (ESOT)	—	(16.0)	(16.0)
Costs of equity raising rights issue	(4.1)	—	—
Share placement net proceeds	156.3	—	—
Proceeds from issue of share capital related to exercise of share options	2.3	1.1	5.7
Net cash inflow/(outflow) from financing activities	19.2	(23.9)	(259.8)
Net increase/(decrease) in cash and cash equivalents	75.2	(1.8)	(42.9)
Cash and cash equivalents at beginning of year	125.1	142.8	194.6
Net exchange gain/(loss)	2.2	(15.9)	(8.9)
Cash reclassified to assets held for sale	(22.4)	—	—
Cash and cash equivalents at end of year	180.1	125.1	142.8

(b) Trading cash flow and free cash flow summary

The table below takes balances from the IFRS cash flow statement to calculate a trading cash flow and free cash flow result.

	Financial Year		
	2014	2013 (restated)	2012 (restated)
		£ million	
Cash flow from operating activities before exceptional items	103.5	111.3	225.9
Less: Tax (received) / paid	(0.1)	18.8	33.6
Dividends from joint ventures	34.8	51.5	80.6
Proceeds from disposal of tangible and intangible assets	6.9	5.0	21.0
Purchase of intangible assets	(20.0)	(27.8)	(49.9)
Purchase of tangible assets	(23.4)	(38.9)	(47.4)
Trading cash flow	101.7	119.9	263.8
Interest received	2.7	2.6	2.5
Interest paid	(42.3)	(40.8)	(47.1)
Tax received / (paid)	0.1	(18.8)	(33.6)
Free cash flow	62.2	62.9	185.6
Per Cent. Conversion of Trading Profit to trading cash flow	(16.1)	46.6	84.9
Per Cent. Conversion of Trading PAT to free cash flow	(9.1)	35.7	85.3

Trading cash flow

In 2014, trading cash flow decreased by £18.2 million, from a cash inflow of £119.9 million in 2013 to a cash inflow of £101.7 million in 2014, reflecting the £7.8 million lower operating cash flow and £16.7 million reduction in dividends from joint ventures, being partially offset by reduced capital expenditures on tangible and intangible assets. The Group reported a 2014 conversion rate of negative 16.1 per cent. of Trading Profits to trading cash flows, compared with the 46.6 per cent. conversion rate reported for 2013. Excluding the impact of the Contract & Balance Sheet Review charges on Trading Loss, the conversion in trading cash flow would have been 89.8 per cent. in 2014.

The decrease in absolute cash flow was due primarily to the substantial reduction in Trading Profit, which reduced cash flows by £179.5 million. This was partially offset by a lower working capital inflow of £15.4 million, an improvement of £152.8 million on 2013, as performance improved following the poor result in 2013. 2014 also benefitted from reduced capital expenditure on tangible and intangible assets which were £25.2 million lower than in 2013, although this was partially offset by lower dividends received from joint ventures, which were £16.7 million lower than in 2013.

In 2013, trading cash flow decreased by £143.9 million, from a cash inflow of £263.8 million in 2012 to a cash inflow of £119.9 million in 2013. This represented a conversion rate of 46.6 per cent. of Trading Profits to trading cash flows, a reduction from 2012 where the conversion rate was 84.9 per cent.

The decrease was due primarily to a significant working capital outflow in 2013 of £137.4 million, an increase in outflow of £107.7 million compared to 2012. This increase relates principally to timing differences between the period when costs are incurred in the delivery of the contract and the period when Serco can contractually bill the customer. Examples of this include: Shop Direct, where Serco has undertaken transition services in the first two years of the contract which may only be billed and recovered from the customer over a longer period; Defence Marine Services (“DMS”) in Australia, where there has been significant vessel maintenance in the year, with recovery spread over a longer period; and Fiona Stanley Hospital, where there has been spend related to the start of the contract which will be billed and recovered in a later period. There have additionally been outflows from the decline in the accelerated payment cycle from some of Serco’s customers in 2013 and delays to receipts from certain customers in AMEAA (Australasia, the Middle East, Asia and Africa). Further factors driving a decrease in trading cash flow in 2013 included lower dividends from joint ventures which were £51.5 million in 2013, a reduction of £29.1 million compared to 2012. This reduction was primarily a result of the DMS contract in Australia moving from being a joint venture to a fully owned business in 2012 from which point cash generated is reported in the operating cash flows of the group rather than joint venture dividends. Finally, the reduction in joint venture dividends was partially offset by lower net capital expenditure which was £61.7 million in 2013, compared to £76.3 million in 2012.

In 2012, trading cash flow amounted to a cash inflow of £263.8 million, representing a conversion of Trading Profits in to cash of 84.9 per cent. The business saw significant growth in 2012 where contract start-ups require an investment of working capital, consistent with previous years. The consequent working capital outflow of £29.7 million was the primary reason why 100 per cent. of profits were not converted in to cash.

Free cash flow

In 2014, free cash flow decreased by £0.7 million, from a cash inflow of £62.9 million in 2013 to a cash inflow of £62.2 million in 2014. Serco reported a trading loss for 2014 and therefore a profits conversion percentage is not meaningful. The small decrease in absolute free cash flow was a consequence of lower trading cash flow, largely offset by lower net tax payments, following the losses reported by group for the UK in 2014.

In 2013, free cash flow decreased by £122.7 million, from a cash inflow of £185.6 million in 2012 to a cash inflow of £62.9 million in 2013. The decrease was due primarily to the £143.9 million reduction in trading cash flows explained above, partially offset by a reduction in tax paid of £14.8 million. Overall, this represented a 35.7 per cent. conversion of after tax profits in to cash; the difference between this rate and the Trading Profit conversion rate of 46.6 per cent. is primarily the effect of timing differences between tax charged and tax paid.

In 2012, free cash flow amounted to a cash inflow of £185.6 million, being the £263.8 million of trading cash, explained above, reduced by interest and tax paid. Overall, this represented an 85.3 per cent. conversion of after tax profits in to cash.

Cash flow reconciled to net debt

The table below shows operating loss and free cash flow reconciled to movements in net debt.

	Financial Year	
	2014	2013
	£m	(Restated)
	£m	£m
Operating (loss)/profit	(1,317.3)	145.5
Less: exceptional items	661.5	90.5
Operating (loss)/profit before exceptional items	(655.8)	236.0
Less: profit from joint ventures	(30.0)	(47.1)
Non cash movements	772.2	78.6
Operating cash inflow before movements in working capital, exceptional items and tax	86.4	267.5
Working capital movements	17.0	(137.4)
Tax received/(paid)	0.1	(18.8)
Cash flow from operating activities before exceptional items	103.5	111.3
Dividends from joint ventures	34.8	51.5
Interest received	2.7	2.6
Interest paid	(42.3)	(40.8)
Proceeds from disposal of tangible and intangible assets	6.9	5.0
Purchase of intangible assets	(20.0)	(27.8)
Purchase of tangible assets	(23.4)	(38.9)
Free cash flow	62.2	62.9
Acquisition of subsidiaries net of cash acquired	(6.5)	(18.6)
Proceeds from disposal of subsidiaries and operations	1.9	40.6
Costs of equity rights issue	(4.1)	—
Proceeds from share placement	156.3	—
Purchase of own shares net of share option proceeds	2.3	(14.9)
Acquisition of other investments	(3.5)	—
Increase in security deposits	—	(0.2)
Capitalisation of loans costs	4.6	—
Amortisation of capitalised loan costs	(1.0)	—
Impairment of loan receivable	(4.6)	—

	Financial Year	
	2014	2013 (Restated)
	£m	£m
Non-recourse loan advances	(6.8)	(5.3)
New and acquired finance leases	(13.7)	(23.0)
Exceptional items	(40.4)	(103.4)
Dividends paid	(53.1)	(51.5)
Non-controlling dividends paid	—	(0.6)
Foreign exchange (loss)/gain on net debt	(30.4)	0.6
Movement in net debt including assets and liabilities held for sale	63.2	(113.4)
Assets held for sale movement in net debt	39.5	—
Net debt at 1 January	(745.4)	(632.0)
Net debt at 31 December	(642.7)	(745.4)

7. CONTRACTUAL OBLIGATIONS AND COMMERCIAL COMMITMENTS

7.1 Loans

The following table presents Serco's outstanding loans as at the date indicated.

<u>As at 31 December 2014</u>	<u>Non recourse loans</u>	<u>Other loans</u>	<u>Total</u>
	£ million		
Loans are repayable as follows:			
On demand or within one year	3.7	43.7	47.4
Between one and two years	3.7	32.1	35.8
Between two and five years	9.4	302.0	311.4
After five years	7.2	419.3	426.5
Total	24.0	797.1	821.1

The Group's £585 million US Private Placement Notes mature as follows:

GBP equivalent (£ million):

<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>Total</u>
24	32	0	64	45	13	186	45	80	96	585

7.2 Obligations under finance leases

The following table presents Serco's outstanding commitments under finance leases as at the date indicated.

<u>As at 31 December 2014</u>	<u>Minimum finance lease payments</u>
	£ million
Amounts payable under finance leases:	
Within one year	10.4
Between one and five years	17.5
After five years	0.1
Total	28.0

7.3 Operating lease commitments

Serco leases a number of its office properties, vehicles and other operating equipment under operating leases. Property leases are negotiated in line with market rates and terms. Leased vehicles are negotiated over an average lease term of 4 years.

The following table presents Serco's outstanding commitments under non-cancellable operating leases as at the date indicated.

	As at 31 December 2014
	£ million
Within one year	69.6
Between one and five years	160.3
After five years	57.5
Total	287.4

7.4 Pensions

(a) Defined benefit schemes

The Serco Group participates in/sponsors a number of defined benefit schemes and defined contribution schemes. The net retirement benefit asset included in the balance sheet arising from the Group's defined benefit pension scheme obligations was £101.1 million as at 31 December 2014, £42.7 million as at 31 December 2013 and £26.1 million as at 31 December 2012.

Serco has two main types of scheme which are accounted for as defined benefit pension schemes. These are:

Schemes where Serco is responsible for funding the scheme and cannot pass pension deficits back to the customer. For these schemes the Group charges the actuarial gain or loss for the period to the consolidated statement of comprehensive income ("SOCl"); and

Schemes where Serco has limited exposure to the funding of the scheme as it has recourse to its customer via the customer contract in place and therefore at the end of the contract or franchise life expects to transfer any deficit or surplus to the next contractor. For these schemes, the Group charges the actuarial gain or loss on its share of the deficit for the period to the SOCl, recognises as a liability the defined benefit obligation less fair value of scheme assets that it will fund over the period of the contract or franchise with a corresponding amount recognised as a recoverable intangible asset on the balance sheet at the start of the contract or franchise and amortises the intangible asset to the income statement over the contract or franchise life.

Defined benefit pension schemes	At 31 December 2014	At 31 December 2013
	£ million	
Retirement benefit assets	143.9	64.2
Retirement benefit obligations	(17.4)	(11.3)
Net retirement benefit asset	126.5	52.9
Intangible assets arising from rights to operate franchises and contracts	—	1.0
Deferred tax liabilities	(25.4)	(11.2)
	101.1	42.7
Key assumptions:		
Discount rate	3.60%	4.60%
Inflation rate of increase in pensions in payment	2.0% CPI and 3.0% RPI	2.5% CPI and 3.3% RPI
Life expectancy (years)		
Current pensioners at 65—male	87.5	87.5
Current pensioners at 65—female	90.0	89.9
Future pensioners at 65—male	89.3	89.2
Future pensioners at 65—female	92.0	91.9

The largest scheme sponsored by Serco which does not relate to a particular contract is the Serco Pension and Life Assurance Scheme ("SPLAS"). At 31 December 2014, SPLAS had a surplus of £143.9 million (surplus of £64.2 million as at 31 December 2013, surplus of £69.7 million as at 31 December 2012). This is calculated under IAS 19 Revised using market-derived rates at the respective year end dates. It therefore reflects the effect of the market conditions on investment returns in the period. The increase in the surplus

was driven principally by an increase in the value of Liability Driven Investments (“LDI”) assets in the year, coupled with a reduction in the inflation rate assumed when compared to last year. This more than offset the increase in the value of liabilities because of the effect of the 1.0 per cent. reduction in the AA corporate bond discount rate compared to the prior year. The sensitivity of the valuation of pension liabilities to changes in key assumptions provided in note 34 of Serco’s Financial Statements.

The estimated actuarial deficit of SPLAS, calculated using prudent trustee assumptions, was approximately £5 million as at 31 December 2014, £13 million as at 31 December 2013 and £11 million as at 31 December 2012. The value calculated in the latest triennial review was a deficit of £24 million at 5 April 2012. The main investments of this scheme are LDI that seek to reduce volatility by matching the liabilities of the scheme for changes in interest and inflation rates through a combination of gilts and corporate bonds with inflation and interest swap overlays. The Group continues to review the level of benefits and contributions under the scheme in the light of its business needs and changes to pension legislation.

On the 7 December 2014, the DLR contract and its associated defined benefit pension scheme ceased to be part of the Group. As a result, Serco ceased to be the participating employer in the DLR pension scheme. This has resulted in a reduction in the fair value of scheme assets of £130.5 million, present value of scheme liabilities of £161.7 million and the franchise adjustment of £31.2 million.

In addition to this, the National Physical Laboratory contract and its associated defined benefit pension scheme ceased to be part of the Group on 1 January 2015. As at 31 December 2014, the Group consolidated balance sheet included the scheme’s fair value of scheme assets of £104.6 million, present value of scheme liabilities of £127.5 million and franchise adjustment of £22.9 million.

In connection with the preparation of the audited consolidated financial statements; actuarial annual valuations have been updated to take into account changes in the underlying assumptions about, among other things, interest rates, inflation rates and demographic assumptions. The total pension gain recognised in the SOCI was £66.3 million in 2014, £6.8 million pension cost in 2013 and £82.7 million pension cost in 2012.

(b) *Defined contribution schemes*

The Group paid employer contributions of £84.2 million in 2014, £86.9 million in 2013 and £69.3 million in 2012; into UK and other defined contribution schemes and foreign state pension schemes.

7.5 Derivatives

The Group may use derivative financial instruments for the purpose of reducing its exposure to adverse fluctuations in interest rates and foreign exchange rates. The Group does not hold or issue derivative financial instruments for speculative purposes. Forward contracts and foreign exchange options are used to reduce the risk of adverse currency movements on certain forecast future cash transactions and for structural hedging. The policy on use of derivatives is approved by the Board.

The fair valuation of derivative financial instruments results in a net liability of £4.8 million (2013: £32.6 million) comprising non-current assets of £7.0 million (2013: £nil), current assets of £5.9 million (2013: £8.7 million), current liabilities of £17.7 million (2013: £20.2 million) and non-current liabilities of £nil (2012: £21.1 million).

	1 January 2014	Movement in fair value of derivatives designated in hedge accounting relationships	Movement in fair value of derivatives not designated in hedge accounting relationships	31 December 2014
	£ million			
Currency swaps	(0.6)	7.4	—	6.8
Forward foreign exchange contracts	(31.9)	0.2	20.1	(11.6)
Interest rate swaps	(0.1)	—	0.1	—
	<u>(32.6)</u>	<u>7.6</u>	<u>20.2</u>	<u>(4.8)</u>

	1 January 2013 (restated)	Movement in fair value of derivatives designated in hedge accounting relationships	Movement in fair value of derivatives not designated in hedge accounting relationships	31 December 2013 (restated)
	£ million			
Currency swaps	(0.6)	—	—	(0.6)
Forward foreign exchange contracts	(34.8)	—	2.9	(31.9)
Interest rate swaps	(0.1)	—	—	(0.1)
	<u>(35.5)</u>	<u>—</u>	<u>2.9</u>	<u>(32.6)</u>

As a result of a prior year adjustment, £1.0 million of movement in fair value of derivatives designated in hedge accounting relationships was moved to movement in fair value of derivatives not designated in hedge accounting relationships.

The fair value of financial liabilities at fair value through profit and loss is £17.3 million (2013: £40.4 million restated), and relates to derivatives that are not designated in hedge accounting relationships. The fair value of the derivatives and their credit risk adjusted fair value are not materially different, and are approximately equal to the amount contractually payable at maturity due to the short tenor of the instruments.

See note 33 to Serco's 2014 Financial Statements included in Part VI (*Historical Financial Information Relating to the Serco Group*) of this document for discussion of Serco's derivatives.

8. TAXATION

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

Taxes Received

The Group received net tax of £0.1 million in the 2014 Financial Year with income taxes paid of £25.9 million during the period, principally in the AsPac (£10.1 million), Americas (£5.9 million) and Global Services India (£4.2 million) divisions. The Group also received UK tax refunds of £26.0 million arising from carrying back tax losses to earlier periods and from surrendering some of its tax losses to its UK joint ventures.

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

Tax Charge

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

In 2014 the Group also recognised a £18.0 million credit on exceptional losses of £661.5 million. The credit represents the net impact of AsPac deferred tax arising on the impairment of the Australian rail business and deferred tax credits on provisions relating to other legal claims. There is only a limited tax credit

associated with these exceptional costs principally because no deferred tax credit is being recognised in respect of goodwill impairment and no deferred tax credit is being recognised on UK tax losses arising.

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

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

9. CAPITAL EXPENDITURE

Serco's net capital expenditure not related to acquisitions is defined as investments in property, plant and equipment and intangible assets, excluding acquisition-related intangibles.

For each of the 2014, 2013 and 2012 Financial Years, net capital expenditure not related to acquisitions was £59.0 million, £97.4 million and £131.1 million, respectively, and amounted to 1.5 per cent., 2.3 per cent. and 3.2 per cent. of revenue, respectively. Serco has as a relatively low percentage of assets when compared to the size of Serco in terms of revenue and number of employees due to the nature of Serco's business and operating model.

10. OFF-BALANCE SHEET ARRANGEMENTS AND CONTINGENT LIABILITIES

Serco does have certain off-balance sheet liabilities comprising Serco's contingent liabilities, including Serco's operating lease commitments. See notes 31 and 55 to Serco's Historical Financial Information included in Part VI (*Historical Financial Information Relating to the Serco Group*) of this document for discussion of Serco's contingent liabilities.

11. QUALITATIVE AND QUANTITATIVE DISCLOSURES ABOUT MARKET RISK

Serco is exposed to a variety of market and financial risks, including risks relating to liquidity, foreign currency, changes in interest rates, commodity prices and credit. The following discussion of these risks should be read together with note 33 to Serco's audited 2014 consolidated financial statements included elsewhere in this document.

Liquidity risk:

Liquidity risk is the risk that the Group may be unable to pay obligations when due. The Group manages this by maintaining committed funding, typically undrawn revolving credit facilities of at least £200 million above forecast requirements in the next 18 months. Please see note 33 to Serco's 2014 Financial Statements for further details on Serco's undrawn committed facilities and maturity dates for Serco's committed facilities.

Credit risk:

The Group's principal financial assets are cash and cash equivalents and trade and other receivables.

Credit risk is the risk that a counterparty could default on its contractual obligations. In this regard, the Group's principal exposure is to cash and cash equivalents, derivative transactions and trade receivables.

The Group's trade receivables credit risk is relatively low given that a high proportion of the Group's customer base are government bodies with strong sovereign, or sovereign like, credit ratings. However, where the assessed credit worthiness of a customer, government or non-government falls below that considered acceptable, appropriate measures are taken to mitigate against the risk of contractual default using instruments such as credit guarantees.

The Group's Treasury function only transacts with counterparties that comply with Board policy. The credit risk is measured by way of a counterparty credit rating and as a minimum any counterparty must have a long-term public rating of "Single A" from any two recognised rating agencies.

Pre-approved limits are set based on a rating matrix and exposures monitored accordingly. The Group also employs the use of set-off rights in some agreements.

Interest rate risk:

The Group's policy is to minimise the impact of interest rate volatility on earnings to provide an appropriate level of certainty to cost of funds. Exposure to interest rate risk arises principally on changes to US dollar and sterling interest rates.

Currency risk:

The Group has operations in a number of countries globally. Accordingly, its net assets are subject to foreign exchange rate movements. The Group's primary foreign currency exposures are to the US dollar, Australian dollar and Indian rupee. If the value of sterling strengthens then the value of non-sterling net assets will decline when translated into sterling and consolidated.

The Group incurs exposure to currency risk in two ways:

- operational currency risk—by incurring costs and generating revenues in currencies other than the currency of the primary environment in which the business units operate (non-functional currencies); or
- structural currency risk—by investing in overseas subsidiaries and operations.

The Group manages operational currency risk within its individual operations requiring material non-functional currency income and expenses to be hedged. It manages structural currency risk at a Group level through currency forwards within the limits that have been set.

The changes arising from retranslation of foreign subsidiaries' net asset positions from their functional currencies into pound sterling, taken through the translation reserve, therefore have no impact on profit for the period.

12. CRITICAL ACCOUNTING POLICIES

Critical accounting policies are those policies that require the application of the Group's management's most challenging, subjective or complex judgements, often as a result of the need to make estimates about the effect of matters that are inherently uncertain and may change in subsequent periods. Critical accounting policies involve judgements and uncertainties that are sufficiently sensitive to result in materially different results under different assumptions and conditions.

A detailed description of certain of the main accounting policies used in preparing the Group's historical financial information is set forth in notes 2 to 3 to the Group's consolidated audited financial statements included in the Group's Annual Report 2014, which are incorporated by reference in this document as described in Part VI (*Historical Financial Information Relating to the Serco Group*).

13. IFRS STANDARDS AND INTERPRETATIONS ISSUED AND NOT YET ADOPTED

IFRS standards and interpretations issued and not yet adopted are set forth in note 2 to the Group's consolidated audited financial statements included in the Group's Annual Report 2014, which are incorporated by reference in this document as described in Part VI (*Historical Financial Information Relating to the Serco Group*).

PART VI
HISTORICAL FINANCIAL INFORMATION RELATING TO THE SERCO GROUP

1. INCORPORATION BY REFERENCE

The Audited Financial Statements for the 2012, 2013 and 2014 Financial Years, which are available on the Company's website at www.serco.com, together with the unqualified independent audit reports issued by Deloitte LLP in respect of those financial statements, are hereby incorporated by reference into this document.

2. CROSS REFERENCE LIST

The following list is intended to enable Shareholders to identify easily specific items of financial information which have been incorporated by reference into this document.

2.1 Consolidated financial statements for the Group for the 2014 Financial Year and the unqualified audit report thereon

The page numbers below refer to the relevant pages of the Company's Annual Report 2014:

Independent auditor's report to the members of Serco	pages 134 - 138
Consolidated income statement	page 139
Consolidated statement of comprehensive income	page 140
Consolidated statement of changes in equity	page 141
Consolidated balance sheet	page 142
Consolidated cash flow statement	page 143
Notes to the group financial statements	pages 144 - 206

2.2 Consolidated financial statements for the Group for the 2013 Financial Year and the unqualified audit report thereon

The page numbers below refer to the relevant pages of the Company's Annual Report 2013:

Independent auditor's report to the members of Serco	pages 109 - 112
Consolidated income statement	page 113
Consolidated statement of comprehensive income	page 114
Consolidated statement of changes in equity	page 115
Consolidated balance sheet	page 116
Consolidated cash flow statement	page 117
Notes to the group financial statements	pages 118 - 169

2.3 Consolidated financial statements for the Group for the 2012 Financial Year and the unqualified audit report thereon

The page numbers below refer to the relevant pages of the Company's Annual Report 2012:

Independent auditor's report to the members of Serco	page 115
Consolidated income statement	page 116
Consolidated statement of comprehensive income	page 116
Consolidated statement of changes in equity	page 117
Consolidated balance sheet	page 118
Consolidated cash flow statement	page 119
Notes to the group financial statements	pages 120 - 176

PART VII
UNAUDITED PRO FORMA FINANCIAL INFORMATION

SECTION A: UNAUDITED PRO FORMA FINANCIAL INFORMATION

The unaudited pro forma statement of net assets of the Serco Group set out below has been prepared on the basis set out in the notes below to illustrate the impact of the Rights Issue, the repayment of debt under the Facility Agreement and the US Private Placement Notes, and the amendments to the Group's Existing Finance Agreements on the net assets of the Serco Group as at 31 December 2014 as if they had taken place at that date.

The unaudited pro forma statement of net assets has been prepared for illustrative purposes only and, by its nature, addresses a hypothetical situation and does not, therefore, represent the Serco Group's actual financial position or results.

The unaudited pro forma statement of net assets does not constitute financial statements within the meaning of section 434 of the Companies Act 2006. Shareholders should read the whole of this document and not rely solely on the summarised financial information contained in this Part VII (*Unaudited Pro Forma Financial Information*). Deloitte LLP's report on the unaudited pro forma statement of net assets is set out in Section B of this Part VII (*Unaudited Pro Forma Financial Information*).

The unaudited pro forma financial information has not been prepared, or shall not be construed as prepared, in accordance with Regulation S-X under the Securities Act. In addition, the unaudited pro forma financial information does not purport to represent what the Serco Group's financial position and results of operations actually would have been if the Rights Issue had been completed on the date indicated nor does it purport to represent the results of operations for any future period or the financial condition at any future date.

The unaudited pro forma financial information does not take into account trading of the Serco Group subsequent to the period end balance sheet date of 31 December 2014.

Unaudited pro forma net assets statement

	Serco Group as at 31 December 2014 ⁽¹⁾	Adjustments		Total
		Rights Issue ⁽²⁾	Repayment of debt and amendment of debt facilities ⁽³⁾	
	£ million			
Non-current assets				
Goodwill	541.5	—	—	541.5
Other intangible assets	118.8	—	—	118.8
Property, plant and equipment	38.4	—	—	38.4
Interests in joint ventures	1.6	—	—	1.6
Trade and other receivables	38.1	—	—	38.1
Derivative financial instruments	7.0	—	—	7.0
Deferred tax assets	37.4	—	—	37.4
Retirement benefit assets	143.9	—	—	143.9
Non-current assets	926.7	—	—	926.7
Current assets				
Inventories	31.2	—	—	31.2
Trade and other receivables	498.8	—	—	498.8
Current tax assets	16.5	—	—	16.5
Cash and cash equivalents	180.1	527.8	(440.0)	267.9
Derivative financial instruments	5.9	—	—	5.9
Current assets	732.5	527.8	(440.0)	820.3
Assets classified as held for sale	564.7	—	—	564.7
Total assets	2,223.9	527.8	(440.0)	2,311.7
Current liabilities				
Trade and other payables	(581.9)	—	—	(581.9)
Derivative financial instruments	(17.7)	—	—	(17.7)
Current tax liabilities	(12.6)	—	—	(12.6)
Provisions	(205.7)	—	—	(205.7)
Obligations under finance leases	(9.6)	—	—	(9.6)
Loans	(43.9)	—	—	(43.9)
Current liabilities	(871.4)	—	—	(871.4)
Liabilities directly associated with assets classified as held for sale	(219.9)	—	—	(219.9)
	(1,091.3)	—	—	(1,091.3)
Non-current liabilities				
Trade and other payables	(29.7)	—	—	(29.7)
Derivative financial instruments	—	—	—	—
Deferred tax liabilities	(9.2)	—	—	(9.2)
Provisions	(372.2)	—	—	(372.2)
Obligations under finance leases	(16.9)	—	—	(16.9)
Loans	(753.4)	—	413.6	(339.8)
Retirement benefit obligations	(17.4)	—	—	(17.4)
Non-current liabilities	(1,198.8)	—	413.6	(785.2)
Total liabilities	(2,290.1)	—	413.6	(1,876.5)
Net (liabilities)/assets	(66.2)	527.8	(26.4)	435.2
Net debt⁽⁴⁾	(658.2)			(156.8)
Net debt to Consolidated EBITDA ratio⁽⁵⁾ . . .	3.4			0.8

Notes:

- (1) The net assets of the Serco Group as at 31 December 2014 have been extracted without adjustment from Serco Group's 2014 Financial Statements, as incorporated by reference in Part VI (*Historical Financial Information Relating to the Serco Group*) of this document.
- (2) Adjustment to reflect the net proceeds of the Rights Issue receivable by the Company of approximately £527.8 million (being gross proceeds of £554.8 million less estimated fees relating to the Rights Issue of approximately £27 million, excluding VAT).

- (3) Adjustments to reflect:
- (a) part utilisation of the net proceeds of the Rights Issue for the repayment of the Group's Revolving Credit Facility (£185 million drawn as at 31 December 2014) and part repayment of the US Private Placement Notes (£225 million);
 - (b) £30 million fees and expenses in connection with the repayment of the Group's borrowings and the amendments to the Existing Finance Agreements; and
 - (c) the write-off of £3.4 million of unamortised finance costs in relation to the Existing Financings.
- (4) Based on consolidated total net borrowings (as defined for covenant purposes).
- (5) Based on the 2014 reported Consolidated EBITDA of £192.5 million.

SECTION B: ACCOUNTANTS' REPORT ON THE UNAUDITED PRO FORMA FINANCIAL
INFORMATION ON THE SERCO GROUP

Deloitte.

Deloitte LLP
Athene Place
66 Shoe Lane
London
EC4A 3BQ

The Board of Directors
on behalf of Serco Group plc
Serco House
16 Bartley Wood Business Park
Bartley Way
Hook
Hampshire
RG27 9UY

J.P. Morgan Securities plc
25 Bank Street
Canary Wharf
London
E14 5JP

Merrill Lynch International
2 King Edward Street
London
EC1A 1HQ

12 March 2015

Dear Sirs,

Serco Group plc (the "Company")

We report on the pro forma financial information (the "Pro forma financial information") set out in Part VII of the prospectus dated 12 March 2015 (the "Prospectus"), which has been prepared on the basis described in Section A and notes 1 to 5, for illustrative purposes only, to provide information about how the proposed Rights Issue and the repayment of debt under the Facility Agreement and the US Private Placement Notes, and the amendments to the Group's Existing Finance Agreements might have affected the financial information presented on the basis of the accounting policies adopted by the Company in preparing the financial statements for the period ended 31 December 2014. This report is required by the Commission Regulation (EC) No 809/2004 (the "Prospectus Directive Regulation") and is given for the purpose of complying with that requirement and for no other purpose.

Responsibilities

It is the responsibility of the directors of the Company (the "Directors") to prepare the Pro forma financial information in accordance with Annex II items 1 to 6 of the Prospectus Directive Regulation.

It is our responsibility to form an opinion as to the proper compilation of the Pro forma financial information and to report that opinion to you in accordance with Annex II item 7 of the Prospectus Directive Regulation.

Save for any responsibility arising under Prospectus Rule 5.5.3R (2)(f) to any person as and to the extent there provided, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in connection with this report or our statement, required by and given solely for the purposes of complying with Annex I item 23.1 of the Prospectus Directive Regulation, consenting to its inclusion in the Prospectus.

In providing this opinion we are not updating or refreshing any reports or opinions previously made by us on any financial information used in the compilation of the Pro forma financial information, nor do we

accept responsibility for such reports or opinions beyond that owed to those to whom those reports or opinions were addressed by us at the dates of their issue.

Basis of Opinion

We conducted our work in accordance with the Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. The work that we performed for the purpose of making this report, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the Pro forma financial information with the Directors.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with reasonable assurance that the Pro forma financial information has been properly compiled on the basis stated and that such basis is consistent with the accounting policies of the Company.

Our work has not been carried out in accordance with auditing or other standards and practices generally accepted in jurisdictions outside the United Kingdom, including the United States of America, and accordingly should not be relied upon as if it had been carried out in accordance with those standards or practices.

Opinion

In our opinion:

- (a) the Pro forma financial information has been properly compiled on the basis stated; and
- (b) such basis is consistent with the accounting policies of the Company.

Declaration

For the purposes of Prospectus Rule 5.5.3R(2)(f) we are responsible for this report as part of the Prospectus and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the Prospectus in compliance with Annex I item 1.2 of the Prospectus Directive Regulation.

Yours faithfully

Deloitte LLP
Chartered Accountants

Deloitte LLP is a limited liability partnership registered in England and Wales with registered number OC303675 and its registered office at 2 New Street Square, London EC4A 3BZ, United Kingdom. Deloitte LLP is the United Kingdom member firm of Deloitte Touche Tohmatsu Limited (“DTTL”), a UK private company limited by guarantee, whose member firms are legally separate and independent entities. Please see www.deloitte.co.uk/about for a detailed description of the legal structure of DTTL and its member firms.

PART VIII TAXATION

1. GENERAL

The comments below are of a general and non-exhaustive nature based on the Directors' understanding of current tax law and published practice in the United Kingdom and the United States, which is subject to change, possibly with retrospective effect. The acquisition, ownership and disposal of Ordinary Shares in the Company and Nil Paid Rights and the lapse of rights to New Ordinary Shares each involves a number of complex tax considerations. Changes in tax legislation in any of the countries in which the Company has assets or carries on business, in the United Kingdom (or in any other country in which a subsidiary of the Company through which acquisitions are made is located), or in the United States or changes in tax treaties negotiated by those countries, could adversely affect the returns from the Company to investors or increase the tax liabilities of Qualifying Shareholders.

Shareholders who are in any doubt as to their taxation position should consult their own independent professional advisers on the potential tax consequences regarding the acquisition, holding or disposal of New Ordinary Shares or Nil Paid Rights or the lapse of rights to New Ordinary Shares under the laws of their country and/or state of citizenship, domicile or residence.

2. UK TAXATION

The following statements do not constitute tax advice and are intended to apply only as a general guide to current UK tax law and to the current published practice of HMRC, both of which are subject to change possibly with retrospective effect. They are intended to apply only to Qualifying Shareholders who (unless the position of non-UK resident shareholders is expressly referred to) are resident and (in the case of individuals) domiciled in the United Kingdom for UK tax purposes (and not in any other territory), who hold their Ordinary Shares directly as investments (other than in an individual savings account or self-invested personal pension) and who are the absolute beneficial owners of their Ordinary Shares and any dividends paid on them and who have not acquired (or been deemed to have acquired) their Ordinary Shares through any form of option arrangements or by reason of their or another person's employment. The statements may not apply to certain classes of shareholders such as dealers in securities or Qualifying Shareholders who are trustees or who hold their Ordinary Shares through any form of investment vehicle.

Qualifying Shareholders who are in any doubt as to their tax position regarding the acquisition, ownership and disposal of the New Ordinary Shares or Nil Paid Rights or the lapse of rights to New Ordinary Shares or who are subject to tax in a jurisdiction other than the United Kingdom should consult their own tax advisers.

2.1 Taxation of chargeable gains

(a) *Rights Issue*

The issue of the New Ordinary Shares by the Company to Qualifying Shareholders by way of the Rights Issue should constitute a reorganisation of the Company's share capital for the purposes of UK taxation of chargeable gains. Accordingly, a Qualifying Shareholder should not be treated as making a disposal, for the purposes of the taxation of chargeable gains, of any part of its Existing Ordinary Shares by reason of taking up its rights to New Ordinary Shares. No liability to taxation on chargeable gains should arise in respect of the issue of New Ordinary Shares to the extent that a Qualifying Shareholder takes up his full entitlement.

For the purposes of the taxation of chargeable gains, if a Qualifying Shareholder takes up all or any of its rights to the New Ordinary Shares its holding of Existing Ordinary Shares and its New Ordinary Shares should be treated as the same asset, acquired at the same time as the Existing Ordinary Shares were acquired. The amount paid for the New Ordinary Shares should be added to the acquisition cost of its Existing Ordinary Shares.

(b) *Disposals*

If a Qualifying Shareholder sells or otherwise disposes of all or any of its rights to New Ordinary Shares, or if a Qualifying Shareholder allows its rights to lapse and receives a cash payment in respect of them, that Shareholder may, depending on its circumstances (including the availability of exemptions, reliefs and/or allowable losses), incur a liability to taxation on chargeable gains or realise an allowable loss.

If the proceeds resulting from a lapse or disposal of the rights are “small” compared with the market value (on the date of lapse or disposal) of that Qualifying Shareholder’s holding of Existing Ordinary Shares and the proceeds do not exceed the total acquisition cost of the Existing Ordinary Shares owned, a Qualifying Shareholder can be treated as not having made a disposal for the purposes of tax on chargeable gains and instead the proceeds can be deducted from the acquisition cost of the Existing Ordinary Shares for the purposes of computing any chargeable gain or allowable loss on a subsequent disposal. HMRC’s current practice is that “small” for these purposes means either (i) the proceeds of the disposal or lapse of rights do not exceed 5 per cent. of the market value (at the date of the disposal or lapse) of the shares in respect of which the rights arose or (ii) the amount of the proceeds is £3,000 or less, regardless of whether the 5 per cent. test is satisfied.

Where the proceeds are not “small” or the proceeds exceed the total acquisition cost of the Existing Ordinary Shares owned, a part disposal is deemed to have occurred and the Qualifying Shareholder may, depending on his circumstances (including the availability of exemptions, reliefs and/or allowable losses), incur a liability to taxation on chargeable gains or realise an allowable loss.

Where the proceeds exceed the total acquisition cost of the Existing Ordinary Shares owned, the Qualifying Shareholder will be treated as making a part disposal for the purposes of tax on chargeable gains. In such circumstances, taxpayer may be able to elect to deduct that acquisition cost from the proceeds, reducing to nil the amount of such costs which shall be allowable as a deduction in computing a gain for subsequent disposals. Where such a Shareholder does not elect for this approach, the normal part disposal rules apply and the acquisition cost used in the calculation of any resulting gain or loss as a result of the part disposal is apportioned by reference to the proceeds receivable and the market value of the shares retained.

(c) Subsequent sale of New Ordinary Shares by individuals

Following an acquisition of New Ordinary Shares, a subsequent disposal or deemed disposal of any such shares by a Qualifying Shareholder who is an individual within the charge to UK capital gains tax may, depending upon the Qualifying Shareholder’s circumstances and subject to any available exemption or relief (such as the annual exempt amount for individuals or other applicable reliefs), give rise to a chargeable gain or an allowable loss for the purposes of UK taxation of capital gains.

Individuals who are temporarily non-UK resident may, in certain circumstances, be subject to tax on their return to the United Kingdom in respect of gains realised whilst they are not resident in the United Kingdom.

(d) Subsequent sale of New Ordinary Shares by companies

Following an acquisition of New Ordinary Shares, a subsequent disposal or deemed disposal of any such shares by a Qualifying Shareholder who is a company within the charge to UK corporation tax may, depending upon the Qualifying Shareholder’s circumstances and subject to any available exemption or relief (such as indexation), give rise to a chargeable gain or an allowable loss for the purposes of UK corporation tax.

In calculating any such chargeable gain Qualifying Shareholders may claim an indexation allowance in respect of the subscription monies and acquisition costs paid for their Existing Ordinary Shares and New Ordinary Shares. Where shares have been purchased on different dates, consideration will need to be given to the “pooling” rules to determine the correct indexed acquisition cost available to set off against the consideration proceeds to calculate the chargeable gain arising. The indexation allowance will generally only apply from the date the shareholder became liable to make or made payment of the subscription monies and/or acquisition costs. It may not be used to create or increase an allowable loss.

2.2 Taxation of dividends

The Company will not be required to withhold tax at source from dividend payments it makes.

(a) Individuals

An individual Qualifying Shareholder who is resident in the United Kingdom for tax purposes and who receives a dividend from the Company will generally be entitled to a tax credit which may be set off against his total income tax liability on the dividend. Such an individual Qualifying Shareholder’s liability to income tax is calculated on the aggregate of the cash dividend received and the tax credit (the “**gross dividend**”) which will be regarded as the top slice of the individual’s income. The tax credit will be equal to

10 per cent. of the gross dividend (i.e. the tax credit will be one-ninth of the amount of the cash dividend received).

A UK resident individual Qualifying Shareholder who is not liable to income tax in respect of the gross dividend will not be entitled to any repayment from HMRC in respect of any part of the tax credit.

A UK resident individual Qualifying Shareholder who is liable to income tax at a rate not exceeding the basic rate will be subject to income tax on the dividend at the rate of 10 per cent. (for the 2014/15 tax year) of the gross dividend so that the tax credit will satisfy in full such Qualifying Shareholder's liability to income tax on the dividend.

A UK resident individual Qualifying Shareholder liable to income tax at the higher rate will be subject to income tax on the gross dividend at 32.5 per cent. (for the 2014/15 tax year) to the extent that such sum, when treated as the top slice of such Qualifying Shareholder's income, falls above the threshold for higher rate income tax. However, such a Qualifying Shareholder will be able to set the tax credit off against part of this liability. The effect of that set-off of the tax credit is that such a Qualifying Shareholder will have to account for additional tax equal to 22.5 per cent. of the gross dividend (which is also equal to 25 per cent. of the cash dividend received).

A UK resident individual Qualifying Shareholder liable to income tax at the additional rate will be subject to tax on the gross dividend at the rate of 37.5 per cent. (for the 2014/15 tax year) to the extent that such sum, when treated as the top slice of such Qualifying Shareholder's income, falls above the threshold for the additional rate of income tax. However, such a Qualifying Shareholder will be able to set the tax credit off against part of this liability. The effect of that set-off of the tax credit is that such a Qualifying Shareholder will have to account for additional tax equal to 27.5 per cent. of the gross dividend, to the extent that the gross dividend fell above the threshold for the additional rate of income tax. This is equivalent to approximately 30.6 per cent. of the cash dividend received.

In all circumstances, the dividend tax credit is notional only and non-refundable.

(b) Companies

Qualifying Shareholders within the charge to UK corporation tax which are "small companies" (for the purposes of Chapter 2 of Part 9A of the Corporation Tax Act 2009 ("CTA 2009")) will not generally be subject to UK corporation tax on any dividend received from the Company.

Qualifying Shareholders within the charge to UK corporation tax that are not "small companies" will not be subject to UK tax on dividends received from the Company so long as the dividends fall within an exempt class under Chapter 3 of Part 9A CTA 2009 and certain conditions are met. Examples of dividends that fall within exempt classes include dividends paid on shares that are non-redeemable ordinary shares and dividends paid to a person holding less than 10 per cent. of the issued share capital of (and economic interest in) the payer (or any class of that share capital in respect of which the distribution is made). The exemptions are not comprehensive and are subject to anti-avoidance rules. If the conditions for exemption are not or cease to be satisfied, or such a Shareholder elects for an otherwise exempt dividend to be taxable, the Shareholder will be subject to UK corporation tax on dividends received from the Company. Corporation tax would be charged on such dividends at the rate applicable to that company.

(c) Other UK Qualifying Shareholders

Other Qualifying Shareholders in the UK which are not liable to UK tax on dividends, including pension funds and charities, will not be entitled to any payment from HMRC in respect of the tax credit attaching to any dividend paid by the Company.

2.3 Stamp duty and SDRT

(a) Rights Issue

No stamp duty or SDRT will generally be payable on: the issue of Provisional Allotment Letters or definitive share certificates; the registration of the original holders of Provisional Allotment Letters or their renounees; the crediting of the Nil Paid Rights or Fully Paid Rights to stock accounts in CREST; or the issue in uncertificated form of the New Ordinary Shares (other than as explained in paragraph 2.3(c) below).

The transfer of Nil Paid Rights or Fully Paid Rights represented by a Provisional Allotment Letter or held in CREST (other than a transfer to a depositary or clearance service or their nominees or agents) on or

before the latest time for registration or renunciation or transfer, will not generally be liable to stamp duty but will normally be liable to SDRT at the rate of 0.5 per cent. of the actual consideration paid. In the case of transfers within CREST, any SDRT due will be collected through CREST in accordance with the CREST rules.

Where such a purchase is effected through a stockbroker or other financial intermediary, that person will normally account to HMRC for the SDRT and should indicate that this has been done in any contract note issued to the purchaser. In other cases, the acquirer of the rights to the New Ordinary Shares represented by the Provisional Allotment Letters is liable to pay the SDRT and must account for it to HMRC. Any SDRT arising on the transfer of Nil Paid Rights or Fully Paid Rights held in CREST should be collected and accounted for to HMRC by CREST.

(b) *Subsequent transfers*

Stamp duty at the rate of 0.5 per cent. (rounded up to the next multiple of £5) of the amount or value of the consideration given is generally payable on an instrument transferring New Ordinary Shares. A charge to SDRT will also arise on an unconditional agreement to transfer New Ordinary Shares (at the rate of 0.5 per cent. of the amount or value of the consideration payable). However, if within six years of the date of the agreement becoming unconditional, an instrument of transfer is executed pursuant to the agreement, and that instrument is either duly stamped (after stamp duty has been paid) or is not chargeable with stamp duty or otherwise required to be stamped, any SDRT already paid will be refunded (generally, where the tax repaid is not less than £25, with interest at the relevant prevailing rate from the date on which the payment was made until the order for repayment is issued) **provided that** a claim for payment is made, and any outstanding liability to SDRT will be cancelled. The liability to pay stamp duty or SDRT is generally satisfied by the purchaser or transferee. An exemption from stamp duty is available on an instrument transferring New Ordinary Shares where the amount or value of the consideration is £1,000 or less, and it is certified on the instrument that the transaction effected by the instrument does not form part of a larger transaction or series of transactions for which the aggregate consideration exceeds £1,000.

Paperless transfers of New Ordinary Shares within CREST are generally liable to SDRT, rather than stamp duty, at the rate of 0.5 per cent. of the amount or value of the consideration. CREST is obliged to collect SDRT on relevant transactions settled within the system. Under the CREST system, no stamp duty or SDRT will arise on a transfer of New Ordinary Shares into the system unless such a transfer is made for a consideration in money or money's worth, in which case a liability to SDRT (usually at a rate of 0.5 per cent.) will arise.

(c) *New Ordinary Shares held through clearance services or depositary receipt schemes*

Under current UK law, but subject to the comments which follow, where New Ordinary Shares are issued or transferred (a) to, or to a nominee for, a person whose business is or includes the provision of clearance services or (b) to, or to a nominee or agent for, a person whose business is or includes issuing depositary receipts, stamp duty or SDRT will generally be payable at the higher rate of 1.5 per cent. of the amount or value of the consideration payable or, in certain circumstances, the value of the New Ordinary Shares (rounded up to the next multiple of £5 in the case of stamp duty). This liability for stamp duty or SDRT will strictly be for the account of the depositary or clearance service operator or their nominee or agent, as the case may be, but will, in practice, generally be reimbursed by participants in the clearance service or depositary receipt scheme. Transfers within the clearance service, and transfers of depositary receipts, are then generally made free of SDRT or stamp duty. Clearance services may opt, provided certain conditions are satisfied, for the normal rates of stamp duty or SDRT to apply to issues or transfers of New Ordinary Shares into, and to transactions within, such services instead of the 1.5 per cent. charge generally applying to an issue or transfer of New Ordinary Shares into the clearance service and instead of the exemption from SDRT on transfers of New Ordinary Shares whilst in the clearance service.

Following litigation, HMRC have confirmed that they will no longer seek to apply the 1.5 per cent. SDRT charge on an issue of shares to a clearance service or depositary receipts arrangement on the basis that the charge is not compatible with EU law. HMRC's view is that the 1.5 per cent. stamp duty or SDRT charge will continue to apply to transfers of shares into a clearance service or depositary receipts arrangement unless they are an integral part of an issue of share capital. This view is currently being challenged in further litigation. Accordingly it may be appropriate to seek specific professional advice before incurring a 1.5 per cent. stamp duty or SDRT charge in any circumstances.

The above statements in this paragraph 2.3 apply to any Qualifying Shareholders irrespective of their residence and are intended only as a general guide to the current UK stamp duty and SDRT position. Transfers to certain categories of person are not liable to stamp duty or SDRT and others may, although not primarily liable for SDRT, be required to notify and account for it.

3. US FEDERAL INCOME TAX CONSIDERATIONS

The following is a discussion of certain US federal income tax consequences of the receipt, exercise and disposition of Nil Paid Rights pursuant to the Rights Issue, as well as the acquisition, ownership and disposition of New Ordinary Shares. This summary addresses only US Holders (as defined below) that receive Nil Paid Rights with respect to Existing Ordinary Shares in the Rights Issue, hold Nil Paid Rights and, if applicable, New Ordinary Shares as capital assets (generally, property held for investment) and use the US dollar as their functional currency. In particular, this summary does not discuss all of the tax considerations that may be relevant to certain types of investor subject to special treatment under the US federal income tax laws such as banks and other financial institutions, individual retirement accounts and other tax-deferred accounts, tax-exempt organisations, dealers in securities or currencies, traders in securities that elect to use a mark-to-market method of accounting, persons that own (or are deemed to own) 10 per cent. or more (by voting power) of the shares of Serco, persons who have ceased to be US citizens or to be taxed as US lawful permanent residents, and investors that will hold the New Ordinary Shares as part of straddles, hedging or conversion transactions, or as part of a synthetic security for US federal income tax purposes.

For the purposes of this summary, a “**US Holder**” is a beneficial owner of Nil Paid Rights, Fully Paid Rights or New Ordinary Shares that is, for US federal income tax purposes, (a) a citizen of or an individual resident in the United States, (b) a corporation created in or organised under the laws of the United States or any state thereof or the District of Columbia, (c) an estate, the income of which is subject to US federal income taxation regardless of its source or (d) a trust, if a court within the United States is able to exercise primary supervision over its administration and one or more US Persons (as defined in the US Internal Revenue Code of 1986 (the “**Code**”)) have the authority to control all of the substantial decisions of such trust.

This summary does not address US Holders that are partnerships (or any other entity treated as a partnership for US federal income tax purposes) or holders of equity interests in a US Holder. If a partnership (or any other fiscally transparent entity) holds Nil Paid Rights or New Ordinary Shares, the tax treatment of a partner in such partnership generally will depend upon the status of the partner and the activities of the partnership. Any such partner or partnership should consult their tax advisers as to the US federal income tax consequences to them of the partnership’s receipt, exercise and disposition of Nil Paid Rights as well as the partnership’s acquisition, ownership and disposition of New Ordinary Shares.

This summary is based upon current US federal income tax law, including the Code, its legislative history, existing, temporary and proposed regulations thereunder, published rulings and court decisions, all of which are subject to change, possibly with retroactive effect.

Serco expects, and this discussion assumes, that it will not be a passive foreign investment company (a “**PFIC**”) (see below at paragraph 3.4 of this Part VIII (*Taxation*)).

This summary does not purport to be a comprehensive description of all tax considerations that may be relevant to a US Holder and does not address the application of the alternative minimum tax, the Medicare contribution tax, state, local or non-US or other tax laws. No ruling will be sought from the U.S. Internal Revenue Service (the “**IRS**”) with respect to any statement or conclusion in this summary, and there can be no assurance that the IRS will not challenge any particular statement or conclusion in this summary or, if challenged, that a court will uphold such statement or conclusion. US Holders should consult their own tax advisers regarding the tax consequences of the receipt, exercise and disposition of Nil Paid Rights pursuant to the Rights Issue, as well as the acquisition, ownership and disposition of New Ordinary Shares.

3.1 Taxation of Nil Paid Rights

(a) *Receipt of Nil Paid Rights*

The proper US federal income tax characterisation of the issuance of Nil Paid Rights is uncertain because (i) the proper characterisation of any subsequent sale by the Underwriters of such Nil Paid Rights and the remittance of the proceeds from that sale to US Holders whose Nil Paid Rights were sold is unclear and

(ii) it is not at present certain what, if any, adjustments will be made to the conversion ratios for options issued under the Serco Employee Share Schemes following the Rights Issue. Under US federal income tax principles, the issuance and subsequent sale of Nil Paid Rights could be treated either as a distribution of property by Serco or as a distribution of Nil Paid Rights by Serco and a subsequent sale of Nil Paid Rights by the relevant US Holders. US Holders should consult their tax advisers as to the proper characterisation of the issuance of Nil Paid Rights for US federal income tax purposes.

If the issuance of Nil Paid Rights is not a distribution of property for US federal income tax purposes, a US Holder should not be required to include any amount in income for US federal income tax purposes as a result of the Rights Issue. In such a case, if, on the date Nil Paid Rights are issued, the fair market value of the Nil Paid Rights allocable to a US Holder is less than 15 per cent. of the fair market value of the Existing Ordinary Shares with respect to which such Nil Paid Rights are issued, the Nil Paid Rights will generally have a zero basis for US federal income tax purposes. However, such US Holder may affirmatively elect to allocate basis in proportion to the relative fair market value of such US Holder's Existing Ordinary Shares and the Nil Paid Rights, determined on the date of issuance. This election must be made in the tax return of the US Holder for the taxable year in which the Nil Paid Rights are issued, and is irrevocable once made.

If, on the date Nil Paid Rights are issued, the fair market value of the Nil Paid Rights attributable to a US Holder is at least 15 per cent. of the fair market value of the Existing Ordinary Shares with respect to which the Nil Paid Rights are issued, then the basis in such US Holder's Existing Ordinary Shares must be allocated between such Existing Ordinary Shares and the Nil Paid Rights issued in proportion to their fair market values determined on the date the Nil Paid Rights are issued. This general rule will apply with respect to Nil Paid Rights only if the Nil Paid Rights are exercised or sold.

If a taxable distribution of property is considered to be made by Serco, the issuance of Nil Paid Rights to a US Holder generally should be taxable as foreign source dividend income in an amount equal to the fair market value of the Nil Paid Rights. In such a case, a US Holder would have a tax basis in the Nil Paid Rights equal to the amount treated as a dividend, and a US Holder's holding period in the Nil Paid Rights would begin on the date the Nil Paid Rights are received. For the US federal income taxation of dividends paid by Serco, refer to the discussion below at paragraph 3.3(a) of this Part VIII (*Taxation*).

(b) *Sale, exchange or other disposition of Nil Paid Rights*

A US Holder will recognise capital gain or loss on the sale, exchange or other disposition of Nil Paid Rights (including a sale of Nil Paid Rights on its behalf) in an amount equal to the difference between such US Holder's tax basis in the Nil Paid Rights and the US dollar value of the amount realised (as determined for US federal income tax purposes) from the sale, exchange or other disposition. Capital gains of individuals and certain other non-corporate US Holders derived from capital assets held for more than one year are eligible for reduced rates of taxation. The deductibility of capital losses is subject to significant limitations. Any gain or loss generally will be treated as arising from US sources.

If the issuance of Nil Paid Rights is treated as a non-taxable distribution of Nil Paid Rights, the holding period of the US Holder in the Nil Paid Rights should include its holding period in the Existing Ordinary Shares with respect to which the Nil Paid Rights were distributed. If the issuance of Nil Paid Rights is treated as a taxable distribution of property, however, the holding period of the US Holder in the Nil Paid Rights would begin on the date the Nil Paid Rights are received.

US Holders should consult their own tax advisers about how to account for payments that are not received in US dollars under their methods of accounting for US federal income tax purposes.

(c) *Exercise of Nil Paid Rights and receipt of Fully Paid Rights*

A US Holder will not recognise taxable income upon the receipt of Fully Paid Rights pursuant to the exercise of Nil Paid Rights. Such a US Holder will have a tax basis in the Fully Paid Rights equal to the sum of such US Holder's tax basis in the Nil Paid Rights exercised to obtain the Fully Paid Rights and the US dollar value of the subscription price on the exercise date. Such a US Holder's holding period in the Fully Paid Rights received generally will begin on the date the Nil Paid Rights are exercised.

(d) *Expiration of Nil Paid Rights*

If the issuance of Nil Paid Rights is treated as a non-taxable distribution of Nil Paid Rights, and a US Holder who receives Nil Paid Rights allows the Nil Paid Rights to expire without selling or exercising them (and such US Holder does not receive any proceeds), such US Holder should not recognise any loss upon

the expiration of the Nil Paid Rights. In addition, such US Holder's basis in its Existing Ordinary Shares will not be affected by the Rights Issue or such US Holder's decision to allow its Nil Paid Rights to expire and will remain the same as before this offering.

If the issuance of Nil Paid Rights is treated as a taxable distribution of property, however, and a US Holder who receives Nil Paid Rights allows the Nil Paid Rights to expire without receiving any proceeds with respect to such Nil Paid Rights, such US Holder should recognise a capital loss treated as arising from US sources upon the expiration of the Nil Paid Rights. The deductibility of capital losses is subject to significant limitations.

3.2 Taxation of Fully Paid Rights

(a) Exercise of Fully Paid Rights

A US Holder will not recognise taxable income upon the receipt of New Ordinary Shares pursuant to the exercise of Fully Paid Rights. A US Holder will have a tax basis in the New Ordinary Shares equal to such US Holder's tax basis in the Fully Paid Rights and a holding period starting on the date the Nil Paid Rights were exercised.

(b) Sale, exchange or other disposition of Fully Paid Rights

A US Holder will recognise capital gain or loss on the sale, exchange or other disposition of Fully Paid Rights in an amount equal to the difference between such US Holder's adjusted tax basis in the Fully Paid Rights and the US dollar value of the amount realised (as determined for US federal income tax purposes) from the sale, exchange or other disposition. Any gain or loss generally will be treated as arising from US sources.

US Holders should consult their tax advisers about how to account for payments made or received in non-US dollars under their methods of accounting for US federal income tax purposes.

3.3 Taxation of New Ordinary Shares

(a) Dividends

The gross amount of any distributions paid by Serco to a US Holder that are actually or constructively received by the US Holder generally will be subject to US federal income tax as foreign source ordinary dividend income to the extent paid out of Serco's current or accumulated earnings and profits (as determined under US federal income tax principles). Because Serco does not expect to maintain calculations of its earnings and profits in accordance with US federal income tax principles, US Holders should expect that a distribution will generally be treated as a dividend for US federal income tax purposes. The amount of any distribution of property other than cash will be the fair market value of the property on the date of the distribution. Such distributions will not be eligible for the dividends received deduction allowed to certain corporations.

Subject to applicable limitations, dividends received by individual and certain other non-corporate US Holders will be subject to reduced rates of taxation if Serco is eligible for the benefits of the Convention Between the Government of the United States of America and the Government of the United Kingdom of Great Britain and Northern Ireland for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income and on Capital Gains (the "**Treaty**"), certain holding period rules are met and Serco is not a PFIC for the taxable year of the distribution or the prior taxable year. Serco expects to be eligible for the benefits of the Treaty so long as its shares are regularly traded on the London stock exchange.

US Holders should consult their own tax advisers about how to account for payments that are not received in US dollars under their methods of accounting for US federal income tax purposes.

(b) Sale, exchange or other disposition

A US Holder generally will recognise gain or loss for US federal income tax purposes upon a sale, exchange or other disposition of its New Ordinary Shares in an amount equal to the difference between the US dollar amount realised from such sale, exchange or disposition and the US Holder's adjusted tax basis in such New Ordinary Shares, as determined in US dollars. Such gain or loss will be a capital gain or loss and will be a long-term capital gain (taxable at a reduced rate for non-corporate US Holders, such as individuals) or loss if, on the date of sale or disposition, such New Ordinary Shares were held by such US

Holder for more than one year. The deductibility of capital losses is subject to significant limitations. Such gain or loss realised generally will be treated as arising from US sources.

US Holders should consult their tax advisers about how to account for payments made or received in non-US dollars under their methods of accounting for US federal income tax purposes.

3.4 Passive foreign investment company (“PFIC”) status

A non-US corporation is classified as a PFIC for US federal income tax purposes for each taxable year in which (a) 75 per cent. or more of its gross income is passive income (as defined for US federal income tax purposes) or (b) on average for such taxable year, 50 per cent. or more (by value) of its gross assets either produce or are held for the production of passive income. For the purposes of the PFIC provisions, passive income generally includes dividends, interest, royalties, rents and gains from certain securities transactions.

Serco believes that it was not a PFIC for the 2014 Financial Year and, based on the present nature of its activities and the present composition of its assets and sources of income (including the Rights Issue), it does not expect to become a PFIC for the current year or for any future taxable year. There can be no assurances, however, that Serco will not be considered to be a PFIC for any particular year because PFIC status is factual in nature, generally cannot be determined until the close of the taxable year in question, and is determined annually. Further, Serco’s business plans may change and Serco is under no obligation to avoid PFIC status. If Serco is classified as a PFIC in any year that a US Holder is a shareholder, Serco generally will continue to be treated as a PFIC for that US Holder in all succeeding years, regardless of whether Serco continues to meet the income or asset test described above. If Serco were a PFIC in any taxable year, materially adverse US federal income tax consequences could result for US Holders, including being subject to greater amounts of US tax and being subject to additional US tax form filing requirements. Serco does not plan to make available the information necessary for any holder to make a “qualified electing fund” or “QEF” election in the event Serco is determined to be a PFIC. US Holders should consult their tax advisers about the application of the PFIC rules.

3.5 US information reporting and backup withholding

Information returns may be filed with the IRS in connection with distributions on the New Ordinary Shares and the proceeds from the sale, exchange or other disposition of the Nil Paid Rights, Fully Paid Rights or New Ordinary Shares unless a US Holder establishes that it is exempt from the information reporting rules. A US Holder that does not establish this may be subject to backup withholding on these payments if the US Holder fails to provide its taxpayer identification number or otherwise comply with the backup withholding rules. Backup withholding is not an additional tax. Amounts withheld under the backup withholding rules are available to be credited against a US Holder’s US federal income tax liability and may be refunded to the extent they exceed such liability, provided the required information is timely provided to the IRS.

US Holders should consult their tax advisers regarding any additional tax reporting or filing requirements they may have as a result of acquiring, owning or disposing of the Nil Paid Rights, the Fully Paid Rights, or the New Ordinary Shares. Failure to comply with applicable reporting obligations could result in the imposition of substantial penalties.

PART IX
DIRECTORS, SENIOR MANAGERS AND CORPORATE GOVERNANCE

1. DIRECTORS

1.1 Current Directors

The current Directors of Serco and their functions are as follows:

<u>Name</u>	<u>Age</u>	<u>Position</u>	<u>Date appointed to the Board</u>
Alastair Lyons CBE	61	Non-Executive Chairman	16 March 2010
Rupert Soames OBE	55	Group Chief Executive Officer	1 May 2014
Edward J Casey, Jr	56	Group Chief Operating Officer	24 October 2013
Angus Cockburn	51	Group Chief Financial Officer	27 October 2014
Mike Clasper CBE	61	Senior Independent Director and Non-Executive Director	3 March 2014
Ralph D Crosby, Jr	67	Non-Executive Director	30 June 2011
Tamara Ingram	54	Non-Executive Director	3 March 2014
Rachel Lomax	69	Non-Executive Director	3 March 2014
Angie Risley	56	Non-Executive Director	1 April 2011
Malcolm Wyman	68	Non-Executive Director	1 January 2013

The business address of each of the Directors (in such capacity) is Serco House, 16 Bartley Wood Business Park, Bartley Way, Hook, Hampshire RG27 9UY.

Serco announced on 17 November 2014 that Alastair Lyons would step down as Chairman once a new Chairman has been appointed. The recruitment process is ongoing at the date of this document. The Board continuously evaluates the balance of skills, experience, independence and knowledge of the Board and a process is in place for the Board to consider whether additional appointments are required in light of the evaluation. No changes will be made to the Board directly as a result of the Rights Issue.

1.2 Profiles of the Directors

The business experience and principal business activities of each of the Directors are as follows:

(a) Alastair Lyons CBE, Non-Executive Chairman

Alastair was appointed a Non-Executive Director of Serco in March 2010, becoming Chairman at the conclusion of the Company's AGM in May 2010. Since 2000 Alastair has been Chairman of Admiral Group plc, the direct motor insurer, and in 2008 he was appointed deputy Chairman of Bovis Homes Group PLC, one of the UK's leading quoted house-builders. In February 2011 he was appointed Chairman of the Towergate Insurance Group.

In his executive career Alastair was Group Finance Director and subsequently Chief Executive of the National & Provincial Building Society. When the society was acquired in 1996 by Abbey National he joined the Abbey National main board as Managing Director of its Insurance division. In 1997 he became Chief Executive of the pension's specialist NPI where he led its demutualisation and acquisition by AMP, subsequent to which he joined NatWest in 1999 as Director of Corporate Projects.

A chartered accountant with an MA in economics from Trinity College Cambridge, Alastair has been a non-executive director of, successively, the Department for Work & Pensions and the Department for Transport. He was awarded the CBE in 2001 for his services to social security.

As announced on 17 November 2014, Alastair Lyons has decided to step down once a new Chairman has been appointed.

(b) Rupert Soames OBE, Group Chief Executive Officer

Rupert joined Serco as Group Chief Executive on 1 May 2014, coming from Aggreko plc, the FTSE-100 temporary power business, where he served 11 years as Chief Executive. During his tenure at Aggreko, the market capitalisation of the business increased from £450 million to over £5 billion.

Prior to Aggreko, he was with the software company Misys plc for five years, latterly as Chief Executive of its Banking and Securities division. He spent the first 16 years of his career at GEC plc; in the last four

years of his service at GEC he was responsible for the UK, African and Asian operations of Avery-Berkel. He studied Politics, Philosophy & Economics at Oxford University and was President of the Oxford Union.

Rupert is senior independent director of Electrocomponents plc and a member of the remuneration, nomination and audit committees.

(c) *Edward J Casey, Jr, Group Chief Operating Officer*

Ed has been with the Company since 2005. He was appointed Group Chief Operating Officer in May 2014 after initially being appointed to the Board in October 2013 as Acting Group Chief Executive Officer. Previously, Ed was Chief Executive Officer of Serco's Americas division. He is also a member of the Executive Committee.

Prior to Serco, Ed worked for nine years in the energy business, including President and Chief Executive Officer of NP Energy Inc., an energy marketing business he founded and later sold; President and Chief Operating Officer of Tenneco Energy until it was sold to El Paso Energy for US\$4 billion; and as Group President and as Chief Financial Officer for LG&E Energy Corp. Previously, Ed worked over 10 years in investment banking and private equity, including with The Blackstone Group and Fremont Group LLC.

(d) *Angus Cockburn, Group Chief Financial Officer*

Angus joined Serco on 27 October 2014 as Group Chief Financial Officer. Angus joined Serco from Aggreko plc, the FTSE-100 temporary power business, where he served 14 years as Chief Financial Officer and latterly, Interim Chief Executive. Angus brings corporate finance and accounting experience, gained across a variety of sectors whilst working for highly competitive global companies. During his tenure at Aggreko he drove through a programme of continuous improvement within the finance function.

Prior to Aggreko, Angus spent three years as Managing Director of Pringle of Scotland, a division of Dawson International Plc; five years at PepsiCo Inc in a number of senior finance positions, including Regional Finance Director for Central Europe; and several years at KPMG working in the UK and the US. Angus is also an experienced non-executive director, currently serving on the board of GKN Plc, and is an Honorary Professor at the University of Edinburgh.

(e) *Mike Clasper CBE, Senior Independent Director and Non-Executive Director*

Mike joined Serco as a Non-Executive Director in March 2014 and is the Senior Independent Director.

Mike was previously the Group Chief Executive of BAA plc from 2003 to 2006 and Chairman of HMRC from 2008 to 2012. He was also previously the Senior Independent Director at ITV PLC from which he stepped down on 31 December 2013 after eight years on the ITV board.

Mike has an MA in Engineering from St John's College, Cambridge. In 1995, he was awarded the CBE, and received an Honorary Doctorate from Sunderland University.

Mike is currently Chairman of Coats Group plc and Which? Limited. He has also been appointed President of the Chartered Management Institute (CMI) from October 2014.

(f) *Ralph D Crosby, Jr, Non-Executive Director*

Ralph joined Serco as a Non-Executive Director in June 2011.

Ralph was Chairman of EADS North America until his retirement from that position at the end of December 2011. He joined EADS in 2002 as Chairman and Chief Executive Officer of EADS North America and also served as a member of the EADS Global Executive Committee until 2010. Previously, Ralph held numerous positions with Northrop Grumman Corporation, concluding over 20 years of service as President of their Integrated Systems Sector. Prior to his industry career, Ralph served as an Officer in the US Army. Ralph has an MA in Public Administration from Harvard, an MA in International Relations from the Graduate Institute of International Studies, Switzerland, and a BSc from the United States Military Academy at West Point, New York.

Ralph is a non-executive director of American Electric Power Co Inc. in the United States and Airbus Group N.V. in the Netherlands.

(g) **Tamara Ingram, Non-Executive Director**

Tamara joined Serco as a Non-Executive Director in March 2014.

She is currently a trustee of Save the Children (UK). In 2013 Tamara stepped down after completing nine years as a non-executive director of The Sage Group plc. Previously, Tamara chaired the board of Visit London (formerly the London Tourist Board) from 2001 - 2011.

Tamara is Executive Vice President at WPP, where she is Managing Director at Grey Group and Chief Executive Officer, Team P&G.

(h) **Rachel Lomax, Non-Executive Director**

Rachel joined Serco as a Non-Executive Director in March 2014 and is the Chair of the Corporate Responsibility and Risk Committee.

From 2003 to 2008 Rachel was Deputy Governor (Monetary Policy) of the Bank of England and was previously Permanent Secretary at the Department for Transport, the Department for Work and Pensions (formerly the Department of Social Security) and the Welsh Office.

She is a non-executive director of HSBC Holdings plc, Heathrow Airport Holdings Limited, and a member of the supervisory board of Arcus European Infrastructure Fund.

She is a trustee/board member of Imperial College London, the Institute of Fiscal Studies (of which she is also President), Ditchley Park, Breugel and City UK.

(i) **Angie Risley, Non-Executive Director**

Angie joined Serco as a Non-Executive Director in April 2011 and is Chair of the Remuneration Committee.

Angie is currently the Group Human Resources Director of J Sainsbury plc, and a member of the Sainsbury's Operating Board.

Previously, Angie was Group HR Director at Lloyds Banking Group and prior to that she was Executive Director of Whitbread PLC until May 2007, having joined the Whitbread Group in 1989. She has also been a member of the Low Pay Commission, and a non-executive director of Biffa plc and Arriva plc.

(j) **Malcolm Wyman, Non-Executive Director**

Malcolm joined Serco as a Non-Executive Director in January 2013 and is Chairman of the Audit Committee.

Malcolm was previously an executive director and the Chief Financial Officer of SABMiller plc until his retirement in July 2011. Malcolm joined SABMiller in 1986 in South Africa and joined the board as Group Corporate Finance Director in 1990. He was appointed to the board of SABMiller upon its listing on the London Stock Exchange in 1999.

Malcolm, a chartered accountant, is a non-executive director and audit committee chairman of Imperial Tobacco Group PLC and senior independent director and audit committee chairman of Nedbank Group Limited in South Africa and non-executive director of Sturrock and Robson International BV.

A list of the companies and partnerships (other than Serco and its subsidiaries) of which the Serco Directors are or have been a director or partner within the past five years is set out in paragraph 7 of this Part IX (*Directors, Senior Managers and Corporate Governance*).

2. SENIOR MANAGERS

2.1 Senior Managers

The Senior Managers of the Serco Group are:

<u>Name</u>	<u>Age</u>	<u>Position</u>
Daniel Allen	55	CEO, Americas
Elizabeth Benison	48	CEO, UK & Europe Local & Regional Government
Kevin Craven	53	CEO, UK Central Government
David Eveleigh	46	Group General Counsel & Company Secretary
David Greer	57	CEO, Middle East
Mark Irwin	50	CEO, Asia Pacific
Susir Kumar	49	CEO, Global Services
Guy Leach	51	Director, Risk & Acquisitions
Geoff Lloyd	51	Group HR Director

2.2 Profiles of the Senior Managers

The business experience and principal business activities of each of the Senior Managers are as follows:

(a) *Daniel Allen, CEO, Americas*

Dan is Chief Executive Officer of the Americas division, a leading provider of professional, technology, and management services to every branch of the US military, numerous US federal civilian agencies, the intelligence community, the Government of Canada, state and local governments, and commercial clients.

Prior to joining Serco, Dan served as Chief Executive Officer and President of CACI International Inc. Before CACI International, he was Sector Vice President and General Manager of Northrop Grumman's Intelligence Systems division. Dan also held senior roles at General Dynamics, Network Systems IT and started his career at TRW.

(b) *Elizabeth Benison, CEO, UK & Europe Local & Regional Government*

Liz joined Serco in September 2014 from Computer Science Corporation. She is Chief Executive Officer of Serco's UK & Europe Local & Regional Government division, which currently comprises the Health, UK Public Sector BPO, European Agencies and Consulting businesses.

At Computer Science Corporation, Liz was VP and General Manager for their UK business during which time she managed a business of over £1 billion and 8,000 employees, with over half of its revenue coming from government customers. Prior to joining Computer Science Corporation, Liz was Vice President Chief Operating Officer of Capgemini's Finance Services division and before that UK Chief Operating Officer of Xansa plc. Liz has also worked for Jaguar Cars and the Ford Motor Company.

(c) *Kevin Craven, CEO, UK Central Government*

Kevin joined Serco in September 2014. He is Chief Executive Officer of the Central Government division, which comprises four business units: Defence, Home Affairs, Citizen Services and Transport.

Prior to joining Serco, Kevin worked at Balfour Beatty for eight years initially running the FM arm of the Group and then as Chief Executive Officer of the Support Services division. Before Balfour Beatty, Kevin worked for ARAMARK where he headed up Specialist Markets, supporting mainly public sector areas of Healthcare, Education, Defence and Criminal Justice.

(d) *David Eveleigh, Company Secretary and General Counsel*

Prior to joining Serco David was at BT Group plc for 13 years. David was the General Counsel of BT Global Services and was on the Legal Leadership Team for the wider BT Group. A graduate of Southampton University, David started his legal career at Ashurst Morris Crisp and worked at EI DuPont de Nemours for a number of years. David is a non-executive director of the Legal Services Board. David joined Serco on 17 November 2014.

(e) *David Greer OBE, CEO, Middle East*

David joined Serco in December 2013 as Chief Executive Officer of the Middle East division that currently comprises three business units: Transport, Aviation and Integrated Facilities Management.

Prior to joining Serco, David held the position of Chief Executive Officer of Al-Suwaidi Industrial Services (SIS) in Saudi Arabia from October 2010 to November 2013. During this period, he was responsible for implementing a major transformation plan within the company which is now very well positioned and resourced to support the continued growth of Saudi Arabia's oil and gas, petrochemical and mining industries in the spheres of engineering and construction, maintenance, manpower services, fabrication, accommodation and catering, equipment and transportation, scaffolding and facilities management.

Prior to this, David worked for Shell International Exploration and Production for 28 years in a number of senior positions in the Netherlands, United Kingdom, Norway, Canada, Oman, Argentina, Philippines and Russia and thereafter for Regal Petroleum plc based in London in exploration and production activities in Ukraine, Romania and Egypt.

David is also Non-Executive Chairman of Kentech Group Limited and Kentech Group Holdings Limited.

(f) **Mark Irwin, CEO, Asia Pacific**

Mark was appointed Chief Executive Officer of Serco Asia Pacific in April 2013 after joining Serco as Chief Operating Officer, Asia Pacific in January 2013. The Asia Pacific division comprises Immigration Services, Justice & Health, Defence, Citizen Services, Great Southern Rail, Transport and Hong Kong.

Prior to joining Serco, Mark was COO for the China National Bluestar Group based in Beijing. In this role he was responsible for leading the operations of the group's \$8 billion business portfolio, and was a member of the executive leadership team responsible for strategic planning, M&A and other capital market transactions. Prior to working in China, Mark spent 11 years in leadership roles in Singapore, Japan and the United States with multinational companies including General Electric.

He has extensive international experience in business and operations management, holding numerous senior leadership positions in state-owned, public and private equity business environments.

(g) **Susir Kumar, CEO, Global Services**

Susir is currently the Chief Executive Officer of the Global Services division. Prior to this, Susir served as the Chief Executive Officer of Intelenet, a leading provider of BPO outsourcing services to the private sector that was acquired by Serco in May 2011. Following this acquisition, he took on the role of the divisional Chief Executive Officer managing the Group's entire BPO portfolio under the Global Services division.

Susir has more than 25 years of experience, of which he has spent over 15 years building the BPO business. He started with Intelenet in October 2000 as the Chief Executive Officer and built the company from 25 employees to a 32000 employees company while achieving several milestones for the organisation, including the first management buy-out by Blackstone and subsequently the acquisition of Intelenet by Serco.

Before this, Susir was associated with HDFC, a financial services organisation in India, and has been involved in setting up several profitable group companies.

(h) **Guy Leach, Director, Risk & Acquisitions**

Guy is responsible for considering Serco's strategy with respect to market development, acquisitions and large bids. He also heads up the Serco Pensions, Insurance and Programmes Departments as Chairman of the Investment Committee.

Prior to joining Serco, Guy worked for Deloitte & Touche for 10 years after leaving university. At Deloitte & Touche, he was responsible for the audit and corporate finance related work of Serco, BAA plc and Amstrad plc. Guy joined Serco in 1995 as director of Corporate Strategy to develop Serco's response to the Private Finance Initiative and provide input into Group accounting and funding decisions. In 1997, Guy assumed responsibility for the Group's insurance and pension and became a Non-Executive Director overseeing the Group's Private Finance Initiative division. In 1999, Guy set up Serco's Mergers & Acquisitions team which he continues to lead.

(i) **Geoff Lloyd, Group HR Director**

Geoff has responsibility for developing and implementing the People Strategy for the Group focusing on the people who bring service to life; the leaders who are fit for the future; making it easier to manage people through cost-effective people processes and services; and creating a world-class HR function.

Geoff joined Serco in August 2008 as Group HR Director. Previously, Geoff was Executive Vice President of HR for Airbus Industries based in Toulouse, France. He had responsibility for all aspects of HR globally for Airbus and was a member of the Executive Committee. Additionally, Geoff was also President of The Air Business Academy as well as being a member of the German Supervisory Board, the French and the UK boards of Airbus. Whilst at Airbus, Geoff was one of the designers and executive sponsors of the Power8 programme that sought to achieve multi-billion euro savings for the company. Prior to working for Airbus, Geoff spent 14 years working at Nortel Networks. His last role was Vice President of HR for the Europe, Middle East and Africa region, latterly taking responsibility for Asia. Before moving back to the UK, Geoff had the role of Vice President of HR for Nortel's Global Professional Services division based in Boston, Massachusetts. He held a variety of other HR roles with Nortel as well as the Inmac Corporation and Racal.

A list of the companies and partnerships (other than Serco and its subsidiaries) of which the Serco Senior Managers are or have been a director or partner within the past five years is set out in paragraph 7 of this Part IX (*Directors, Senior Managers and Corporate Governance*).

3. INTERESTS OF THE DIRECTORS AND SENIOR MANAGERS

3.1 Interests of Directors and Senior Managers in Ordinary Shares

As at the Latest Practicable Date, the interests (all of which are beneficial) of the Directors and Senior Managers, their immediate families and (so far as is known to them or could with reasonable diligence be ascertained by them) their connected persons (within the meaning of section 96B of FSMA) in Ordinary Shares, including: (i) those arising pursuant to transactions notified to Serco pursuant to DTR 3.1.2R; or (ii) those of connected persons of the Directors and Senior Managers, which would, if such connected person were a Director or a Senior Manager, be required to be disclosed under (i) above, together with such interests that would subsist immediately following Admission of the New Ordinary Shares, based on the assumptions below, are set out below:

<u>Director</u>	<u>Ordinary Shares held prior to the Rights Issue⁽¹⁾</u>	<u>Percentage of issued ordinary share capital prior to the Rights Issue⁽¹⁾ (%)</u>	<u>Ordinary Shares held after the Rights Issue⁽²⁾</u>	<u>Percentage of issued ordinary shares capital after the Rights Issue⁽²⁾ (%)</u>
Chairman and Executive Directors				
Alastair Lyons CBE	62,600	0.01	125,200	0.01
Rupert Soames OBE	242,000	0.04	484,000	0.04
Edward J Casey, Jr	62,920	0.01	125,840	0.01
Angus Cockburn	84,600	0.02	169,200	0.02
Non-Executive Directors				
Mike Clasper CBE	28,000	0.01	56,000	0.01
Ralph D Crosby, Jr	Nil	Nil	Nil	Nil
Tamara Ingram	Nil	Nil	Nil	Nil
Rachel Lomax	Nil	Nil	Nil	Nil
Angie Risley	10,254	0.00	20,508	0.00
Malcolm Wyman	Nil	Nil	Nil	Nil
Senior Managers				
Daniel Allen	Nil	Nil	Nil	Nil
Elizabeth Benison	2,912	0.00	5,824	0.00
Kevin Craven	Nil	Nil	Nil	Nil
David Eveleigh	Nil	Nil	Nil	Nil
David Greer	6	0.00	12	0.00
Mark Irwin	Nil	Nil	Nil	Nil
Susir Kumar	Nil	Nil	Nil	Nil
Guy Leach	18,870	0.00	37,740	0.00
Geoff Lloyd	18,587	0.00	37,174	0.00

Notes:

- (1) Details of the options over Ordinary Shares and interests in the Serco Employee Share Schemes held by the Directors are set out in paragraph 3.2 of this Part IX (*Directors, Senior Managers and Corporate Governance*). They are not included in the interests of the Directors shown in the table above.
- (2) Assuming that no share options are exercised between the Latest Practicable Date and Admission and that the Directors and Senior Managers (and their immediate families and connected persons) take up their rights to New Ordinary Shares in full.

Taken together, the combined percentage interest of the Directors and the Senior Managers (and their immediate families and connected persons) in the issued share capital expected to subsist immediately following the Rights Issue is approximately 0.1 per cent., assuming that the Directors and the Senior Managers (and their immediate families and connected persons) take up their rights in full.

3.2 Interests of Directors and the Senior Managers in Ordinary Shares pursuant to the Serco Employee Share Schemes

As at the Latest Practicable Date, the following options over Ordinary Shares have been granted to the Directors and Senior Managers under the Serco Employee Share Schemes:

Serco Director/Senior Manager	Scheme and year of award ⁽¹⁾	Number of Ordinary Shares subject to award ⁽²⁾	Exercise price (pence) ⁽³⁾	Exercisable from ⁽⁴⁾	Expiry date (if relevant) ⁽⁵⁾
Rupert Soames OBE	PSP 2014	466,776	0.02	Jun-19	Jun-24
	PSP 2014	311,686	0.02	Jun-19	Jun-24
	PSP 2014	16,125	0.02	Apr-15	Apr-22
	PSP 2014	23,994	0.02	Aug-16	Aug-23
	PSP 2014	47,770	0.02	Apr-17	Apr-24
Edward J Casey, Jr ⁽⁵⁾	PSP 2014	342,835	Nil	Jun-19	—
	PSP 2013	75,761	Nil	Apr-16	—
	PSP 2012	84,579	Nil	Jun-15	—
Angus Cockburn	PSP 2014	295,807	0.02	Oct-19	Oct-24
	PSP 2014	228,194	0.02	Oct-19	Oct-24
	PSP 2014	19,304	0.02	Aug-16	Aug-23
	PSP 2014	32,271	0.02	Mar-17	Mar-24
	PSP 2014	20,974	0.02	Apr-17	Apr-24
Daniel Allen	PSP 2014	54,379	Nil	Jun-17	—
Elizabeth Benison	PSP 2014	47,498	0.02	Sep-17	Sep-24
Kevin Craven	PSP 2014	61,747	0.02	Sep-17	Sep-24
	PSP 2014	4,126	0.02	Mar-15	Mar-22
	PSP 2014	3,625	0.02	Mar-16	Mar-23
	PSP 2014	20,717	0.02	Mar-17	Mar-24
David Eveleigh	—	—	—	—	—
David Greer	PSP 2014	17,803	0.02	Jun-17	Jun-24
Mark Irwin	PSP 2014	27,358	0.02	Jun-17	Jun-24
	PSP 2013	29,048	0.02	Apr-16	Apr-23
Susir Kumar ⁽⁶⁾	N/A	N/A	N/A	N/A	N/A
Geoff Lloyd	PSP 2014	39,003	0.02	Jun-17	Jun-24
	PSP 2013	44,210	0.02	Apr-16	Apr-23
	DBP	—	—	—	—
	2013	31,550	Nil	May-16	—
	PSP 2012	39,461	0.02	Jun-15	Jun-22
	DBP	—	—	—	—
	2012	33,943	Nil	May-15	—
Guy Leach	PSP 2014	39,559	0.02	Jun-17	Jun-24
	PSP 2013	43,947	0.02	Apr-16	Apr-23
	DBP	—	—	—	—
	2013	33,533	Nil	May-16	—
	PSP 2012	39,207	0.02	Jun-15	Jun-22
DBP	—	—	—	—	
2012	42,155	Nil	May-15	—	

Notes:

- (1) Summaries of the Serco Employee Share Schemes are set out in paragraph 7 of Part X (*Additional Information*).
- (2) The interests shown in the table above are the maximum number of Ordinary Shares that may be received under each of the Serco Employee Share Schemes. The actual number of shares that may be released or become exercisable is dependent on performance conditions and so may be less than the maximum shown.
- (3) The PSP and DBP awards are structured as nominal cost options with the exception of Ed Casey and Dan Allen which are at nil cost. DBP awards represent the Matching Share Award granted on a gross basis of 2:1 for the amount of the annual bonus deferred by the Director.
- (4) Subject to the rules of the scheme concerned, including as to meeting performance targets (where applicable) for PSP and DBP Matching Awards.

(5) Save for those awards granted in June 2014, all awards shown in the table for Ed Casey were made prior to his appointment as a Director, which took effect on 24 October 2013.

(6) Share awards do not form part of the incentive package for Susir Kumar.

4. REMUNERATION AND BENEFITS

Executive Directors' base salaries and benefits are reviewed each year with any changes usually taking effect from 1 April. The fees for the Chairman and Non-Executive Directors are reviewed against market practice from time to time and were last reviewed on 1 April 2014.

For the 2014 Financial Year, the aggregate total remuneration paid (including contingent or deferred consideration) and benefits in kind granted (under any description whatsoever) to each of the current Directors by members of the Serco Group was £3.36 million. Remuneration was paid as follows:

Director ⁽¹⁾	Salary or fee ⁽²⁾	Pension ⁽³⁾	Other cash allowances ⁽⁴⁾	Annual bonus ⁽⁵⁾	Benefits in kind ⁽⁶⁾	Other ⁽⁷⁾	Total
	£						
Chairman and Executive Directors							
Alastair Lyons CBE	270,000	—	10,000	—	—	—	280,000
Rupert Soames OBE	566,667	170,000	4,381	Nil	6,607	—	747,655
Edward J Casey, Jr	733,604	171,850	—	689,650	9,960	Nil	1,605,064
Angus Cockburn	83,333	27,016	—	—	103,031	111,068	324,448
Non-Executive Directors							
Mike Clasper	60,833	—	5,000	—	—	—	65,833
Ralph D Crosby, Jr	50,000	—	30,000	—	—	—	80,000
Tamara Ingram	52,500	—	5,000	—	—	—	57,500
Rachel Lomax	58,333	—	5,000	—	—	—	63,333
Angie Risley	60,000	—	5,000	—	—	—	65,000
Malcolm Wyman	72,917	—	5,000	—	—	—	77,917
Total	<u>2,008,187</u>	<u>368,866</u>	<u>69,381</u>	<u>689,650</u>	<u>119,598</u>	<u>111,068</u>	<u>3,366,750</u>

Notes:

- (1) This table does not include Andrew Jenner, who left the Company on 30 September 2014. Andrew Jenner has voluntarily waived any entitlement to bonus in respect of 2014.
- (2) Emoluments for Rupert Soames and Angus Cockburn are for the period from their appointment as Directors.
- (3) For Rupert Soames, Ed Casey and Angus Cockburn, the amount was the cash allowance paid in lieu of pension benefits.
- (4) For Alastair Lyons and the other Non-Executive Directors, allowances are in respect of overseas travel allowances. For Rupert Soames, allowance is in respect of a company car prior to a vehicle being provided.
- (5) This is the gross bonus number paid in April 2015 in respect of the year to 31 December 2014. Rupert Soames waived payment of his 2014 bonus and therefore the bonus figure in the table is nil.
- (6) For Executive Directors, benefits comprised medical insurance and company car. In 2014 Angus Cockburn received a one-off reimbursement of £100,000 for relocation costs.
- (7) "Other": the figures shown under this column for Ed Casey are the value of shares vested in the year based on an average market value over the last quarter of the 2014 Financial Year. The 2012 DBP and PSP awards did not achieve the minimum vesting against the relevant performance measure so lapsed in full. The figures shown for Angus Cockburn is for the pro-rated bonus that he would have received from Aggreko in respect of the final three months of 2014 had he not left to join Serco.

Cash allowances, bonus payments and benefits in kind paid to Directors are not pensionable and do not count for share award or bonus purposes.

For the 2014 Financial Year, the aggregate total remuneration paid (including contingent or deferred consideration) and benefits in kind granted (under any description whatsoever) to the Serco Senior Managers was £2.43 million in their capacity as Serco Senior Managers during the 2014 Financial Year.

The total amount set aside or accrued by the Serco Group to provide pension, retirement or similar benefits to the current Serco Directors and the Senior Managers for the 2014 Financial Year was £146,442.

In arriving at the totals referred to in the immediately preceding two paragraphs (i) the value on award of contingent share awards under the PSP was calculated as set out in note 7 to the above table and (ii) the amounts set aside for pension, retirement or similar benefits were the employer contribution rates for

those executives who were active members of a defined benefit pension scheme, the increase in the actual transfer value of any accrued pension benefits in any such scheme for such active members plus amounts paid to executives by way of a salary supplement in lieu, wholly or partly, of any such benefits.

5. DIRECTORS' SERVICE CONTRACTS AND LETTERS OF APPOINTMENT

5.1 Executive Directors

The following table summarises the key terms of the Executive Directors' service contracts or terms of appointment:

<u>Director</u>	<u>Date of service contract</u>	<u>Notice period</u>	<u>Base annual salary as at the Latest Practicable Date (£)</u>	<u>Annual bonus potential as at the Latest Practicable Date (% of salary)</u>
Rupert Soames OBE . .	27 February 2014	12 months on both sides	£850,000	150%
Edward J Casey, Jr . . .	24 October 2013, amended in 13 February 2015	12 months from the Company 4 months from the Director	US\$1,061,690	150%
Angus Cockburn	11 August 2014	12 months on both sides	£500,000	130%

The Company follows best practice under the Corporate Governance Code with regard to annual re-election of its Directors. The Company's policy is that Executive Directors' service contracts should be capable of being terminated by the Company on not more than 12 months' notice.

Each of the Executive Directors' service contracts entitles the Company to terminate their employment by making a payment of pay in lieu of notice. Termination payment for the Executive Directors would be paid in instalments in accordance with the Director's contractual payment schedule, subject to an obligation on the part of the Director to mitigate his loss.

In the event of a compromise or severance agreement, the Remuneration Committee may make payments it considers reasonable in settlement of potential legal claims. It may include in such payments reasonable reimbursement of professional fees incurred by the Director in connection with such agreements and reasonable payments in respect of restrictive undertakings.

The Remuneration Committee may agree that if a Director steps down from the Board then for a transitional period notice (including payment in lieu of notice) would continue to be based on the equivalent of up to 12 months' notice based on their rate of salary and benefits while a Director, payable in instalments and subject to mitigation.

The reimbursement of repatriation costs or fees for professional or outplacement advice may also be included in the termination package, as deemed reasonable by the Remuneration Committee, as may the continuation of benefits for a limited period.

Where the Director leaves the Company following a change of control, whether or not he is dismissed or he elects to leave on notice, he will be entitled to receive a payment equivalent to up to one year's remuneration.

5.2 Chairman and Non-Executive Directors

The following table summarises the key terms of the current Non-Executive Directors' letters of appointment:

Director	Date of appointment as a Director	Date of current appointment letters	Anticipated expiry of present term of appointment	Annual fees as at the Latest Practicable Date ⁽¹⁾ (£)
Alastair Lyons CBE (Chairman)	16 March 2010	15 March 2010	AGM in 2015	270,000
Mike Clasper CBE	3 March 2014	28 February 2014	AGM in 2015	88,000
Ralph D Crosby, Jr.	30 June 2011	30 June 2011	AGM in 2015	50,000
Tamara Ingram	3 March 2014	28 February 2014	AGM in 2015	63,000
Rachel Lomax	3 March 2014	28 February 2014	AGM in 2015	70,000
Angie Risley	1 April 2011	23 March 2011	AGM in 2015	60,000
Malcolm Wyman	1 January 2013	26 November 2012	AGM in 2015	67,500

Note:

(1) Fees for Mike Clasper reflected his role as Senior Independent Director. The fees for Angie Risley reflected her additional duties as Chairman of the Remuneration Committee. The fees for Malcolm Wyman reflected his role as Audit Committee Chairman. The fees for Rachel Lomax reflected her role as Corporate Responsibility Chairman.

The Company's policy is for Non-Executive Directors to have written terms of appointment for an initial term of three years. Thereafter, subject to satisfactory performance, they may serve one or two additional three-year terms; however, in all cases appointments are terminable on three months' notice by the Company or the Director. There is no compensation or other benefits payable on early termination.

6. CORPORATE GOVERNANCE

The Serco Board is committed to achieving high standards of corporate governance. The principal governance rules applying to UK companies listed on the main market of the London Stock Exchange are the Corporate Governance Code. The Board considers that as at the Latest Practicable Date the Company is in compliance with the principles and provisions of the Corporate Governance Code.

6.1 Board of Directors

A Serco Director is appointed by ordinary resolution (i.e. a simple majority of votes cast) at a general meeting of ordinary shareholders of Serco. The Serco Board also has the power to appoint a Serco Director, but any person so appointed must stand for reappointment by shareholders at the first AGM following his or her appointment by the Serco Board. After appointment, Serco Directors must offer themselves for reappointment at least every three years. Notwithstanding the above, in accordance with the Corporate Governance Code, all Directors will stand for re-election at each AGM.

All Non-Executive Directors are appointed for an initial term of three years. Thereafter, subject to satisfactory performance, they may serve one or two additional three-year terms. Any Non-Executive Directors, excluding the Chairman, who have served for more than nine years will be subject to annual re-election.

The Corporate Governance Code currently recommends that at least half of the board of directors (excluding the chairman) of a UK listed company should be independent in character and judgement and free from relationships or circumstances which are likely to affect, or could appear to affect, their judgement.

As at the date of this document, the Serco Board is composed of 10 members, consisting of the Chairman (Alastair Lyons CBE), three full-time Executive Directors (Rupert Soames OBE, Ed Casey and Angus Cockburn), and six Non-Executive Directors, all of whom (i.e. two-thirds of the Serco Board excluding the Chairman) are considered by the Serco Board to be independent: Mike Clasper CBE, Ralph D Crosby, Jr, Tamara Ingram, Rachel Lomax, Angie Risley and Malcolm Wyman.

The Corporate Governance Code also recommends that the Board should appoint one of its independent Non-Executive Directors as senior independent director and Mike Clasper CBE has been appointed to fill this role. The Senior Independent Director provides an alternative point of contact to the Chairman, both

for shareholders and other Directors, should the need arise. The role would also deputise for the Chairman should the need arise.

The Serco Board has established four standing Board Committees: Audit, Remuneration, Nomination and Corporate Responsibility and Risk Committees.

In addition, the Serco Board has also established (i) the Approvals and Allotment Committee, which meets on an ad hoc basis to approve proposals that have more operational significance but do not merit full Board consideration; and (ii) the Board Oversight Committee, which was established to oversee the process of implementing the Corporate Renewal Programme, to ensure consistency of behaviours and strengthen operations across the Group.

All Committees have formally delegated duties and responsibilities with written terms of references.

6.2 Board Committees

(a) *Audit Committee*

Current members

Serco's Audit Committee is made up entirely of independent Non-Executive Directors: Malcolm Wyman (Committee Chairman), Mike Clasper CBE and Rachel Lomax. The Corporate Governance Code recommends that the Audit Committee should be comprised of at least three members who should all be independent Non-Executive Directors, and that at least one member should have recent and relevant financial experience. Malcolm Wyman is a Chartered Accountant who is currently also Chairman of the Audit Committees of Imperial Tobacco Group PLC and Nedbank Group Limited in South Africa. Malcolm Wyman was previously an Executive Director and the Chief Financial Officer of SABMiller plc, until his retirement in July 2011. Malcolm Wyman is considered by the Serco Board to have the necessary recent and relevant financial experience for his role as Committee chairman. Serco therefore considers that it complies with the Corporate Governance Code's recommendations regarding the composition of the Audit Committee.

The Audit Committee met five times during 2014.

Role of the Audit Committee

The Audit Committee operates under defined terms of reference and its principal responsibilities include:

- to monitor the integrity of the financial statements of the Company, including interim management statements, and any formal announcements relating to the Company's financial performance, and reviewing significant financial reporting judgements contained therein;
- to review, approve and monitor the internal audit programme to ensure that the internal audit function is adequately resourced and has appropriate standing within the Company, and to assess the effectiveness of the internal audit function;
- to maintain oversight of the external audit activities including discussing with the external auditors, before the audit commences, the nature and scope of the audit and to review the auditors' quality control procedures and steps taken by the auditors to respond to changes in regulatory and other requirements;
- to review management's and the internal auditors' reports on the effectiveness of systems for internal controls, and financial reporting; and
- to consider the appointment, re-appointment or removal of the external auditors, and assess their independence and objectivity, ensuring that key partners are rotated at appropriate intervals and relevant UK professional and regulatory requirements are taken into account.

Additionally, in accordance with the Corporate Governance Code, the Audit Committee is responsible for overseeing a formal whistle-blowing policy and procedures which apply throughout the Serco Group. This responsibility was transferred to the newly formed Corporate Responsibility and Risk Committee during 2014. Responsibility for the operation of this policy has been delegated to the Company Secretary.

(b) *Remuneration Committee*

Current members

Serco's Remuneration Committee is made up entirely of Non-Executive Directors: Angie Risley (Committee Chairman), Alastair Lyons CBE, Malcolm Wyman and Tamara Ingram. The Corporate Governance Code provides that the Remuneration Committee should consist of at least three members who are all independent Non-Executive Directors. Serco therefore considers that it complies with the Corporate Governance Code's recommendations regarding the composition of the Remuneration Committee.

The Remuneration Committee met 12 times in 2014.

Role of the Remuneration Committee

The Remuneration Committee operates under defined terms of reference and its principal responsibilities are to:

- monitor, determine and agree with the Board the policies for the remuneration of the Chairman, the Executive Directors and the Senior Managers and the Company Secretary;
- within the terms of agreed policies, determine the elements of the individual remuneration package for the Chairman, the Executive Directors and the Senior Managers, including bonus, share plans, any other incentive plan and pension arrangements;
- review the ongoing appropriateness and relevance of the remuneration policies;
- approve the design of, and determine the targets for, any performance-related pay arrangements and approve total annual payments made under such schemes for the Chairman, the Executive Directors and the Senior Managers;
- review the design and operation of the Company's Serco Employee Share Schemes (including those for all employees);
- review the terms of service agreements for Executive Directors; and
- at least annually, review its own performance and report thereon to the Board.

(c) *Nomination Committee*

Current members

Serco's Nomination Committee is made up of Executive and independent Non-Executive Directors (the majority of members are independent Non-Executive Directors): Alastair Lyons CBE (Committee Chairman), Rupert Soames OBE, Malcolm Wyman, Angie Risley and Mike Clasper CBE. The Corporate Governance Code provides that a majority of the members of the Nomination Committee should be independent Non-Executive Directors. Serco therefore considers that it complies with the Corporate Governance Code's recommendations regarding the composition of the Nomination Committee.

The Nomination Committee met four times during 2014.

Role of the Nomination Committee

The Nomination Committee is responsible for a number of other matters relating to the composition of the Board and its committees. In particular it is responsible for:

- identifying and nominating, for the approval of the Board, candidates to fill Board vacancies as and when they arise;
- evaluating the balance of skills, knowledge and experience on the Board and, in the light of this evaluation, prepare a description of the role and capabilities required for a particular appointment;
- making recommendations to the Board concerning the appointment of any Director or the Company Secretary to the Board and give full consideration to succession planning in the course of its work, taking into account the challenges and opportunities facing the Company and the necessary skills and expertise required on the Board;

- making a statement in the annual report and accounts about its activities; the process used for appointments; the membership of the Committee; the number of Committee meetings held and attendance over the course of the year; and
- ensuring that, on appointment to the Board, Non-Executive Directors receive a formal letter of appointment setting out clearly what is expected of them in terms of time commitment, Committee service and involvement outside Board meetings.

(d) *Corporate Responsibility and Risk Committee*

Current members

Serco's Corporate Responsibility and Risk Committee is made up of Executive and independent Non-Executive Directors (the majority of members are independent Non-Executive Directors): Rachel Lomax (Committee Chairman), Alastair Lyons CBE, Rupert Soames OBE, Mike Clasper CBE and Tamara Ingram.

The Corporate Responsibility and Risk Committee met four times during 2014.

Role of the Corporate Responsibility and Risk Committee

As part of the Corporate Renewal Programme, the Board established a Corporate Responsibility Committee which is responsible for overseeing the Company's approach to all aspects of corporate responsibility. During 2014, the Corporate Responsibility Committee was renamed the Corporate Responsibility and Risk Committee as a result of the responsibilities that the Committee had in relation to risk-related matters. The responsibilities of the Corporate Responsibility and Risk Committee include:

- assisting the Board in providing independent oversight and guidance as to the impact of the Company's corporate responsibility related strategy, policies, and practices on how the Company conducts its business and on its reputation;
- regularly reviewing and approving the Company's Code of Conduct to ensure that its standards of business behaviour are up to date and reflect best practice;
- ensuring that the Company's whistle-blowing process and procedures are internationally best of breed and review the appropriate progression of issues raised, ensuring that root cause analysis is undertaken and acted upon;
- reviewing the Company's stewardship of health and safety and the Company's impact on the environment and the communities in which it operates;
- reviewing the extent to which the business policies and practices support the fostering of a culture of transparency and openness in dealings with customers, suppliers and other parties;
- having oversight over the effectiveness of the Company's risk management framework including the assessment of the principal risks facing the Company and the action being taken by management to mitigate risks that are outside the Company's risk appetite; and
- reviewing the risk management reports from management, which enable the Committee to consider the process for risk identification and management, and assess the risks involved in the Company's business and how they are controlled and monitored by management.

(e) *Approvals and Allotment Committee*

Current members

The members of the Approvals and Allotment Committee are the Executive Directors of the Board.

Role of the Approvals and Allotment Committee

The responsibilities of the Approvals and Allotment Committee include:

- having authority in relation to the interim and annual accounts process;
- reviewing and approving any contract bid and associated documentation with an annual turnover up to the signing authority delegated by the Board, and reviewed from time to time;
- reviewing and approving any acquisition or disposal and associated documentation, provided the acquisition or disposal fits the criteria delegated by the Board, and reviewed from time to time;

- reviewing and approving any parent company guarantee, provided the underlying transaction has been approved in accordance with the signing authorities approved by the Board and reviewed from time to time;
- reviewing and approving any counter-indemnity required by a bank in respect of a bond, guarantee or letter of credit, provided the underlying transaction has been approved in accordance with the signing authorities approved by the Board and reviewed from time to time;
- reviewing and approving any documents materially amending the Group's banking facilities, provided that to do so would not result in the Group being subject to more restrictive covenants than those previously approved by the Board;
- reviewing and approving the issue, transfer and cancellation of loan notes in relation to deferred consideration on acquisitions, which had previously been approved by the Board and issued on behalf of the Company;
- authorising the allotment of shares to the participants exercising their options under the Serco Employee Share Schemes, or in respect of an acquisition previously approved by the Committee or by the Board, or under any agreed scheme such as a rights issue, a bonus issue, a capitalisation or any other such scheme approved by the Board; and
- blocklisting any Ordinary Shares of the Company.

(f) **Board Oversight Committee**

Current members

The members of the Board Oversight Committee are Alastair Lyons CBE (Committee Chairman), Ed Casey, Ralph Crosby, Malcolm Wyman and Lord Gold, who is an independent appropriately qualified monitor of the Corporate Renewal Programme and its implementation.

Role of the Board Oversight Committee

The Board Oversight Committee was established to oversee the Corporate Renewal Programme as described in paragraph 2.1 of Part I (*Letter from the Chairman*) of this document.

7. OTHER DIRECTORSHIPS

In addition to their directorships or managerial role at Serco (in the case of the Serco Directors), the Serco Directors and the Senior Managers hold or have held directorships of the following companies (other than directorships of subsidiaries of Serco), and are or were members of the following partnerships, within the past five years.

7.1 Directors

<u>Name</u>	<u>Current directorship/partnership</u>	<u>Previous directorship/partnership</u>
Chairman and Executive Directors		
Alastair Lyons CBE	Admiral Group PLC Berkeley Alexander Limited Bovis Homes Group PLC Capital & County Insurance Brokers Limited CCV Risk Solutions Limited Countrywide Insurance Management Limited Cox Lee & Co. Limited Crawford Davis Insurance Consultants Limited Cullum Capital Ventures Limited Cybele Solutions Holdings Limited Cybele Solutions Limited Eclipse Park Acquisitions Limited	Cardsave Group Limited Equity Release Topco Limited LMS Group Holdings Limited ⁽¹⁾ LMS Holdings Limited ⁽¹⁾ Malachite 1 EBT Limited Partners For Finance Limited PFF Finance Limited Phoenix Group Holdings plc Phoenix Life Holdings Limited Topco No.3 Limited

Name	Current directorship/partnership	Previous directorship/partnership
	Ellis Bates Insurance Brokers Limited	
	Four Counties Finance Limited	
	Fusion Insurance Holdings Limited	
	Fusion Insurance Services Limited	
	Hencliffe Management Services Limited	
	HLI (UK) Limited	
	Just Insurance Brokers Limited	
	Legal Marketing Services Limited	
	Managing Agents Reference Assistance Services Limited	
	Moffatt & Co Limited	
	Moray Firth Insurance Brokers Limited	
	Newbold Insurance Services Limited	
	Paymentshield Holdings Limited	
	Paymentshield Limited	
	Portishead Insurance Management Limited	
	Protectagroup Acquisitions Limited	
	Protectagroup Holdings Limited	
	Protectagroup Limited	
	Richard V Wallis & Co Limited	
	Roundcroft Limited	
	TF Bell Holdings Limited	
	The Broker Network Limited	
	The TF Bell Group Limited	
	Three Counties Insurance Brokers Limited	
	TIG Finco Limited	
	TIG Midco Limited	
	TIG Topco Limited	
	TL Risk Solutions Limited	
	Towergate Finance PLC	
	Towergate Holdings I PLC	
	Towergate Holdings II Limited	
	Towergate Insurance Limited	
	Towergate London Market Limited	
	Towergate Partnership Limited	
	Towergate Partnershipco Limited	
	Towergate Risk Solutions Limited	
	Townfrost Limited	
	Underwood Insurance Services Limited	
	Waveney Insurance Brokers Limited	
	WM Fargate Limited	
Rupert Soames OBE	Electrocomponents plc	Aggreko Americas Holdings B.V. Aggreko Euro Holdings B.V. Aggreko Euro Holdings B.V. Aggreko European Finance Aggreko Finance Limited Aggreko Generators Limited Aggreko Holdings Limited Aggreko International Projects Holdings Limited

Name	Current directorship/partnership	Previous directorship/partnership
		Aggreko International Projects Limited Aggreko Luxembourg Holdings Aggreko plc Aggreko Quest Trustee Limited Aggreko Rest of World Holdings B.V. Aggreko US Limited CS1 Limited Dunwilco (680) Limited Rotor-Wheel (UK) Limited
Edward J Casey, Jr	None	Northern Virginia Technology Council Professional Services Council
Angus Cockburn	GKN Plc	Aggreko European Finance Aggreko Finance Limited Aggreko Generators Limited Aggreko Holdings Limited Aggreko International Projects Holdings Limited Aggreko International Projects Limited Aggreko Luxembourg Holdings Aggreko Luxembourg Management S.A.R.L. Aggreko Pension Scheme Trustee Limited Aggreko plc Aggreko Quest Trustee Limited Aggreko UK Limited Aggreko US Limited CS1 Limited Dunwilco (680) Limited Howden Joinery Group plc Rotor-Wheel (UK) Limited
Non-Executive Directors		
Mike Clasper CBE	Chelwood House Freehold Company Limited Coats Group plc Which? Limited	BAA PLC Coats PLC HMRC ITV Plc
Ralph D Crosby, Jr	American Electric Power Co Inc. Airbus Group N.V.	EADS North America, Inc. Ducommun Incorporated
Tamara Ingram OBE	Save the Children Fund The Prince's Drawing School WPP Plc	Almeida Theatre Company Limited The Sage Group Plc Visit London Limited

<u>Name</u>	<u>Current directorship/partnership</u>	<u>Previous directorship/partnership</u>
Rachel Lomax	Arcus European Infrastructure Fund Breugel City UK Ditchley Park Heathrow Airport Holdinds Limited HSBC Holdings Plc Imperial College London Institute of Fiscal Studies	The Scottish American Investment Company Plc Reinsurance Group of America Centre for Economic Policy Research Royal National Theatre
Angie Risley	J Sainsbury Plc	Arriva Plc Heath Mount School Trust Limited Lloyds Banking Group Plc
Malcolm Wyman	Imperial Tobacco Group Plc Nedbank Group Limited Nedbank Limited Sturrock and Robson International B.V.	Brasseries et Glacieres International S.A. Brasseries International Holdings Limited MillerCoors LLC S.A. Breweries Limited SABFIN (Pty) Limited SABMiller Africa & Asia B.V. SABMiller Europe B.V. SABMiller Plc SABSA Holdings (Pty) Limited Trinity Procurement GmbH Tsogo Sun Holdings (Pty) Limited Tsogo Sun Holdings Limited

Notes:

(1) Placed into administration and subsequently have been dissolved.

7.2 Senior Managers

<u>Name</u>	<u>Current directorship/ Partnership</u>	<u>Previous directorship/ Partnership</u>
Dan Allen	None	CACI
Elizabeth Benison	None	AppLabs Limited AppLabs Technologies (UK) Pvt Limited Computer Sciences UK Limited CSC Business Systems Limited CSC Computer Sciences (Middle East) Limited CSC Computer Sciences Capital Limited ⁽¹⁾ CSC Computer Sciences EMEA Finance Ltd CSC Computer Sciences International Holdings Limited CSC Computer Sciences International Limited CSC Computer Services International Operations Limited

Name	Current directorship/ Partnership	Previous directorship/ Partnership
		CSC Computer Sciences International Services Limited CSC Computer Sciences Ireland Limited CSC Computer Sciences Limited CSC Computer Sciences UK Holdings Limited CSC Financial Solutions Ireland Limited CSC Life Sciences Limited CSC Property UK Limited ⁽¹⁾ CSC Services Management Ireland Ltd CSC UKD 4 Limited
Notes:		
(1) Placed into administration and subsequently have been dissolved.		
Kevin Craven	British Services Association	Balfour Beatty Group Employment Limited Balfour Beatty Group Limited Balfour Beatty Infrastructure Services Limited Balfour Beatty Living Places Limited Balfour Beatty Plant & Fleet Services Limited Balfour Beatty Utility Solutions Limited Cofely workplace Limited Colledge Trundle & Hall Limited Covion Holdings Limited Covion Limited Haden Building Mgt (2008) Limited Haden Maintenance Limited New Start Ventures Limited Romec Enterprises Limited Romec Limited Romec Services Ltd Stat 123 Limited Sunderland Streetlighting Limited The Business Services Association
David Eveleigh	None	None
David Greer	Kentech Group Holdings Limited Kentech Group Limited	ALE-A1 Suwaidi Regal Petroleum plc Sakhalin Energy Shell Philippines Exploration B.V.
Mark Irwin	None	None
Susir Kumar	HOE Wellness Private Limited Ingroup Developers LLP Kooh Sports Private Limited SKM Technology Ventures Private Limited	None
Geoff Lloyd	Fairsail	None
Guy Leach	None	None

8. DIRECTORS' AND SENIOR MANAGERS' CONFIRMATIONS

Save as disclosed in paragraph 7.1 of this Part IX (*Directors, Senior Managers and Corporate Governance*) of this document, as at the date of this document, none of the Directors and Senior Managers has, during the five years prior to the date of this document:

- (a) been convicted in relation to a fraudulent offence;
- (b) been associated with any bankruptcies, receiverships or liquidations while acting in the capacity of a member of the administrative, management or supervisory bodies or as a partner, founder or senior manager of any partnership or company;
- (c) been subject to any official public incrimination and/or sanctions by any statutory or regulatory authorities (including any designated professional bodies); or
- (d) been disqualified by a court from acting as a director of a company or from acting as a member of the administrative, management or supervisory bodies of any company or from acting in the management or conduct of the affairs of any company.

No Director or Senior Manager has any material interest in any significant contract with the Company or any of its subsidiary undertakings.

The Board does not presently consider there are to be any potential conflicts of interests between any of the Directors' duties to Serco or the Serco Group and their private interests and/or other duties.

None of the Directors and Senior Managers was selected to act in such capacity pursuant to any arrangement or understanding with any major shareholder, customer, supplier or other person having a business connection with the Serco Group.

As at the date of this document, no restrictions have been agreed by any Director or Senior Manager on the disposal within a certain time period of their holdings of their Ordinary Shares.

There are no family relationships between any of the Directors or Senior Managers.

There are no outstanding loans granted by Serco or any member of the Serco Group to any of the Directors or Senior Managers, nor has any guarantee been provided by Serco or any member of the Serco Group for their benefit, save that:

- (a) each of the Directors has the benefit of a qualifying third party indemnity pursuant to which Serco agrees to indemnify the Directors against liabilities that they may incur as a result of their office as director, in terms which are in accordance with the relevant provisions of the 2006 Act; and
- (b) Susir Kumar has an outstanding housing loan granted by Intelenet Global Services Private Limited (Now Serco BPO Private Limited) in May 2008, with a current outstanding amounting of INR 25 million (which is approximately £263,000 as at the Latest Practicable Date).

**PART X
ADDITIONAL INFORMATION**

1. RESPONSIBILITY

The Directors, whose names appear in paragraph 1.1 of Part IX (*Directors, Senior Managers and Corporate Governance*), and Serco accept responsibility for the information contained in this document. To the best of the knowledge and belief of Serco and the Directors (who have each taken all reasonable care to ensure that such is the case), the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

2. INCORPORATION AND REGISTERED OFFICE

Serco was incorporated and registered in England and Wales on 21 August 1986 under the Companies Act 1985 as a private company limited by shares with registered number 02048608 and with the name Dealmove Limited. On 23 January 1987, it re-registered as a public company limited by shares and on 29 July 1987 it changed its name to Serco Group plc. In May 1988, Serco was listed on the London Stock Exchange.

The registered and head office of Serco is at Serco House, 16 Bartley Wood Business Park, Bartley Way, Hook, Hampshire RG27 9UY. The telephone number of Serco's registered and head office is +44 (0)1256 745 900.

The principal legislation under which Serco operates is the 2006 Act and the regulations made thereunder.

The Ordinary Shares are admitted to the premium listing segment of the Official List and traded on the main market of the London Stock Exchange. The ISIN of the Ordinary Shares is GB0007973794 and the SEDOL number is 0797379. The Ordinary Shares are in registered form and are capable of being held in either certificated or uncertificated form.

The New Ordinary Shares will be ordinary shares in registered form and are capable of being held either: (i) in certificated form; or (ii) in uncertificated form, and title to such shares may be transferred by means of a relevant system (as defined in the CREST Regulations).

Deloitte LLP, whose registered office is at 2 New Street Square, London EC4A 3BZ, are the Auditors of Serco. Deloitte LLP is a member of the Institute of Chartered Accountants in England and Wales.

3. SERCO'S SHARE CAPITAL

3.1 Issued share capital

The issued and fully paid share capital of the Company as at the Latest Practicable Date was as follows:

<u>Nominal value of Ordinary Shares</u>	<u>Number of Ordinary Shares issued, allotted, called up and fully paid</u>	<u>Amount of share capital (£)</u>
Ordinary Shares of £0.02	549,265,547	10,985,310.94

The issued and fully paid share capital of the Company immediately following completion of the Rights Issue is expected to be as follows:

<u>Nominal value of Ordinary Shares</u>	<u>Number of Ordinary Shares issued, allotted, called up and fully paid⁽¹⁾</u>	<u>Amount of share capital (£)</u>
Ordinary Shares of £0.02	1,098,531,094	21,970,621.88

Note:

(1) Assuming that no share options are exercised between the Latest Practicable Date and Admission.

3.2 Share capital history

As at 1 January 2012, the first day covered by the Audited Financial Statements incorporated by reference into this document, the issued share capital of the Company was £9,946,541.40 divided into 497,327,070 Ordinary Shares of two pence each.

During the three-year period ended 31 December 2014 and for the period between 1 January 2015 and the Latest Practicable Date, the Company has issued 51,938,477 Ordinary Shares in total:

	<u>Number of Ordinary Shares</u>
Allotted, issued and fully paid	
At 1 January 2012	497,327,070
Allotment pursuant to Serco Employee Share Schemes	1,135,438
At 1 January 2013	498,462,508
Allotment pursuant to Serco Employee Share Schemes	866,388
At 1 January 2014	499,328,896
Allotment pursuant to Serco Employee Share Schemes	3,733
Allotment pursuant to the placing in May 2014	49,932,918
At 1 January 2015	549,265,547
At 10 March 2015 (the Latest Practicable Date)	549,265,547

The Company remains subject to the continuing obligations of the Listing Rules with regard to the issue of securities for cash and the provisions of section 561 of the 2006 Act (which confers on Shareholders rights of pre-emption in respect of the allotment of equity securities which are, or are to be, paid up in cash) apply to the issued share capital of the Company which is not the subject of the disapplication approved by the Shareholders in a general meeting of the Company.

3.3 Dilution

The New Ordinary Shares represent 100 per cent. of the Ordinary Shares in issue immediately prior to the Rights Issue.

Qualifying Shareholders who take up their *pro rata* entitlement in full will suffer no dilution to their interests in the Company. Shareholders who do not take up any of their rights to subscribe for the New Ordinary Shares or who are not entitled to participate in the Rights Issue will suffer an immediate dilution of 50 per cent. in their interests in the Company as a consequence of the Rights Issue.

3.4 Miscellaneous

Save as disclosed in this document, during the three years immediately preceding the date of this document, there has been no issue of share capital of Serco fully or partly paid, either for cash or other consideration, and no such issues are proposed and no share capital of Serco or any of its subsidiaries is under option or agreed, conditionally or unconditionally, to be put under option. As at the date of this document, the Company holds no treasury shares.

4. SHAREHOLDER AUTHORITIES

As described in paragraph 14 of Part I (*Letter from the Chairman*) of this document, at the General Meeting, Shareholders will be asked to consider and vote on the Resolution. The Resolution is an ordinary resolution authorising the Board to allot up to 549,265,547 Ordinary Shares, representing 100 per cent. of the Company's current issued share capital as at 10 March 2015 (being the Latest Practicable Date prior to the publication of this document). This power will be limited to the allotment of New Ordinary Shares in connection with the Rights Issue (on the terms and conditions set out in this document) and, if granted, this authority will enable the Company to allot sufficient New Ordinary Shares to undertake the Rights Issue. The authority will expire at the conclusion of the Company's next AGM expected to be held on 6 May 2015 (or adjournment thereof). The authority granted under the Resolution are in addition to the authority to allot Ordinary Shares which was granted to the Board at the Company's last AGM in 2014, which the Board has no present intention of exercising, except pursuant to the Serco Employee Share Schemes, and which will expire at the conclusion of the Company's next AGM expected to be held on 6 May 2015. Accordingly, the New Ordinary Shares to be issued in connection with the Rights Issue will be created, allotted and issued pursuant to the authority to be granted under the Resolution proposed at the General Meeting.

5. ARTICLES OF ASSOCIATION

The following is a summary of Serco's Articles which were adopted by special resolution passed on 11 May 2010 and contain (amongst others) provisions as set out below. The Articles are available for inspection at

the registered office of the Company and at the offices of Clifford Chance LLP, as set out in the section entitled “*Directors, Company Secretary, Registered Office and Advisers*” of this document.

5.1 Objects

The objects of the Company, in accordance with section 31(1) of the 2006 Act, are unrestricted.

5.2 Limited liability

The liability of the members is limited to the amount, if any, unpaid on the shares in the Company respectively held by them.

5.3 Share rights

Subject to any rights attached to existing shares, shares may be issued with such rights and restrictions as the Company may by ordinary resolution decide, or (if the Company passes a resolution to so authorise them) as the Board may decide.

Shares may be issued which are to be redeemed, or are liable to be redeemed, at the option of the Company or the holder. The Board may determine the terms and conditions and the manner of redemption of any redeemable share so issued.

5.4 Voting rights

Subject to special rights and restrictions as to voting attached to any class of shares by or in accordance with the Articles, on a vote on a resolution:

- (a) on a show of hands, every member present in person has one vote and every proxy present who has been duly appointed by one or more members will have one vote, except that a proxy has one vote for and one vote against if the proxy has been duly appointed by more than one member and the proxy has either been instructed by one or more members to vote for and by one or more other members to vote against or by one or more members to vote in the same way (whether for or against) and one or more of those members has permitted the proxy discretion as to how to vote; and
- (b) on a poll, every member has one vote per share held by him and he may vote in person or by one or more proxies.

This is subject to any special terms as to voting which are given to any shares or on which shares are held.

In the case of joint holders of a share, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders and, for this purpose, seniority shall be determined by the order in which the names stand in the register in respect of the joint holding.

5.5 Restrictions

Unless the Board resolves otherwise, no member shall be entitled to vote at any general meeting or class meeting in respect of any share held by him if any call or other sum then payable by him in respect of that share remains unpaid.

5.6 Dividends and other distributions

The Company may by ordinary resolution from time to time declare dividends not exceeding the amount recommended by the Board. Subject to the 2006 Act, the Board may pay interim dividends, and also any fixed rate dividend, whenever the financial position of the Company, in the opinion of the Board, justifies its payment. If the Board acts in good faith, it is not liable to holders of any shares for any loss they may suffer by the lawful payment of any interim or fixed dividends on any other class of shares having rights ranking after or equal to those shares.

Except insofar as the rights attaching to, or the terms of issue of, any share otherwise provide, all dividends shall (i) be declared and paid according to amounts paid up on the shares in respect of which the dividend is declared and paid, but no amount paid up on a share in advance of a call may be treated as paid up on the share; and (ii) be apportioned and paid *pro rata* according to the amounts paid up on the share during any portion of the period in respect of which the dividend is paid.

The Company may by ordinary resolution direct that payment of a dividend may be satisfied wholly or in part by the distribution of specific assets and in particular of paid-up shares or debentures in another company and the Board shall give effect to such resolution. Where any difficulty arises in regard to such distribution, the Board may make such arrangements as it thinks fit.

The Company shall not pay interest on any dividend or other sum payable on or in respect of a share unless the terms of issue of that share or the provisions of any agreement between the Company and the holder of that share provide otherwise. The Board may retain all or part of any dividend or other sum payable on or in respect of a share on which the Company has a lien. The Board may retain the dividends payable on shares in respect of which any person is entitled to become a Shareholder by operation of law until either such person becomes a Shareholder in respect of such shares or, where any person is entitled to transfer shares pursuant to an operation of law, until such person has transferred those shares.

Any dividend unclaimed after a period of 12 years from the date when it was declared or became due for payment shall be forfeited and revert to the Company.

The Company may stop sending cheques or other means of payment by post for any dividend on any shares which is normally paid in that manner if in respect of at least two consecutive dividends payable on those shares the cheque, warrant or order has been returned undelivered or remains uncashed but, subject to the provisions of the Articles, shall recommence sending cheques, warrants or orders in respect of the dividends payable on those shares if the holder of or person entitled to them claims the arrears of dividend and does not instruct the Company to pay future dividends in some other way.

5.7 Variation of rights

Subject to the 2006 Act, rights attached to any class of shares may be varied with the written consent of the holders of not less than three-quarters in nominal value of the issued shares of that class (calculated excluding any shares held as treasury shares), or with the sanction of a special resolution passed at a separate general meeting of the holders of those shares. At every such separate general meeting (except an adjourned meeting) the quorum shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of the class (calculated excluding any shares held as treasury shares).

The rights conferred upon the holders of any shares shall not, unless otherwise expressly provided in the rights attaching to those shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* with them or by the purchase or redemption by the Company of its own shares.

5.8 Transfer of shares

Subject to the Articles, any member may transfer all or any of his certificated shares by an instrument of transfer in writing in any usual form or in any other form which the Board may approve. The instrument of transfer must be signed by or on behalf of the transferor and (in the case of a partly-paid share) the transferee.

The transferor of a share is deemed to remain the holder until the transferee's name is entered in the register.

The Board may decline to register any transfer of any share (whether fully paid or not) in favour of more than four persons jointly. The Board may also decline to register a transfer of a certificated share which is not a fully-paid share unless the instrument of transfer:

- (a) is duly stamped (if required);
- (b) is in respect of only one class of share; and
- (c) is delivered for registration to the office or such other place as the Board may decide, accompanied by the certificate for the shares to which it relates or such other evidence as the Board may reasonably require.

5.9 Alteration of share capital

The Company may exercise the powers conferred by the applicable statutory provisions to:

- (a) increase its share capital by allotting new shares;
- (b) reduce its share capital;

- (c) sub-divide or consolidate and divide all or any of its share capital;
- (d) reconvert stock into shares;
- (e) redenominate all or any of its shares and reduce its share capital in connection with such redenomination;
- (f) issue redeemable shares; and
- (g) purchase all or any of its own shares including any redeemable shares.

5.10 Reduction of capital

The Company may by special resolution reduce its share capital, share premium account, capital redemption reserve or redenomination reserve in any way permitted by the 2006 Act.

5.11 Disclosure of interests in shares

If any member, or other person appearing to be interested in the Company's shares held by such member, has been duly served with a notice under section 793 of the 2006 Act and is in default for the period of 14 days from the date of service of the notice in supplying to the Company the information thereby required, then (unless the Board otherwise determines) in respect of the relevant shares or any other shares held by the member, the member shall not (for so long as the default continues) nor shall any transferee to whom any of such shares are transferred be entitled to attend or vote either personally or by proxy at a general meeting or to exercise any other right conferred by membership in relation to general meetings. If the relevant shares represent at least 0.25 per cent. (in nominal value) of their class of shares, the Board may in its absolute discretion by notice in writing to such member direct that payments on dividends or other money payable in respect of the relevant shares shall be retained by the Company without any liability to pay interest on such retained sums or, in certain cases, exercise its discretion not to register transfers of the relevant shares. The restrictions shall cease to apply at such time as the Board decides or in relation to any shares which are transferred by means of an approved transfer. Within a period of one week of a default being duly remedied, the Board shall decide that the restrictions shall cease to have effect.

5.12 General meetings

An annual general meeting must be called by notice of at least 21 clear days. All other meetings shall be called by not less than 14 clear days' notice. Notice of a general meeting must be given to the members, the Directors and the auditors. It must state the time and date and the place of the meeting and the general nature of the business to be dealt with at the meeting. In addition, a notice calling an annual general meeting must state that the meeting is an annual general meeting.

Each Director shall be entitled to attend and speak at any general meeting. The chairman of the meeting may take such action as he thinks fit to maintain the proper and orderly conduct of the meeting.

5.13 Directors

(a) Number of Directors

The number of Directors shall be no fewer than two and not more than 12. The Company may by ordinary resolution vary the minimum and/or maximum number of Directors.

(b) Directors' shareholding qualification

A Director shall not be required to hold any shares in the Company.

(c) Appointment of Directors

Directors may be appointed by the Company by ordinary resolution or by the Board. A Director appointed by the Board holds office only until the next annual general meeting of the Company and is then eligible for election.

The Board may from time to time appoint one or more Directors to hold any executive office for such period and on such terms as they may (subject to the provisions of the 2006 Act) determine and may also revoke or terminate any such appointment.

(d) Retirement of Directors

Each Director shall retire at the annual general meeting held in the third calendar year following the year in which he was elected or last re-elected by the Company. Each Director (other than the Chairman and any Director holding an executive office) shall retire at each annual general meeting following the ninth anniversary of the date on which he was elected by the Company. A Director who retires at any annual general meeting shall be eligible for election or re-election unless the Directors resolve otherwise not later than the date of the notice of such annual general meeting.

(e) Removal of Directors by ordinary resolution

The Company may by ordinary resolution remove any Director before the expiration of his period of office.

(f) Termination of office

The office of a Director shall be terminated if:

- (i) he is prohibited by law from being a Director;
- (ii) he ceases to be a Director by virtue of the 2006 Act;
- (iii) the Company receives notice of his resignation or retirement from office and such resignation or retirement has taken effect in accordance with its terms;
- (iv) he becomes bankrupt or compounds with his creditors generally;
- (v) an order is made by any court claiming jurisdiction in that behalf on the ground of mental disorder for his detention or for the appointment of another person to exercise powers with respect to his property or affairs;
- (vi) he is absent from meetings of the Board for six consecutive months without the permission of the Board and the Board resolves that his office is vacated;
- (vii) notice of termination signed by all his co-Directors is served or deemed served on him; or
- (viii) in the case of a Director other than the Chairman and any Director holding an executive office, if the Directors resolve to require him to resign and he fails to do so within 30 days of notification of such resolution being served or deemed served on him.

(g) Alternate Directors

Any Director may appoint any person (including another Director) as his alternate Director and may at any time terminate such appointment. If the alternate Director is not already a Director, the appointment, unless previously approved by the Board, shall have effect only upon, and subject to, being so approved.

(h) Proceedings of the Board

Subject to the provisions of the Articles, the Board may meet for the despatch of business, and adjourn and otherwise regulate meetings as it thinks fit. The quorum necessary for the transaction of the business of the Board may be fixed by the Board and, unless so fixed at any other number, shall be two. A meeting of the Board at which a quorum is present shall be competent to exercise all the powers and discretions exercisable by the Board.

The Board may appoint a Director to be the chairman or a deputy chairman and may at any time remove him from that office. Questions arising at any meeting of the Board shall be determined by a majority of votes. In the case of an equality of votes the chairman of the meeting shall have a second or casting vote.

The Board shall be deemed to meet together if they are in separate locations, but are linked by means of a conference telephone or other communication equipment which allows all persons participating in the meeting to speak to and hear each other.

The Board may delegate any of its powers or discretions to such person (who need not be a Director) or a committee (comprising any number of persons, who need not be Directors) and in such manner as they think fit. The meetings and proceedings of any committee consisting of two or more persons shall be governed by the provisions contained in the Articles for regulating the meetings and proceedings of the Board so far as the same are applicable and are not superseded by any regulations imposed by the Board.

(i) Remuneration of Directors

The ordinary remuneration of the Directors shall from time to time be determined by the Board except that such remuneration shall not exceed £300,000 per annum in aggregate or such higher amount as may from time to time be decided by ordinary resolution of the Company.

Any Director who holds any executive office (including for this purpose the office of Chairman or Deputy Chairman whether or not such office is held in an executive capacity) or who serves on any committee of the Board, or who otherwise performs services which in the opinion of the Board are outside the scope of the ordinary duties of a Director, may be paid such extra remuneration by way of salary, commission or otherwise or may receive such other benefits as the Board may determine.

The Board may repay to any Director all such reasonable expenses as he may incur in attending and returning from meetings of the Board or of any committee of the Board or general meetings or separate meetings of any class of members or debentures or otherwise in connection with the business of the Company.

(j) Pensions and gratuities for Directors

The Directors shall have power to pay and agree to pay a Director's remuneration which may include the payment of gratuities, allowances, pensions or other retirement, superannuation, death, sickness or disability benefits to, or to any person in respect of, that Director.

(k) Directors' interests

The Board may authorise any matter which would otherwise involve a Director breaching his duty under the 2006 Act to avoid conflicts of interest. Such authorisation shall be effective only if the matter in question shall have been proposed in writing for consideration at a meeting of the Board and the quorum and voting requirements at such meeting are met without counting any interested Director.

A Director shall not, save as otherwise agreed by him, be accountable to the Company for any benefit which he (or a person connected with him) derives from any matter authorised by the Board and no contract, transaction or arrangement shall be liable to be avoided on the grounds of a Director having any such interest.

Subject to the provisions of the 2006 Act, and provided he has declared the nature and extent of his interest to the Board as required by the 2006 Act, a Director (or a person connected with him) may have interests of the following kind:

- (i) be a director or other officer of, or employed by, or otherwise interested (including by the holding of shares) in, the Company (or in any company which the Company is otherwise interested);
- (ii) be party to, or otherwise interested in, any contract, transaction or arrangement with the Company (or any other company in which the Company may be interested) or in which the Company is otherwise interested;
- (iii) act by himself or through a firm with which he is associated in a professional capacity for the Company (or any other company in which the Company may be interested) (otherwise than as auditor), whether or not he or it is remunerated for such work;
- (iv) be or become a director or other officer of any other body corporate in which the Company does not have an interest if that cannot reasonably be regarded as likely to give rise to a conflict of interest at the time of his appointment as director or officer of that body corporate; or
- (v) have any other interest authorised by ordinary resolution of the Company.

(l) Restrictions on voting

Subject to certain exceptions set out in the Articles, no Director may vote on or be counted in the quorum in relation to any resolution of the Board in respect of any contract, transaction or arrangement, or any other proposal, in which he (or a person connected with him) is interested.

If a question arises at any time as to whether any interest of a Director prevents him from voting or being counted in the quorum (and the Director does not voluntarily agree to abstain from voting), the chairman of the meeting will make a ruling which shall be conclusive except in a case where the nature or extent of the interest has not been fairly disclosed. If such a question shall arise in respect of the chairman of the meeting, the question shall be decided by resolution of the Directors.

(m) Borrowing powers

Subject to the Articles and the 2006 Act, the Board may exercise all the powers of the Company to borrow money and to mortgage or charge all or part of the undertaking, property, and uncalled capital of the Company and issue debentures and other securities, whether outright or as collateral security for a debt, liability or obligation of the Company or of a third party.

The Board must restrict the borrowings of the Company and exercise all voting and other rights or powers of control or rights of influence exercisable by the Company in relation to its subsidiary undertakings so as to secure (so far, as regards subsidiary undertakings, as by such exercise they can secure) that, save with the previous sanction of an ordinary resolution, the aggregate amount for the time being remaining outstanding of all monies borrowed by the Group and for the time being owing to persons outside the Group less the aggregate amount of current asset investments (as defined in the Articles) shall not at any time exceed an amount equal to three and a half times the adjusted capital and reserves (as defined in the Articles).

(n) Indemnity of Directors

To the extent permitted by the 2006 Act, the Company may indemnify any Director, former Director or secretary of the Company or any associated company against any liability and may purchase and maintain for any Director, former Director or secretary of the Company or any associated company insurance against any liability.

6. FINANCIAL STATEMENTS AND ANNUAL GENERAL MEETINGS

The Company's annual reports and financial statements are made up to 31 December in each year. The Company's latest annual report and financial statements cover the 2014 Financial Year, and were made public on the date of this document. The Company held its most recent AGM on 8 May 2014 at the offices of Clifford Chance LLP, 10 Upper Bank Street, London E14 5JJ. Further information on AGMs is contained in paragraph 5.12 above of this Part X (*Additional Information*).

7. SERCO EMPLOYEE SHARE SCHEMES

A summary of the key terms of the Serco Employee Share Schemes is set out below.

7.1 Serco Group plc Performance Share Plan ("PSP")

(a) Eligibility

Awards may be granted to employees (including Executive Directors) of the Company and its subsidiary companies at the discretion of the Remuneration Committee.

(b) Awards

Awards may normally only be granted during the period of 42 days commencing on: (i) the dealing day following the date on which the Company announces its results for any period; (ii) any date on which changes to legislation or regulations affecting share plans are announced, effected or made; (iii) any date on which the Board resolves that exceptional circumstances exist which justify the grant of awards; or (iv) the date on which dealing restrictions that have prevented the granting of an award during any of the periods specified above are lifted. No awards may be granted after 12 May 2019.

Awards may be granted in the form of either a conditional share award (which gives a participant a right to receive Ordinary Shares in the future at no cost) or an option with an exercise price (which may be nil), and may be subject to performance conditions.

Awards are personal to the participant and may not be transferred except on death. Awards granted under the PSP are not pensionable.

(c) Limits

The Remuneration Committee will determine the value of awards to be granted to each participant in each financial year. The rules permit annual awards of up to a maximum of 200 per cent. of base salary in normal circumstances, with the Remuneration Committee retaining a discretion to grant awards in excess of this limit in exceptional circumstances.

Ordinary Shares used to satisfy awards may be purchased on the stock market, treasury shares or newly issued Ordinary Shares.

The PSP contains the following limits on the issue of the Company's Ordinary Shares:

- (i) the number of unissued Ordinary Shares that may be issued or placed under award under the PSP and under any other executive share plan in any 10-year period may not exceed 5 per cent. of the Company's ordinary share capital in issue from time to time; and
- (ii) the number of unissued Ordinary Shares that may be unissued or placed under award under the PSP and under any other employee share plan in any 10-year period may not exceed 10 per cent. of the Company's ordinary share capital in issue from time to time.

Ordinary Shares transferred out of treasury to satisfy awards granted under the PSP will count towards these limits for so long as this is required by institutional investor guidelines.

(d) Vesting of awards

In normal circumstances, an award will vest on the third anniversary of grant, subject to the satisfaction of any performance conditions.

The PSP includes malus and clawback provisions under which the Remuneration Committee may, in its discretion, reduce (to nil, if appropriate) the vesting of awards under the PSP (known as "malus") or recoup the value of awards that have already vested (known as "clawback"). For example, awards may be subject to malus and/or clawback where the Remuneration Committee determines that there is evidence of a clear contravention of the Company's ethics and values by a participant or a material misstatement of the Company's financial results.

Awards will normally lapse when the participant ceases employment prior to vesting. However, if a participant ceases employment by reason of retirement, ill-health, injury, disability, redundancy or because the company or business for which he works is transferred out of the Group, or for any other reason at the discretion of the Remuneration Committee, the award will vest on the normal vesting date to the extent that any performance conditions have been met. The number of Ordinary Shares vesting will be time pro-rated, unless the Remuneration Committee decides otherwise. Alternatively the Remuneration Committee may allow an award to vest early, subject to satisfaction of the any performance conditions up to the date that the employee ceases employment. The number of Ordinary Shares vesting will be time pro-rated, unless the Remuneration Committee decides otherwise. If a participant dies, the award will vest immediately subject to the satisfaction of any performance conditions and time pro-rating unless the Remuneration Committee decides otherwise.

Early vesting is also permitted on a change of control, a takeover or a scheme of arrangement (other than an internal reorganisation), subject to satisfaction of any performance conditions. The number of Ordinary Shares vesting will be time pro-rated, unless the Remuneration Committee decides otherwise. Alternatively, participants may be required or permitted to exchange their awards for equivalent awards over shares in the acquiring company.

(e) Performance condition

Awards vest to the extent performance conditions are met. Vesting is dependent on at least two performance conditions chosen from EPS, relative TSR and share price or absolute TSR. The measures are independent and the weighting of each measure is determined prior to the award. 25 per cent. of the award vests for threshold performance.

(f) Holding period

The Committee may, in its discretion, attach a post-vesting holding period for awards. Where an award is subject to a holding period, shares issued or transferred on vesting of an award (or, where relevant, the exercise of an option) will be issued or transferred to a trustee or nominee to be held on behalf of the participant until the end of the holding period. Ordinary Shares released on vesting of PSP awards granted to Executive Directors in 2014 onwards are subject to a holding period. The Remuneration Committee has discretion to vary the percentage of Ordinary Shares subject to the holding period.

(g) Entitlement to dividends

On vesting of award participants will receive a payment in cash or Ordinary Shares equal to the value of any dividends that they would have received during the period between the award date and the date of vesting, if they had been the holders of the vested Ordinary Shares.

(h) Cash alternative

Award may be settled in cash equal to the market value of the Ordinary Shares subject to the award rather than in the Ordinary Shares themselves.

(i) Variation of capital

In the event of any variation in the share capital of the Company, or in the event of a demerger, special dividend, or other similar event which affects the market price of Ordinary Shares to a material extent, the Remuneration Committee may make such adjustments as it considers appropriate to the number of Ordinary Shares subject to an award and, where relevant, to the option price.

(j) Alterations

The Remuneration Committee may at any time amend the PSP. The prior approval of the Company in general meeting must be obtained in the case of any amendment to the advantage of participants which is made to the provisions relating to eligibility, individual or overall limits, the basis for determining participant's entitlement to, and the terms of, Ordinary Shares provided under the PSP, and the adjustments that may be made in the event of any variation of share capital. Minor amendments to benefit the administration of the PSP, to take account of a change in legislation or to obtain or maintain favourable tax, exchange control or regulatory treatment for participants, the Company or any Group member, do not require the approval of the Company in general meeting. Any amendment that is to the material disadvantage of participants in relation to awards already granted to them requires their majority consent.

7.2 Serco Group plc Deferred Bonus Plan ("DBP")

(a) Eligibility

Employees (including Executive Directors) of the Company and its subsidiary companies may be selected by the Remuneration Committee to participate in the DBP.

(b) Awards

Participants are invited to invest a proportion of their annual bonus in Ordinary Shares and receive a matching award of Ordinary Shares (a "**Matching Award**").

Matching Awards may normally only be granted during the period of 42 days commencing on: (i) the dealing day following the date on which the Company announces its results for any period; (ii) any date on which changes to legislation or regulations affecting share plans are announced, effected or made; (iii) any date on which the Board resolves that exceptional circumstances exist which justify the grant of Matching Awards; or (iv) the date dealing restrictions which have prevented the granting of Matching Awards during any of the periods specified above are lifted. No Matching Awards may be granted after 12 May 2019.

Matching Awards may be granted in the form of either a conditional share award (which gives a participant a right to receive Ordinary Shares in the future at no cost) or an option with an exercise price (which may be nil), and may be subject to performance conditions.

Matching Awards are personal to the participant and may not be transferred except on death. Matching Awards granted under the DBP are not pensionable.

(c) Limits

Participants may invest a maximum of 50 per cent. of bonus in the DBP and the ratio for Matching Awards will not exceed 2:1 (on a gross basis) except in exceptional circumstances.

Ordinary Shares used to satisfy Matching Awards may be purchased on the stock market, treasury shares or newly issued Ordinary Shares.

The DBP contains the following limits on the issue of the Company's Ordinary Shares:

- (i) the number of unissued Ordinary Shares that may be issued or placed under award under the DBP and under any other executive share plan in any 10-year period may not exceed 5 per cent. of the Company's ordinary share capital in issue from time to time; and
- (ii) the number of unissued Ordinary Shares that may be unissued or placed under award under the DBP and under any other employee share plan in any 10-year period may not exceed 10 per cent. of the Company's ordinary share capital in issue from time to time.

Ordinary Shares transferred out of treasury to satisfy Matching Awards granted under the DBP will count towards these limits for so long as this is required by institutional investor guidelines.

(d) Vesting of awards

In normal circumstances, Matching Award will vest on the third anniversary of grant subject to the satisfaction of any performance conditions. The Remuneration Committee may determine that awards will be subject to an additional holding period, usually ending two years after the normal vesting date.

The DBP includes malus and clawback provisions under which the Remuneration Committee may, in its discretion, reduce (to nil, if appropriate) the vesting of Matching Awards under the DBP at any time prior to the end of the holding period. For example, Matching Awards may be reduced where the Remuneration Committee determines that there is evidence of a clear contravention of the Company's ethics and values by a participant or a material misstatement of the Company's financial results.

Matching Awards will normally lapse when the participant ceases employment prior to vesting. However, if a participant ceases employment by reason of retirement, ill-health, injury, disability, redundancy or because the company or business for which he works is transferred out of the Group, or for any other reason at the discretion of the Remuneration Committee, Matching Awards (other than those subject to malus and clawback which may not vest until the end of the holding period) will vest on the normal vesting date to the extent that that any performance conditions has been met. The number of Ordinary Shares vesting will be time pro-rated, unless the Remuneration Committee decides otherwise. Alternatively the Remuneration Committee may allow Matching Awards (other than those subject to malus and clawback which may not vest until the end of the holding period) to vest early, subject to satisfaction of the any performance conditions up to the date that the employee ceases employment. The number of Ordinary Shares vesting will be time pro-rated, unless the Remuneration Committee decides otherwise. If a participant dies, Matching Awards (including those subject to malus and clawback) will vest immediately subject to the satisfaction of any performance conditions and time pro-rating unless the Remuneration Committee decides otherwise.

Early vesting is also permitted on a change of control, a takeover or a scheme of arrangement (other than an internal reorganisation), subject to satisfaction of any performance conditions. The number of Ordinary Shares vesting will be time pro-rated, unless the Remuneration Committee decides otherwise. Alternatively, participants may be required or permitted to exchange their Matching Awards for equivalent awards over shares in the acquiring company.

(e) Performance condition

Awards granted in 2013 vest to the extent a performance condition related to EPS growth is met. The range for the three-year performance period was set at annual compound EPS growth of 5.5 per cent. at threshold to 10.5 per cent. at maximum. No Matching Awards will vest where performance is below the threshold. For threshold performance, each Investment Share will be matched by half an Ordinary Share. For maximum level performance each Investment Share will be matched (on a gross investment basis) by two Ordinary Shares. For performance between threshold and maximum, the number of Ordinary Shares in each Matching Award will be determined on a straight line basis. No awards were granted in 2014.

(f) Entitlement to dividends

On vesting of Matching Awards, participants will receive a payment in cash or Ordinary Shares equal to the value of any dividends that they would have received during the period between the award date and the date of vesting, if they had been the holders of the vested Ordinary Shares.

(g) Cash alternative

Matching Awards may be settled in cash equal to the market value of the Ordinary Shares subject to the Matching Award rather than in the Ordinary Shares themselves.

(h) Variation of capital

In the event of any variation in the share capital of the Company, or in the event of a demerger, special dividend, or other similar event which affects the market price of Ordinary Shares to a material extent, the Remuneration Committee may make such adjustments as it considers appropriate to the number of Ordinary Shares subject to a Matching Award and, where relevant, to the option price.

(i) Alterations

The Remuneration Committee may at any time amend the DBP. The prior approval of the Company in general meeting must be obtained in the case of any amendment to the advantage of participants which is made to the provisions relating to eligibility, individual or overall limits, the basis for determining participant's entitlement to, and the terms of, Ordinary Shares provided under the DBP, and the adjustments that may be made in the event of any variation of share capital. Minor amendments to benefit the administration of the DBP, to take account of a change in legislation or to obtain or maintain favourable tax, exchange control or regulatory treatment for participants, the Company or any Group member, do not require the approval of the Company in general meeting. Any amendment that is to the material disadvantage of participants in relation to awards already granted to them requires their majority consent.

7.3 2005 Savings-Related Share Option Scheme ("Sharesave")

Sharesave was approved by Shareholders and adopted at the annual general meeting on 29 April 2005. It is a tax-qualifying plan which meets the requirements of Schedule 3 of the Income Tax (Earnings and Pensions) Act 2003 ("Schedule 3").

(a) Eligibility

All United Kingdom resident employees of participating Group companies who have been continuously employed for a minimum period of not more than five years (as determined by the Board) are eligible to participate in Sharesave. Other employees of participating companies may be invited to participate in Sharesave at the Board's discretion.

(b) Grant of options

Options may be granted within 42 days following: (i) the preliminary announcement of the annual or half year results of the Company; (ii) the issue by the Company of any prospectus or equivalent document; (iii) the coming into force of any amendments to Schedule 3; (iv) the issue of a new Sharesave prospectus; or (v) at any other time if the Board determines that the circumstances are sufficiently exceptional to justify the grant of an option. No options may be granted later than 29 April 2015.

Options granted under Sharesave are personal to option holders and, except on the death of an option holder, may not be transferred. Options granted under Sharesave are not pensionable.

(c) Savings contracts

An eligible employee who applies for an option under Sharesave must also enter into a savings contract approved by HMRC for a specified period of three or five years. The Board has the discretion to determine which of the savings contracts will be available in respect of any invitation to apply for options. Under this contract, the employee will agree to make monthly savings contributions of a fixed amount which is set by the Board (which may not exceed the statutory maximum (currently, £500 per month)). Ordinary Shares may only be acquired under Sharesave on the exercise of the option using the payment under this contract. Payment will be taken as including any bonus payable under the savings contract, unless otherwise decided by the Board.

(d) Price

The Board shall determine the price payable for each Ordinary Share under option, provided that the price shall not be less than the higher of:

- (i) 80 per cent. of the middle-market quotation for an Ordinary Share in the Daily Official List on the dealing day preceding the date on which invitations to apply for options are issued or 80 per cent. of the average of the middle-market quotations for a Share in the Daily Official List on the date on which invitations to apply for options are issued; and
- (ii) the nominal value of an Ordinary Share, if the option relates to new Ordinary Shares.

(e) Overall limit

The number of the Company's unissued Ordinary Shares that may be issued or placed under option or award in any period of 10 years under the Company's employee share plans may not exceed such number of Ordinary Shares as represents 10 per cent. of the Company's ordinary share capital in issue from time to time.

Ordinary Shares transferred out of treasury to satisfy options under Sharesave will count towards this limit for so long as this is required by institutional investor guidelines.

(f) Scaling down

Applications to participate in Sharesave may be scaled down by the Board if applications exceed the number of Ordinary Shares available for the grant of options. The ways in which scaling down may be carried out are set out in the rules of Sharesave.

(g) Exercise of options

An option may not normally be exercised until the option holder has completed his three-year or five-year savings contract and then not more than six months thereafter. Special provisions allow early exercise in the case of death, injury, disability, redundancy, retirement or because the Company or business which employs the option holder is transferred out of the Group.

If an option holder ceases employment for any other reason within three years of the grant date, his option will lapse. Special provisions also allow early exercise in the event of a change of control, reconstruction or winding-up of the Company. Internal reorganisations do not automatically trigger the early exercise of options.

(h) Variation of capital

In the event of any variation in the share capital of the Company, the Board may make such adjustments as it considers appropriate to the number of Ordinary Shares under option and the price at which they may be acquired. Any such variation must in particular ensure that the total market value of the Ordinary Shares under option and the total price at which they may be acquired must be substantially the same before and after the amendment.

(i) Amendments

The Board may at any time amend Sharesave. The prior approval of the Company in general meeting must be obtained in the case of any amendment to the advantage of the option holders which is made to the provisions relating to eligibility, individual or overall limits, the basis for determining a participant's entitlement to, and the terms of, Ordinary Shares provided under Sharesave, and the adjustments that may be made in the event of any variation of share capital. Minor amendments to benefit the administration of Sharesave, to take account of a change in legislation or to obtain or maintain favourable tax, exchange control or regulatory treatment for participants, the Company or any member of the Group do not require the approval of the Company in general meeting. Any amendment to the material disadvantage of participants in relation to options already granted to them requires their majority consent.

7.4 Serco Group plc 2008 International Savings-Related Share Option Scheme (the "International Sharesave")

The International Sharesave is equivalent to Sharesave and allows the Company to extend the all-employee savings related share option plan to other jurisdictions. The provisions of the International Sharesave are the same as Sharesave except that:

- (a) options may only be granted to employees who are not eligible to participate in Sharesave or (unless the Directors decide otherwise) the LTIP (as defined below);
- (b) invitations may be issued to eligible employees within 42 days of the date of the preliminary announcement of the annual or half year results of the Company and options must be granted within 30 days of the date the invitation is issued; and
- (c) the exercise price for options need not be satisfied by the transfer of funds from the linked savings contract.

7.5 Serco Group plc Serco Sharesave Scheme for the Republic of Ireland 2008 (the “Irish Sharesave”)

The Irish Sharesave is equivalent to Sharesave and allows the Company to grant tax-qualifying options to employees in Ireland. The provisions of the Irish Sharesave are the same as Sharesave except that amendments to the rules of the Irish Sharesave and any adjustment of options to take account of a variation of capital must be approved by the Irish Revenue Commissioners to take effect.

7.6 Serco Group plc 2008 Employee Stock Purchase Plan (the “ESPP”)

The ESPP was established under section 423 of the US Internal Revenue Code (the “Code”) and allows US employees to participate in a tax efficient share incentive plan in a similar way to Sharesave for UK employees.

(a) Eligibility

Certain employees of US-incorporated participating Group companies who have been continuously employed for a minimum period of at least three months are eligible to purchase Ordinary Shares. The right to purchase is granted at the beginning of an “**Accumulation Period**” which is a period of up to 24 months. Rights under the ESPP may not be transferred (except on death) and are not pensionable.

(b) Contributions

Each eligible employee may elect to make payroll deduction (up to a maximum set by the Company) provided that the deductions do not exceed an individual limit of US\$25,000 in any calendar year.

(c) Price

The price at which eligible employees can purchase Ordinary Shares under the ESPP is equal to 85 per cent. of the fair market value of an Ordinary Share at the start or end of the Accumulation Period. The fair market value is equal to the closing price per Ordinary Shares on the London Stock Exchange.

(d) Overall limit

The number of the Company’s unissued Ordinary Shares that may be issued or placed under option or award in any period of 10 years under the Company’s employee share plans may not exceed such number of Ordinary Shares as represents 10 per cent. of the Company’s ordinary share capital in issue from time to time.

Ordinary Shares transferred out of treasury to satisfy options under the ESPP will count towards this limit for so long as this is required by institutional investor guidelines.

(e) Scaling down

Applications to participate in the ESPP may be scaled down by the Board if applications exceed the number of Ordinary Shares available for the grant of options. The ways in which scaling down may be carried out are set out in the rules of the ESPP.

(f) Exercise of options

An option may normally be exercised during the period of two months following the end of the Accumulation Period. Special provisions allow early exercise in the case of death, injury, disability, redundancy, retirement or because the Company or business which employs the option holder is transferred out of the Group. If an option holder ceases employment for any other reason prior to the end of the Accumulation Period, his option will lapse.

Special provisions also allow early exercise in the event of a change of control, reconstruction or winding-up of the Company. Internal reorganisations do not automatically trigger the early exercise of options.

(g) Variation of capital

In the event of any variation in the share capital of the Company, the Board may make such adjustments as it considers appropriate to the number of Ordinary Shares under option and the price at which they may be acquired. Any such variation must in particular ensure that the total market value of the Ordinary Shares under option and the total price at which they may be acquired must be substantially the same before and after the amendment and must comply with the applicable rules of the Code.

(h) Amendments

The Board may at any time amend the ESPP. The prior approval of the Company in general meeting must be obtained in the case of any amendment to the advantage of the option holders which is made to the provisions relating to eligibility, individual or overall limits, the maximum payroll deductions that may be permitted, calculation of the exercise price, the terms of Ordinary Shares provided under the ESPP and the adjustments that may be made in the event of any variation of share capital. Minor amendments to benefit the administration of the ESPP, to take account of a change in legislation or to obtain or maintain favourable tax, exchange control or regulatory treatment for participants, the Company or any member of the Group do not require the approval of the Company in general meeting.

7.7 Serco Group plc 2006 Long Term Incentive Plan (“LTIP”)

Awards were last granted under the LTIP in 2013 and no further awards will be granted under the LTIP.

(a) Awards

Awards may be granted in the form of either a conditional share award (which gives a participant a right to receive Ordinary Shares in the future at no cost) or an option with an exercise price (which may be nil), and may be subject to performance conditions.

All awards granted under the LTIP have vested and remain exercisable for a period of 10 years from the date of grant.

Awards are personal to the participant and may not be transferred except on death. Awards granted under the LTIP are not pensionable.

(b) Limits

The Remuneration Committee will determine the value of awards to be granted to each participant in each financial year. The rules permit annual awards of up to a maximum of 100 per cent. of base salary in normal circumstances.

Ordinary Shares used to satisfy awards may be purchased on the stock market, treasury shares or newly issued Ordinary Shares.

The number of unissued Ordinary Shares that may be unissued or placed under award under the LTIP and under any other employee share plan in any 10-year period may not exceed 10 per cent. of the Company's ordinary share capital in issue from time to time.

Ordinary Shares transferred out of treasury to satisfy awards granted under the LTIP will count towards these limits for so long as this is required by institutional investor guidelines.

(c) Vesting of awards

In normal circumstances, an award will vest no earlier than the third anniversary of grant, subject to the satisfaction of any performance conditions.

Awards will normally lapse when the participant ceases employment prior to vesting. However, if a participant ceases employment by reason of retirement, ill-health, injury, disability or because the company or business for which he works is transferred out of the Group, or for any other reason at the discretion of the Remuneration Committee, the Remuneration Committee shall determine when the award will vest (but it may not be earlier than the date of termination or later than the normal vesting date). The award will vest to the extent that any performance conditions have been met and the number of Ordinary Shares vesting will be time pro-rated. If a participant dies, the award will vest immediately subject to the satisfaction of any performance conditions and time pro-rating.

Early vesting is also permitted on a change of control, a scheme of arrangement or a winding-up (other than an internal reorganisation), subject to satisfaction of any performance conditions, and the number of Ordinary Shares vesting will be time pro-rated.

(d) Variation of capital

In the event of any variation in the share capital of the Company, or in the event of a demerger, special dividend, or other similar event which affects the market price of Ordinary Shares to a material extent, the Remuneration Committee may make such adjustments as it considers appropriate to the number of Ordinary Shares subject to an award and, where relevant, to the option price.

(e) Alterations

The Remuneration Committee may at any time amend the LTIP. The prior approval of the Company in general meeting must be obtained in the case of any amendment to the advantage of participants which is made to the provisions relating to eligibility, individual or overall limits, the basis for determining participant's entitlement to, and the terms of, Ordinary Shares provided under the LTIP, and the adjustments that may be made in the event of any variation of share capital. Minor amendments to benefit the administration of the LTIP, to take account of a change in legislation or to obtain or maintain favourable tax, exchange control or regulatory treatment for participants, the Company or any Group member, do not require the approval of the Company in general meeting. Any amendment that is to the material disadvantage of participants in relation to awards already granted to them requires their majority consent.

7.8 Serco Group plc 2005 Executive Option Plan ("Executive Plan")

Options were last granted under the Executive Plan in 2009 and no further options will be granted.

The Executive Plan is divided into two parts: Part A (tax qualifying options) and Part B (options that are not tax qualifying).

(a) Terms of options

Options granted under the Executive Plan are personal to option holders and, except on the death of an option holder, may not be transferred. Options granted under the Executive Plan are not pensionable.

The price payable for each Ordinary Share under option shall not be less than the middle-market quotation of an Ordinary Share as derived from the Daily Official List on the dealing day immediately preceding the date of grant (or on such other dealing day(s) as determined by the Remuneration Committee).

(b) Limits

The aggregate market value of Ordinary Shares (calculated at the time the option was granted) which any person may acquire upon exercise of an option granted under Part A of the Executive Plan may not exceed £30,000 (or such other limit as may be imposed by Schedule 4 from time to time).

The number of the Company's unissued Ordinary Shares that may be issued or placed under option or award under the Executive Plan and under any other employee share plan in any 10-year period may not exceed such number of Ordinary Shares as represents 10 per cent. of the Company's ordinary share capital in issue from time to time.

Ordinary Shares transferred out of treasury to satisfy options granted under the Executive Plan will count towards these limits for so long as this is required by institutional investor guidelines.

(c) Exercise of options

In normal circumstances, an option may not be exercised earlier than three years or more than 10 years after the date of grant.

If a participant ceases to be employed by reason of death, retirement, injury, disability, redundancy, or because the company or business for which he works is transferred out of the Group, or for any other reason at the discretion of the Remuneration Committee, the option will vest immediately (and may be exercised for a reduced period thereafter).

Early vesting is also permitted on a change of control, a scheme of arrangement or a winding-up, subject to satisfaction of any performance conditions, and the number of Ordinary Shares vesting will be time pro-rated. Alternatively, participants may be required or permitted to exchange their awards for equivalent awards over shares in the acquiring company.

(d) Variation of capital

In the event of any variation in the share capital of the Company, or, in the case of options granted under Part B of the Executive Plan, in the event of a demerger, the Remuneration Committee may make such adjustments as it considers appropriate to the number of Ordinary Shares under option and the price at which they may be acquired. Adjustments to the terms of an option granted under Part A of the Executive Plan must in particular ensure that the total market value of the Ordinary Shares under option and the total price at which they may be acquired must be substantially the same before and after the amendment.

(e) Alterations

The Remuneration Committee may at any time amend the Executive Plan. The prior approval of the Company in general meeting must be obtained in the case of any amendment to the advantage of participants which is made to the provisions relating to eligibility, individual or overall limits, the basis for determining participant's entitlement to, and the terms of, Ordinary Shares provided under the Executive Plan, and the adjustments that may be made in the event of any variation of share capital. Minor amendments to benefit the administration of the Executive Plan, to take account of a change in legislation or to obtain or maintain favourable tax, exchange control or regulatory treatment for participants, the Company or any Group member, do not require the approval of the Company in general meeting. Any amendment that is to the material disadvantage of participants in relation to awards already granted to them requires their majority consent.

8. MAJOR SHAREHOLDERS AND OTHER INTERESTS

As at the Latest Practicable Date, the Company had been notified under the Disclosure and Transparency Rules of the following direct and indirect substantial interests in the issued Ordinary Shares of the Company:

Shareholders	Number of Existing Ordinary Shares	Approximate percentage of existing issued share capital %	Number of Ordinary Shares following the Rights Issue ⁽¹⁾	Approximate percentage of issued share capital following the Rights Issue ⁽¹⁾ %
Invesco Limited	54,814,057	9.98	109,628,114	9.98
GIC Private Limited	35,174,408	6.40	70,348,816	6.40
MSDC Management, L.P.	30,624,946	5.58	61,249,892	5.58
Artisan Partners Limited Partnership, Artisan Investments GP LLC, Artisan Partners Holdings LP, and Artisan Partners Asset Management Inc.	27,664,689	5.04	55,329,378	5.04
Morstan Nominees Limited	25,179,410	4.58	50,358,820	4.58
BlackRock Inc.	25,063,146	4.56	50,126,292	4.56
FIL Limited	24,486,010	4.46	48,972,020	4.46
AXA S.A.	24,379,602	4.44	48,759,204	4.44
FMR LLC	24,268,859	4.42	48,537,718	4.42
Newton Investment Management Limited	23,600,721	4.30	47,201,442	4.30
Ruane, Cunniff & Goldfarb Inc.	22,254,335	4.05	44,508,670	4.05
Lancaster Investment Management LLP	22,013,379	4.01	44,026,758	4.01
Woodford Investment Management LLP	16,719,030	3.04	33,438,060	3.04

Note:

(1) Assuming each major Shareholder takes up its rights to New Ordinary Shares in full and that there is no exercise of options or awards under the Serco Employee Share Schemes between the date of this document and the completion of the Rights Issue.

As at the Latest Practicable Date, save as disclosed in this paragraph 8, the Company has not been notified of any interest (within the meaning of the Disclosure and Transparency Rules) which is notifiable under the Disclosure and Transparency Rules. The Company is not aware of any person or persons who, directly or indirectly, acting jointly with others or acting alone, exercised or could exercise control over the Company. The Company is not aware of any arrangements the operation of which may, at a subsequent date, result in a change in control of the Company.

None of the Company's major Shareholders has now, or will following the Rights Issue have, different voting rights from other holders of Ordinary Shares.

The Company is not aware of any person who immediately following Admission directly or indirectly, jointly or severally, will own or could exercise control over the Company.

9. MATERIAL CONTRACTS

Agreements relating to the Rights Issue

9.1 Underwriting Agreement

On 12 March 2015, Serco and the Underwriters entered into the Underwriting Agreement pursuant to which Serco has appointed J.P. Morgan Cazenove and BofA Merrill Lynch as Joint Sponsors, Joint Global Coordinators, Joint Bookrunners and Underwriters, Barclays and HSBC as Co-Bookrunners and Underwriters and Crédit Agricole CIB as Lead Manager and Underwriter in connection with the Rights Issue and Admission.

Subject to the terms and conditions of the Underwriting Agreement, the Underwriters (as agents of Serco) have agreed severally (in their due proportions) to use reasonable endeavours to procure subscribers for the New Ordinary Shares which have not been taken up under the Rights Issue (or, at their discretion, for as many as can be so procured) as soon as reasonably practicable and in any event by no later than 4.30 p.m. on the second dealing day after the last date for acceptance under the Rights Issue, for an amount which is not less than the total of the Issue Price multiplied by the number of such New Ordinary Shares for which subscribers are so procured plus the expenses of procurement (including any applicable brokerage and commissions and amounts in respect of VAT which are not recoverable). If and to the extent that the Underwriters are unable to procure subscribers on the basis outlined above, the Underwriters have agreed to subscribe for, on a several basis (in their due proportions), any remaining New Ordinary Shares.

In consideration of their services provided under the Underwriting Agreement, the Company shall pay the Underwriters a commission of 2 per cent. of the Issue Price multiplied by the aggregate number of New Ordinary Shares (plus any applicable VAT). Out of such commission payable to the Underwriters, the Underwriters shall pay or procure the payment of sub-underwriting commissions payable to such persons (if any) as the Underwriters may procure to acquire New Ordinary Shares. In consideration of the additional sponsor and corporate finance services provided by the Joint Sponsors, Serco has agreed to pay the Joint Sponsors a sponsor fee of £1.375 million (plus any applicable VAT), payable following Admission. In addition to the commission and fee payable to the Underwriters and Joint Sponsors as described above, Serco has also agreed to pay all costs and expenses of or in connection with the Rights Issue, the General Meeting, the allotment and issue and delivery of the New Ordinary Shares and the issue and transfer of the shares in Newco (whether or not the obligations of the Underwriters under the Underwriting Agreement become unconditional or are terminated).

Serco has given certain customary representations, warranties and undertakings to the Underwriters, and customary indemnities to the Underwriters and to certain persons connected with them, in relation to the Rights Issue. Serco's liabilities thereunder are unlimited as to time and amount.

The obligations of the Underwriters under the Underwriting Agreement are subject to certain conditions customary in agreements of this type including, amongst others:

- (a) the passing of the Resolution (without amendment) at the General Meeting on 30 March 2015 (or, with the prior written agreement of the Joint Global Coordinators, at any adjournment of such meeting);
- (b) Admission occurring not later than 8.00 a.m. on the first dealing day after the date of the General Meeting (or such later time and/or date (not later than 2 April 2015) as the Company and the Underwriters may agree;
- (c) the fulfilment by the Company of its obligations, undertakings and covenants under the Underwriting Agreement, the option and subscription and transfer agreements referred to in paragraph 9.2 below and under the terms or conditions of the Rights Issue which fall to be performed or satisfied prior to Admission;
- (d) there being no breach of the representations, warranties and undertakings on the part of the Company contained in the Underwriting Agreement; and
- (e) no event referred to in section 87G(1) of FSMA arising between the time of publication of this document and Admission and no supplementary prospectus being published by or on behalf of the Company before Admission (save only to the extent required in relation to any Proposed Disposal effected on terms that, in the good faith opinion of the Joint Global Coordinators, are not materially prejudicial in the context of the Rights Issue and/or Admission and/or the underwriting of the New

Ordinary Shares and/or dealings in the New Ordinary Shares for the period of 90 days following Admission).

If any of the conditions in the Underwriting Agreement is not satisfied (or waived by the Joint Global Coordinators), or become incapable of being satisfied, by the required time and date (or by such later time and/or date as the Joint Global Coordinators may agree) then, save for certain exceptions, the obligations of the parties under the Underwriting Agreement shall cease and terminate without prejudice to any liability for any prior breach of the Underwriting Agreement.

In addition, the Joint Global Coordinators (on behalf of the Underwriters) are entitled to terminate the Underwriting Agreement in certain circumstances, including for material adverse change and force majeure, but only prior to Admission.

Pursuant to the Underwriting Agreement, the parties have agreed that if a supplementary prospectus is issued by the Company two or fewer Business Days prior to the date specified as the latest date for acceptance and payment in full, such date shall be extended to the date which is three Business Days after the date of publication of the supplementary prospectus, and the dates and times of events due to take place following such date shall be extended accordingly.

9.2 Option and Subscription and Transfer Agreements

In connection with the Rights Issue, Serco, J.P. Morgan Cazenove and Newco have entered into two agreements, each dated 12 March 2015, in relation to the subscription and transfer of ordinary shares and redeemable preference shares in Newco.

Under the terms of these agreements:

- (i) Serco and J.P. Morgan Cazenove have agreed to subscribe for ordinary shares in Newco and enter into certain put and call options in respect of the ordinary shares in Newco subscribed for by J.P. Morgan Cazenove that are exercisable if the Rights Issue does not proceed;
- (ii) J.P. Morgan Cazenove has agreed to apply an amount equal to monies received (and held by the Receiving Agent) from Qualifying Shareholders and renounees and from subscribers of New Ordinary Shares not taken up by Qualifying Shareholders and renounees under the Rights Issue, to subscribe for redeemable preference shares in Newco at an aggregate value equal to such monies (after deducting relevant commissions and expenses); and
- (iii) Serco will allot and issue the New Ordinary Shares directly to those persons entitled thereto in consideration of J.P. Morgan Cazenove transferring its holdings of redeemable preference shares and ordinary shares in Newco to Serco.

Accordingly, instead of receiving cash as consideration for the issue of the New Ordinary Shares, at the conclusion of the Rights Issue Serco will own the entire issued ordinary share capital and entire issued redeemable preference share capital of Newco whose only assets will be its cash reserves, which will represent an amount equal to the net proceeds of the Rights Issue.

Serco will be able to utilise this amount on redemption of the redeemable preference shares it will hold in Newco and/or during any interim period prior to redemption, by procuring that Newco lends the amount to Serco (or one of Serco's subsidiaries).

Qualifying Shareholders are not party to these arrangements and so will not acquire any direct right against J.P. Morgan Cazenove pursuant to these arrangements. Serco will be responsible for enforcing the obligations of J.P. Morgan Cazenove and Newco thereunder.

9.3 Standby Underwriting Letter

On 10 November 2014, Serco entered into a standby underwriting letter (the "**Standby Underwriting Letter**") with the Joint Global Coordinators pursuant to which the Joint Global Coordinators agreed to underwrite severally (in their respective proportions) the proposed rights issue by Serco to raise aggregate gross proceeds of up to £550 million, on the terms of an underwriting agreement to be agreed between Serco and the Joint Global Coordinators.

The Standby Underwriting Letter automatically terminated in accordance with its terms upon the execution of the Underwriting Agreement described in paragraph 9.1 above.

Agreements relating to the placing in May 2014

9.4 Placing, Option and Subscription and Transfer Agreements

On 1 May 2014, Serco entered into a placing agreement (the “**Placing Agreement**”) with J.P. Morgan Cazenove and BofA Merrill Lynch (together, the “**Banks**”), pursuant to which Serco has appointed the Banks as joint managers, joint bookrunners and underwriters in connection with the placing of up to 49,932,918 new Ordinary Shares (the “**Placing Shares**”), representing approximately up to 9.99 per cent. of the then existing issued share capital of Serco (the “**Placing**”).

Under the Placing Agreement, each of the Banks agreed severally to use its reasonable endeavours to procure placees for the Placing Shares in such number and at such price as may be agreed between Serco and the Banks. Following an accelerated bookbuilding process on 1 May 2014, 49,932,918 new Ordinary Shares, representing approximately 9.99 per cent. of the then existing issued share capital of Serco, were placed by the Banks at a price of 320 pence per Placing Share, raising gross proceeds of approximately £160 million.

In consideration of their services provided under the Placing Agreement, the Company agreed to pay the Banks a commission of two per cent. of the amount equal to the product of the placing price of 320 pence and the aggregate number of Placing Shares together with any VAT chargeable thereon, as well as the Banks’ out-of-pocket expenses incurred for the purpose of or in connection with the Placing.

In addition, pursuant to an option agreement and a subscription and transfer agreement each dated 1 May 2014 between Serco, J.P. Morgan Cazenove and Garden Funding Limited (a company incorporated in Jersey, “**Garden Funding**”), Serco and J.P. Morgan Cazenove each subscribed for ordinary shares in Garden Funding. Following the completion of the Placing, J.P. Morgan Cazenove applied monies received from placees (after deduction of relevant commissions and expenses) to subscribe for redeemable preference shares in Garden Funding. Serco allotted and issued the Placing Shares to the placees in consideration of J.P. Morgan Cazenove transferring their holdings of redeemable preference shares and ordinary shares in Garden Funding to Serco.

Agreements relating to debt facilities

9.5 Facility Agreement

The Company as borrower and guarantor entered into a term and multicurrency revolving credit facility agreement originally dated 28 March 2012 with Serco Limited, Serco Inc and Serco Australia Pty Limited acting as additional guarantors, Banc of America Securities Limited, Barclays Bank plc, Commonwealth Bank of Australia, Credit Agricole Corporate and Investment Bank, DBS Bank Ltd, London Branch, HSBC Bank plc, J.P. Morgan Limited, Lloyds TSB Bank plc (now Lloyds Bank plc), The Bank of Tokyo-Mitsubishi UFJ. Ltd and The Royal Bank of Scotland acting as arrangers (the “**Facility Agreement**”).

The Facility Agreement has subsequently been amended and/or restated on various dates since 28 March 2012 to reflect the evolving commercial and financing requirements of the Group and underlying economic conditions during that period. In December 2014, amendments were made to the Facility Agreement which included changes to the financial covenants and a deferral of the next covenant testing date to 31 May 2015.

On 12 March 2015, the Company entered into a further amendment and restatement agreement (the “**Facility Amendment and Restatement Agreement**”) pursuant to which, and conditional upon the completion of the Rights Issue, certain additional amendments will be made to the terms of the Facility Agreement.

The current principal terms of the Facility Agreement are described in sub-paragraph (a) below. The principal terms of the Facility Agreement as it will be amended pursuant to the Facility Amendment and Restatement Agreement following the completion of the Rights Issue (the “**Amended and Restated Facility Agreement**”) are described in sub-paragraph (b) below.

(a) Facility Agreement

The Facility Agreement provides for a senior multicurrency revolving facility of £730 million (the “**Revolving Credit Facility**”).

The final maturity of the Revolving Credit Facility is 28 March 2017. The Revolving Credit Facility is available for general corporate purposes of the Group, and may be used by any joint venture company or

project company (subject to a limit of £75 million). The Revolving Credit Facility is capable of being utilised by way of re-drawable cash loans or for the provision of ancillary facilities as agreed bilaterally with the lenders in place of their Revolving Credit Facility commitment.

Interest rates and fees

Utilisations under the Facility Agreement bear interest for each interest period at a rate per annum equal to LIBOR or EURIBOR plus a margin and any mandatory costs.

The margin on the Revolving Credit Facility is subject to a margin “ratchet”. The initial margin in relation to the Revolving Credit Facility was 1.40 per cent. per annum. Pursuant to the margin ratchet, the margin is adjusted as the Serco Group (on a consolidated basis) attains certain leverage ratios of EBITDA to consolidated total net borrowings. The maximum margin is 2 per cent. per annum and the minimum margin is 0.95 per cent. per annum. Any change in the margin takes effect three business days after the date of delivery of the relevant quarterly compliance certificate.

Guarantees and security

The Company is required to ensure that the aggregate of the EBITDA, gross assets and consolidated operating profits of the guarantors under the Facility Agreement are not, at any time, less than 51 per cent. of the total EBITDA, gross assets and consolidated operating profits of the Group.

Covenants and events of default

The Facility Agreement requires the Company and certain subsidiaries to observe certain customary undertakings. The Facility Agreement also requires the Company and certain subsidiaries to comply with certain customary negative covenants and events of default.

The Facility Agreement requires the Company to comply with three principal financial covenants: (i) a minimum ratio of EBITDA to net financing costs; (ii) a maximum ratio of consolidated total net borrowings to EBITDA; and (iii) a maximum amount of priority debt that can be outstanding at any time. These financial covenants are tested semi-annually.

Maturity

The Revolving Credit Facility will cease to be available on 28 March 2017.

Prepayment

The Revolving Credit Facility is to be prepaid in full immediately upon the occurrence of certain events, including a change of control (as more particularly described in the Facility Agreement).

(b) Amended and Restated Facility Agreement

The effectiveness of the amendments to the terms and conditions of the Facility Agreement contemplated by the Facility Amendment and Restatement Agreement is conditional upon the Serco Group receiving the net proceeds of the Rights Issue and confirmation from the Company that it will pay down £225 million drawn under the US Notes Purchase Agreement and £225 million (or, if less, the amount then drawn) under the Facility Agreement from such proceeds.

As part of the amendment and restatement of the existing Facility Agreement, the amount of the Revolving Credit Facility will be reduced from £730 million to £480 million, of which up to £200 million may be drawn by way of bonds.

The principal terms of the Amended and Restated Facility Agreement are described below.

Interest rates and fees

Utilisations under the Amended and Restated Facility Agreement will bear interest for each interest period at a rate per annum equal to LIBOR or EURIBOR plus a margin.

The margin on the Revolving Credit Facility under the Amended and Restated Facility Agreement will be subject to a margin “ratchet”. The initial margin will be 2.00 per cent. per annum. Pursuant to the margin ratchet, the margin is adjusted as the Company (on a consolidated basis) attains a certain leverage, from a maximum margin of 2.00 per cent. to a minimum margin of 0.95 per cent. Any change in the margin takes effect three business days after the date of delivery of the relevant semi-annual compliance certificate. The all-in drawn rate under the Revolving Credit Facility will initially be approximately 2.6 per cent.

Customary amendment fees will be paid to the lenders in relation to the Facility Amendment and Restatement Agreement.

Guarantees and security

The Company will be required to ensure that the aggregate of the Consolidated EBITDA, gross assets and consolidated operating profits of the guarantors under the Amended and Restated Facility Agreement are not, at any time, less than 51 per cent. of the total Consolidated EBITDA or gross assets or 70 per cent. of the consolidated operating profits of the Group.

Covenants and events of default

The Amended and Restated Facility Agreement will require the Company and certain subsidiaries to observe certain customary undertakings. The Amended and Restated Facility Agreement will also require the Company and certain subsidiaries to comply with certain customary negative covenants and events of default.

The Amended and Restated Facility Agreement will require the Company to comply with three principal financial covenants: (i) a minimum ratio of Consolidated EBITDA to net financing costs; (ii) a maximum ratio of consolidated total net borrowings to Consolidated EBITDA; and (iii) a requirement that a maximum of £100 million of priority debt that can be outstanding at any time. These financial covenants will be tested semi-annually.

“**EBITDA (as defined for covenant purposes)**” or “**Consolidated EBITDA**” is calculated as consolidated operating profit as defined under IFRS (excluding joint ventures), adjusted to exclude (i) depreciation of fixed assets, (ii) amortisation of intangible assets (iii) exceptional items (which is deemed to include Onerous Contract Provisions relating to historic contracts up to an agreed threshold) and (iv) non-cash charges relating to equity-settled share-based compensation of directors and employees, and to include joint venture dividends received. Any future Onerous Contract Provisions would be reflected in EBITDA in line with their cash profile.

The covenant tests for the 12 months ending December 2014 and the twelve months ending June 2015 will be tested on an amended basis so that (i) the impact on Consolidated EBITDA of the Contract & Balance Sheet Reviews carried out by the Group in December 2014 is added back and (ii) the Group’s debt as at 31 December 2014 will be deemed to be reduced by the proceeds of the Rights Issue.

Maturity

The Revolving Credit Facility under the Amended and Restated Facility Agreement will cease to be available on four years from the date on which the amendments become effective. There is an option for the Company and the lenders to extend the term by a further year. One third of the full amount of net proceeds from the Proposed Disposals must be applied in repayment of any cash drawings under the Amended and Restated Facility Agreement (amounts repaid in this way may be re-drawn).

Prepayment

The Revolving Credit Facility under the Amended and Restated Facility Agreement will be required to be prepaid in full immediately upon the occurrence of certain events, including a change of control (as more particularly described in the Amended and Restated Facility Agreement).

Most favoured lender

The Revolving Credit Facility under the Amended and Restated Facility Agreement will introduce a “most favoured lender” clause which will provide that any more restrictive or extensive representations, covenants or events of default that are introduced by future amendments to the US Private Placement Notes will be automatically incorporated into the terms of the agreement.

9.6 Receivables Financing Agreement

Serco Limited and Serco Listening Company Limited (the “**Obligors**”) entered into a receivables financing agreement dated 1 December 2009 with Barclays Bank PLC (the “**Receivables Financing Agreement**”). On 12 March 2015, the Obligors entered into an amendment and restatement agreement (the “**Receivables Financing Amendment and Restatement Agreement**”) pursuant to which, conditional upon the completion

of the Rights Issue, certain amendments will be made to the terms of the Receivables Financing Agreement.

The Receivables Financing Agreement provides a £60 million receivables financing facility, which will be reduced to £30 million by the Receivables Financing Amendment and Restatement Agreement. The final maturity of the Receivables Financing Agreement is 1 December 2015, which will be extended to 1 December 2016 by the Receivables Financing Amendment and Restatement Agreement.

Interest rate and fees

The discount rate applicable to utilisations under the Receivables Financing Agreement is equal to LIBOR plus a discount rate.

The discount rate applicable to utilisations under the Amended Receivables Financing Agreement will be subject to a margin “ratchet”. The initial margin will be 2.00 per cent. per annum. Pursuant to the margin ratchet, the margin is adjusted as the Company (on a consolidated basis) attains a certain leverage, from a maximum margin of 2.00 per cent. to a minimum margin of 0.95 per cent. Any change in the margin takes effect three business days after the date of delivery of the relevant semi-annual compliance certificate.

Covenants and events of default

The Receivables Financing Agreement requires the Obligors to observe certain customary undertakings, negative covenants and events of default (including a change of control event of default).

The Receivables Financing Agreement requires the Obligors to comply with two principal financial covenants: (i) a minimum ratio of Consolidated EBITDA to net financing costs; and (ii) a maximum ratio of consolidated total net borrowings to Consolidated EBITDA. These financial covenants are tested semi-annually.

The Receivables Financing Amendment and Restatement Agreement will amend the financial covenant tests so that they are consistent with those in the Amended and Restated Facility Agreement.

9.7 US Private Placement Notes

The Company has over a number of years issued the US Private Placement Notes to institutional investors (mainly insurance companies) details of which are set out below. The issue of the US Private Placement Notes were made pursuant to section 4(a)(2) (formerly section 4(2)) of the Securities Act whereby the US Private Placement Notes were exempt from the registration requirement of the SEC. The terms and conditions of the US Note Purchase Agreements (as set out below) are broadly identical and contain standard market terms seen in the US placement market.

The details of the Serco Group’s US private placements are as follows:

- pursuant to a note purchase agreement dated 20 August 2003 (as amended), the Company issued £83 million 5.89 per cent. Series A Guaranteed Senior Notes due 20 August 2015 and US\$55 million 5.663 per cent. Series B Guaranteed Senior Notes due 20 August 2015 (the “**2003 Note Purchase Agreement**”);
- pursuant to a note purchase agreement dated 9 May 2011 (as amended), the Company issued US\$50 million 3.62 per cent. Series A Senior Notes due 9 May 2016, US\$100 million 4.35 per cent. Series B Senior Notes due 9 May 2018 and US\$150 million 4.94 per cent. Series C Senior Notes due 9 May 2021 (the “**May 2011 Note Purchase Agreement**”);
- pursuant to a note purchase agreement dated 20 October 2011 (as amended), the Company issued US\$70 million 3.78 per cent. Series A Senior Notes due 20 October 2019, US\$140 million 4.17 per cent. Series B Senior Notes due 20 October 2021 and US\$125 million 4.27 per cent. Series C Senior Notes due 20 October 2023 (the “**October 2011 Note Purchase Agreement**”); and
- pursuant to a note purchase agreement dated 13 May 2013 (as amended), the Company issued US\$20 million 2.92 per cent. Series A Senior Notes due 14 May 2020, US\$70 million 3.37 per cent. Series B Senior Notes due 14 May 2022 and US\$150 million 3.63 per cent. Series C Senior Notes due 14 May 2024 (the “**2013 Note Purchase Agreement**”),

(together, the “**US Note Purchase Agreements**”).

The covenants under the US Note Purchase Agreements are broadly similar to those set out in the Company's bank credit facilities. On 12 March 2015, the Company entered into the amendments agreements in respect of each of the US Note Purchase Agreements (the "**US Note Amendment Agreements**") pursuant to which, and conditional upon the completion of the Rights Issue, certain amendments will be made to the terms of the US Note Purchase Agreements.

The principal terms of the US Note Purchase Agreements are described in sub-paragraph (a) below. The principal terms of the US Note Purchase Agreements as each will be amended pursuant to the US Note Amendment Agreements (the "**Amended US Note Purchase Agreements**") are described in sub-paragraph (b) below.

(a) US Note Purchase Agreements

Interest rates

Interest under the US Private Placement Notes is payable by the Serco Group semi-annually in arrears.

Covenants and events of default

The US Note Purchase Agreements require the Company and certain subsidiaries to observe certain customary undertakings, including compliance with laws, insurance, maintenance of properties, payments of taxes and claims, corporate existence, etc., books and records, priority of obligations and subsidiary guarantees. The US Note Purchase Agreements also require the Company and certain subsidiaries to comply with certain customary negative covenants and events of default.

The US Note Purchase Agreements require the Serco Group to comply with three principal financial covenants: (i) a minimum ratio of Consolidated EBITDA to net financing costs; (ii) a maximum ratio of consolidated total net borrowings to Consolidated EBITDA; and (iii) a maximum amount of priority debt that can be outstanding at any time. These financial covenants are tested semi-annually.

The events of default in the US Note Purchase Agreements are generally consistent with the events of default under the Revolving Credit Facility. The consequence of any un-remedied default is the prepayment of the US Private Placement Notes plus the payment of interest of an increased rate and a make-whole amount. The cross default provision in the US Note Purchase Agreements contains a threshold figure of £35 million.

Maturity

Each series of the US Private Placement Notes has a different maturity date, details of which are set out above in this paragraph 9.7.

Repayment and make-whole

The US Private Placement Notes may be repaid at any time in whole or in part at par plus all accrued and unpaid interest plus a market make-whole premium, if any. The make-whole amount is an amount intended to "make-whole" investors for their loss, if any, of the benefit of the interest payments under the US Private Placement Notes for their stated maturity. A loss would typically have occurred if interest rates have gone down between the time of the initial placement of the US Private Placement Notes and the date of the prepayment. The market make-whole premium will be equal to the difference (but not less than zero) between (a) the present value of the remaining debt payments (principal and interest) on the principal amount to be prepaid, discounted at a rate equal to the bid-side yield on a treasury note whose tenor matches the remaining average life of the US Private Placement Notes plus 50 basis points and (b) the principal amount of the US Private Placement Notes to be prepaid. The additional 50 basis points will not be applicable to the make-whole premium calculation for a portion of the Notes held under the 2003 Note Purchase Agreement. The Serco Group would be subject to certain prepayment obligations under the US Note Purchase Agreements in certain events such as a change of control, certain disposals or a change in any US sanction laws (OFAC) that could affect holders of US Private Placement Notes by virtue of the Serco Group's activities.

(b) Amended US Note Purchase Agreements

The US Note Amendment Agreements will, when effective, amend certain of the terms of the US Note Purchase Agreements. The amendments to each of the US Note Purchase Agreements will be identical.

The effectiveness of the US Note Amendment Agreements is conditional upon the Serco Group receiving the net proceeds of the Rights Issue and a commitment by Serco to pay down up to £450 million drawn under the Existing Finance Agreements from such proceeds.

The terms of the Amended US Note Purchase Agreements are as follows:

Interest rates and fees

The amendment fee agreed with the Noteholders amounts to 0.45 per cent. of the principal amount of Notes outstanding after the prepayment out of rights issue proceeds.

The interest rates payable in respect of the different series of US Private Placement Notes will increase by between 0.20 per cent. and 1.45 per cent. depending on maturity. The interest rate increase will be disregarded for the purposes of calculating any make-whole amount, i.e. all make-whole amounts will be calculated on the basis of the original interest rates of the US Private Placement Notes. The blended coupon under the US Private Placement Notes will initially be approximately 5 per cent.

Guarantees and security

Serco will be subject to the same requirements in respect of the guarantors as those under the Facility Amendment and Restatement Agreement.

Covenants

The covenants under US Note Amendment Agreements will be consistent with those agreed under the Facility Amendment and Restatement Agreement.

Maturity

There will be no changes to the maturities of the US Private Placement Notes.

Prepayment

£225 million of the net proceeds of the Rights Issue will be applied to prepay a part of the principal amount outstanding under the US Private Placement Notes pro-rata to all Noteholders. The prepayment will be made with a make-whole amount based on the original interest rates of the US Private Placement Notes (i.e. the interest rates before the increase under the terms of the US Note Amendment Agreements).

Two thirds of the full amount of net proceeds from the Proposed Disposals must be offered to the Noteholders in prepayment of the US Private Placement Notes at par (i.e. without a make-whole amount).

Most favoured lender

The US Note Amendment Agreements will introduce a “most favoured lender” clause which will ensure that amendments to financial covenants, covenants as to liens and debt limits, as well as the cross-default threshold amount, will stay consistent with those agreed with the Company’s other lenders under the Facility Amendment and Restatement Agreement and any other facilities of at least £100 million.

10. RELATED PARTY TRANSACTIONS

Save as disclosed in (i) note 39 to Serco’s 2014 Financial Statements; (ii) note 39 to Serco’s 2013 Financial Statements; and (iii) note 38 to Serco’s 2012 Financial Statements (which are incorporated by reference into this document), Serco has not entered into any related party transactions (which for these purposes are those set out in the standards adopted according to the Regulation (EC) No 1606/2002) with any related party during the period between 1 January 2012 and the Latest Practicable Date.

11. WORKING CAPITAL STATEMENT

The Company is of the opinion that, taking into account the net proceeds of the Rights Issue and the bank and other facilities available to the Serco Group, the working capital available to the Serco Group is sufficient for its present requirements, that is, for at least the 12 months following the date of publication of this document.

12. LITIGATION

Save as disclosed in paragraph 9 of Part IV (*Information on the Serco Group*), there are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which Serco is aware) which may have or have had in the recent past (covering the 12 months immediately preceding the date of this document) a significant effect on Serco and/or the Serco Group's financial position or profitability.

13. NO SIGNIFICANT CHANGE

There has been no significant change in the trading or financial position of the Serco Group since 31 December 2014, the date to which Serco's audited 2014 Financial Statements were prepared.

14. MANDATORY BIDS AND COMPULSORY ACQUISITION RULES RELATING TO ORDINARY SHARES

The Company is subject to the Takeover Code. Other than as provided by the 2006 Act and the Takeover Code, there are no rules or provisions relating to mandatory bids and/or squeeze-out and sell-out rules in relation to the Ordinary Shares. There is not in existence any current mandatory takeover bid in relation to the Company. There have been no takeover bids by third parties during the period from incorporation to 31 December 2014 or in the current financial year.

15. GENERAL

J.P. Morgan Cazenove has given and has not withdrawn its written consent to the inclusion in this document of its name and the references thereto in the form and context in which it appears.

BofA Merrill Lynch has given and has not withdrawn its written consent to the inclusion in this document of its name and the references thereto in the form and context in which it appears.

Rothschild has given and has not withdrawn its written consent to the inclusion in this document of its name and the references thereto in the form and context in which it appears.

Deloitte LLP has given and has not withdrawn its written consent to the inclusion of its reports set out in Part VII (*Unaudited Pro Forma Financial Information*) and Annex I (*Profit Forecast of the Serco Group*) of this document in the form and context in which they appear and has authorised the contents of those reports solely for the purposes of item 5.5.3R(2)(f) of the Prospectus Rules.

The aggregate costs and expenses payable by Serco in connection with the Rights Issue are estimated to amount to approximately £27 million (excluding amounts in respect of VAT).

One or more of the Underwriters and their affiliates have engaged in transactions with the Company (including, in some cases, credit agreements and credit lines) in the ordinary course of its banking business and one or more of the Underwriters have performed various investment banking, financial advisory and other services for the Company, for which it or they received customary fees, and the Underwriters and their affiliates may provide such services in the future. Each of the Underwriters and their respective affiliates may, from time to time, engage in further transactions with, and perform services for, the Company and the Group in the ordinary course of their respective businesses.

16. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during normal business hours on any Business Day, free of charge, at the registered office of the Company and at the offices of Clifford Chance LLP, 10 Upper Bank Street, London E14 5JJ, from the date of this document up to and including the date of Admission:

- (a) the Articles of Serco;
- (b) Serco's Annual Report 2014, Annual Report 2013 and Annual Report 2012;
- (c) the Accountants' Report on the Unaudited Pro Forma Information on the Serco Group set out in Part VII (*Unaudited Pro Forma Financial Information*) of this document;

- (d) the Accountants' Report on the Profit Forecast of the Serco Group set out in Section B of Annex I (*Profit Forecast of the Serco Group*) of this document;
- (e) the letters of consent referred to in paragraph 15 of this Part X (*Additional Information*) of this document; and
- (f) a copy of this document and the Form of Proxy.

17. ANNOUNCEMENT ON RESULTS OF THE RIGHTS ISSUE

Serco will make an announcement(s) to a Regulatory Information Service giving details of the results of the Rights Issue.

**PART XI
DOCUMENTS INCORPORATED BY REFERENCE**

This document should be read and construed in conjunction with certain information which has been previously published and filed with the FCA and which shall be deemed to be incorporated in, and form part of, this document.

Paragraph 2 of Part VI (*Historical Financial Information Relating to the Serco Group*) and the table below list the various sections of certain documents which are incorporated by reference into this document in compliance with Prospectus Rule 2.4.1. It should be noted that the information in other sections of such documents that are not incorporated by reference is either not relevant to investors or is covered elsewhere in this document.

To the extent that any document or information incorporated by reference or attached to this document itself incorporates any information by reference, either expressly or impliedly, such information will not form part of this document for the purposes of the Prospectus Rules, except where such information or documents are stated within this document as specifically being incorporated by reference or where this document is specifically defined as including such information.

Any statement contained in a document which is deemed to be incorporated by reference into this document shall be deemed to be modified or superseded for the purpose of this document to the extent that a statement contained in this document (or in a later document which is incorporated by reference into this document) modifies or supersedes such earlier statement (whether expressly, by implication or otherwise). Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this document.

These documents are available for inspection as set forth in paragraph 16 of Part X (*Additional Information*) and also available on the Company's website at <http://www.serco.com/investors/reportsresultsevents/resultsannualreport/index.asp>.

<u>Information incorporated by reference into this document</u>	<u>Reference document</u>	<u>Page numbers</u>
The 2014 Financial Statements		
Independent auditor's report to the members of Serco	Annual Report 2014	134 - 138
Consolidated income statement	Annual Report 2014	139
Consolidated statement of comprehensive income	Annual Report 2014	140
Consolidated statement of changes in equity	Annual Report 2014	141
Consolidated balance sheet	Annual Report 2014	142
Consolidated cash flow statement	Annual Report 2014	143
Notes to the 2014 Financial Statements	Annual Report 2014	144 - 206
The 2013 Financial Statements		
Independent auditor's report to the members of Serco	Annual Report 2013	109 - 112
Consolidated income statement	Annual Report 2013	113
Consolidated statement of comprehensive income	Annual Report 2013	114
Consolidated statement of changes in equity	Annual Report 2013	115
Consolidated balance sheet	Annual Report 2013	116
Consolidated cash flow statement	Annual Report 2013	117
Notes to the 2013 Financial Statements	Annual Report 2013	118 - 169
The 2012 Financial Statements		
Independent auditor's report to the members of Serco	Annual Report 2012	115
Consolidated income statement	Annual Report 2012	116
Consolidated statement of comprehensive income	Annual Report 2012	116
Consolidated statement of changes in equity	Annual Report 2012	117
Consolidated balance sheet	Annual Report 2012	118
Consolidated cash flow statement	Annual Report 2012	119
Notes to the 2012 Financial Statements	Annual Report 2012	120 - 176

PART XII
DEFINITIONS AND GLOSSARY OF TECHNICAL TERMS

DEFINITIONS

The following definitions apply throughout this document unless the context requires otherwise:

“2006 Act” or “Companies Act”	the Companies Act 2006, as amended;
“2012 Financial Statements”	the audited consolidated financial statements for the Serco Group for the 2012 Financial Year;
“2012 Financial Year”	the financial year of the Company ended 31 December 2012;
“2013 Financial Statements”	the audited consolidated financial statements for the Serco Group for the 2013 Financial Year;
“2013 Financial Year”	the financial year of the Company ended 31 December 2013;
“2014 Financial Statements”	the audited consolidated financial statements for the Serco Group for the 2014 Financial Year;
“2014 Financial Year”	the financial year of the Company ended 31 December 2014;
“2015 Financial Year”	the financial year of the Company ending 31 December 2015;
“Adjusted Operating Profit”	operating profit as defined under IFRS, adjusted to exclude (i) amortisation and impairment of intangibles arising on acquisition, (ii) transaction-related costs, (iii) management estimation of material costs that were considered to have been impacted by the UK Government reviews that followed the issues in relation to the Electronic Monitoring Contract and PECS Contract, (iv) exceptional items and (v) joint venture interest and tax.
“Adjusted Revenue”	revenue as defined under IFRS adjusted to include Serco’s share of joint venture revenue;
“Admission”	the proposed admission of the New Ordinary Shares by the UKLA to listing on the premium segment of the Official List and by the London Stock Exchange to trading nil paid on the main market of the London Stock Exchange;
“AGM”	annual general meeting;
“AMEAA”	Australasia, the Middle East, Asia and Africa;
“Amended and Restated Facility Agreement”	the Facility Agreement as amended and restated by the Facility Amendment and Restatement Agreement, as described in paragraph 9.5 of Part X (<i>Additional Information</i>) of this document;
“Amended Receivables Financing Agreement”	the Receivables Financing Agreement as amended by the Receivables Financing Amendment and Restatement Agreement, as described in paragraph 9.6 of Part X (<i>Additional Information</i>) of this document;
“Amended US Note Purchase Agreements”	the US Note Purchase Agreements, as amended by the US Note Amendment Agreements and described in paragraph 9.7 of Part X (<i>Additional Information</i>) of this document;
“Amendment Agreements”	the Facility Amendment and Restatement Agreement, Receivables Financing Amendment and Restatement Agreement and the US Note Amendment Agreements;

“Annual Report 2012”	the annual report and accounts of the Company for the 2012 Financial Year;
“Annual Report 2013”	the annual report and accounts of the Company for the 2013 Financial Year;
“Annual Report 2014”	the annual report and accounts of the Company for the 2014 Financial Year;
“Approvals and Allotment Committee”	the Approvals and Allotment Committee of the Board;
“Articles”	the articles of association of Serco and reference to a specific article of the articles of association of Serco shall be to an “Article”;
“Audit Committee”	the Audit Committee of the Board;
“Audited Financial Statements”	as defined in paragraph 3 of the section headed “Important Information” of this document;
“Auditors”	Deloitte LLP;
“AWE ML”	AWE Management Ltd;
“BACS”	the UK BACS system for the electronic processing of financial transactions;
“Board” or “Serco Board”	the board of Directors of the Company;
“Board Oversight Committee”	the Board Oversight Committee of the Board;
“BofA Merrill Lynch”	Merrill Lynch International;
“Business Day”	a day (excluding Saturdays, Sundays and public holidays in England and Wales) on which banks are generally open for business in London;
“Canadian Accredited Investor Representation Letter”	the letter in a form provided by the Company to be signed by an “accredited investor” in Canada (as defined in National Instrument 45 106 Prospectus and Registration Exemptions) who wishes to participate in the Rights Issue;
“certificated”	in relation to a share or other security, a share or other security, title to which is recorded in the relevant register of the share or other security concerned as being held in certificated form (i.e. not in CREST);
“CHAPS”	the UK Clearing House Automated Payment System for the same-day processing of pound sterling and euro fund transfers;
“Closing Price”	the closing middle market price of a relevant share as derived from SEDOL on any particular day;
“Co-Bookrunners”	Barclays Bank PLC and HSBC;
“Lead Manager”	Crédit Agricole CIB;
“Code”	the US Internal Revenue Code of 1986, as amended;
“Committee” or “Committees”	one or all of the Audit Committee, the Nomination Committee, the Remuneration Committee, the Corporate Responsibility and Risk Committee, Approvals and Allotment Committee, the Board Oversight Committee and any other committees established from time to time by the Company;

“Contract & Balance Sheet Reviews”	the reviews undertaken by Serco of certain contracts held by the Group and of the Group’s balance sheet, as described in paragraph 2.3 of Part I (<i>Letter from the Chairman</i>) of this document;
“Corporate Governance Code”	the corporate governance code issued by the Financial Reporting Council in the United Kingdom from time to time;
“Corporate Renewal” or “Corporate Renewal Programme”	the programme of corporate renewal that Serco has put in place, at the request of the UK Government, following the investigations in relation to the Electronic Monitoring Contract and the PECS Contract in 2013, as described in paragraph 2 of Part I (<i>Letter from the Chairman</i>) and paragraph 3.1 of Part IV (<i>Information on the Serco Group</i>) of this document;
“Corporate Responsibility and Risk Committee”	the Corporate Responsibility and Risk Committee of the Board;
“Crédit Agricole CIB”	Crédit Agricole Corporate and Investment Bank;
“CREST” or “CREST system”	the paperless settlement procedure operated by Euroclear enabling system securities to be evidenced otherwise than by certificates and transferred otherwise than by written instrument;
“CREST courier and sorting service” or “CCSS”	the CREST courier and sorting service operated by Euroclear to facilitate, <i>inter alia</i> , the deposit and withdrawal of securities;
“CREST Deposit Form”	the form used to deposit securities into the CREST system in the United Kingdom;
“CREST Manual”	the rules governing the operation of CREST as published by Euroclear;
“CREST member”	a person who has been admitted by Euroclear as a system-member (as defined in the CREST Regulations);
“CREST Proxy Instruction”	has the meaning ascribed to it in paragraph 9 of the notes to the Notice of General Meeting;
“CREST Regulations”	the Uncertificated Securities Regulations 2001 (SI 2001 No. 3755), as amended;
“Daily Official List”	the daily official list of the London Stock Exchange;
“DBP”	the Serco Group plc Deferred Bonus Plan as described in paragraph 7.2 of Part X (<i>Additional Information</i>) of this document;
“Department of Defense”	the US Department of Defense;
“Directors” or “Serco Directors”	the directors of the Company, whose names appear in paragraph 1.1 of Part IX (<i>Directors, Senior Managers and Corporate Governance</i>) of this document, or, as the context requires, the directors from time to time of the Company, and “Director” shall be construed accordingly;
“DLR”	Docklands Light Railway;
“document”	this combined prospectus and circular;
“DTR” or “Disclosure and Transparency Rules”	the disclosure and transparency rules made by the FCA under section 73A of FSMA;

“EBITDA”	earnings before interest, taxation, depreciation and amortisation;
“EBITDA (as defined for covenant purposes)” or “Consolidated EBITDA”	has the meaning ascribed to it in paragraph 9.5 of Part X (<i>Additional Information</i>) of this document;
“EEA”	the European Economic Area;
“EEA States”	the member states of the EEA;
“Electronic Monitoring Contract”	Serco Group’s previous contract with UK Central Government to provide electronic monitoring services to persons subject to bail or other court orders;
“EM/PECS Investigations”	the investigations into the Electronic Monitoring Contract and the PECS Contract as described in paragraph 2.1 of Part I (<i>Letter from the Chairman</i>) of this document;
“EPS”	earnings per share;
“Equiniti”	Equiniti Limited;
“EU”	the European Union;
“EURIBOR”	the Euro Interbank Offered Rate;
“Euroclear”	Euroclear UK & Ireland Limited;
“ex-rights date”	the date on which the Company’s Ordinary Shares begin trading without giving the holders of those Ordinary Shares the right to participate in the Rights Issue (being 8.00 a.m. on 31 March 2015);
“Exchange Act”	the United States Securities Exchange Act of 1934, as amended;
“Excluded Territories”	Canada, Hong Kong, Japan, the PRC, South Africa and any other jurisdictions where the extension and availability of the Rights Issue would breach any applicable law;
“Executive Directors”	the Directors who hold the position of executive director, and each an “Executive Director”;
“Existing Finance Agreements”	the Facility Agreement, the Receivables Financing Agreement and the US Note Purchase Agreements;
“Existing Financings”	the financings available to the Group under the Facility Agreement, the Receivables Financing Agreement and the US Private Placement Notes;
“Existing Ordinary Shares”	the Ordinary Shares of two pence each in the capital of Serco in issue immediately prior to the Rights Issue;
“Facility Agreement”	the term and multicurrency revolving credit facility agreement originally dated 28 March 2012 between, <i>inter alia</i> , the Company and various lenders, as amended and restated from time to time (other than pursuant to the Facility Amendment and Restatement Agreement), as described in paragraph 9.5 of Part X (<i>Additional Information</i>) of this document;
“Facility Amendment and Restatement Agreement”	the amendment and restatement agreement dated 12 March 2015 between, <i>inter alia</i> , the Company and the lenders under the Facility Agreement, amending certain terms and conditions of the Facility Agreement, as described in paragraph 9.5 of Part X (<i>Additional Information</i>) of this document;
“FCA”	the Financial Conduct Authority of the UK;

“Form of Proxy”	the form of proxy enclosed with this document for use in connection with the General Meeting;
“FSMA”	the Financial Services and Markets Act 2000, as amended;
“Fully Paid Rights”	rights to subscribe for the New Ordinary Shares, fully paid;
“GAAP”	the generally accepted accounting principles;
“GDP”	gross domestic product;
“General Meeting”	the general meeting of the Company proposed to be held at the offices of Clifford Chance LLP, 10 Upper Bank Street, London E14 5JJ at 10.00 a.m. on 30 March 2015 (or any adjournment thereof) to approve the Resolution, the notice of which is contained in this document;
“HMRC”	HM Revenue & Customs, the UK tax authority;
“Home Office”	the UK Home Office;
“HSBC”	HSBC Bank plc;
“IAS”	international accounting standards;
“IFRS”	the International Financial Reporting Standards as adopted by the EU;
“INR”	Indian rupee;
“Intelenet”	Intelenet Global Services Private Ltd., a company in India that was acquired by the Serco Group in 2011;
“IRS”	the US Internal Revenue Service;
“ISIN”	the international securities identification number;
“Issue Price”	101 pence per New Ordinary Share;
“J.P. Morgan Cazenove”	J.P. Morgan Securities plc;
“Joint Global Coordinators”	J.P. Morgan Cazenove and BofA Merrill Lynch (and each a “Global Coordinators”);
“Joint Sponsors”	J.P. Morgan Cazenove and BofA Merrill Lynch (and each a “Sponsor”);
“Latest Practicable Date”	10 March 2015 (being the latest practicable date prior to publication of this document);
“Lenders”	the lenders under the Revolving Credit Facility and the Receivables Financing Agreement;
“LIBOR”	the London Interbank Offered Rates;
“Listing Rules”	the listing rules made by the FCA under section 73A of FSMA;
“London Stock Exchange”	London Stock Exchange plc;
“member account ID”	the identification code or number attached to any member account in CREST;
“Member State”	a member state of the EEA;
“Ministry of Defence” or “MoD”	the Ministry of Defence of the UK;
“Ministry of Justice” or “MoJ”	the Ministry of Justice of the UK;
“Money Laundering Regulations”	the Money Laundering Regulations (SI 2007 No. 2157), as amended;
“New Ordinary Shares”	the Ordinary Shares of two pence each proposed to be issued by Serco pursuant to the Rights Issue;

“Newco”	Marengo Funding Limited;
“Nil Paid Rights”	New Ordinary Shares in nil paid form provisionally allotted to Qualifying Shareholders pursuant to the Rights Issue;
“Nomination Committee”	the nomination committee of the Board;
“Non-Executive Directors”	the Directors who hold the position of Chairman of the Serco Board or non-Executive Director, and each a non-Executive Director;
“Noteholders”	the holders of the US Private Placement Notes;
“Notice of General Meeting”	the notice of General Meeting contained in this document;
“Official List”	the official list of the UKLA;
“Onerous Contract Provisions”	the provisions made by the Company in its 2014 Financial Statements in respect of loss-making contracts following the Contract & Balance Sheet Reviews as described in Risk Factor 1.1 and paragraph 2.3 of Part I (Letter from the Chairman) of this document;
“Ordinary Shares”	the ordinary shares with a nominal value of two pence each in the capital of Serco;
“Overseas Shareholders”	Qualifying Shareholders who are resident in, or citizens of, countries other than the United Kingdom;
“participant ID”	the identification code or membership number used in CREST to identify a particular CREST member or other system participant (as defined in the CREST Regulations);
“PECS Contract”	Serco Group’s contract with the UK Government to provide prisoner escort and custody services in London and East Anglia;
“Pensions Regulator”	the regulatory body established under the Pensions Act 2004 with responsibility for all work-based pension schemes in the United Kingdom;
“PRC”	the People’s Republic of China (for the purposes of this document, excluding Hong Kong, Macau and Taiwan);
“Profit Forecast”	the profit forecast of the Serco Group for the 2015 Financial Year as set out in paragraph 7 of Part I (<i>Letter from the Chairman</i>) of this document;
“Proposed Disposals”	the proposed disposals by Serco of its non-core assets, including the Environmental and Leisure businesses in the UK, the Great Southern Rail business in Australia, the majority of Serco’s private sector BPO business, as further described in paragraph 10 of Part I (<i>Letter from the Chairman</i>) of this document;
“Prospectus Directive”	Directive 2003/71/EC (as amended from time to time, including by Directive 2010/73/EC (the “ PD Amending Directive ”) to the extent implemented in the relevant EEA State) and includes any relevant implementing measures in each EEA State that has implemented Directive 2003/71/EC;
“Prospectus Directive Regulation”	Commission Regulation (EC) No 809/2004;
“Prospectus Rules”	the prospectus rules of the FCA made pursuant to section 73A of FSMA;

“Provisional Allotment Letter(s)” or “PAL(s)”	the renounceable provisional allotment letters relating to the Rights Issue to be issued to Qualifying non-CREST Shareholders other than certain Overseas Shareholders as described in Part III (<i>Terms and Conditions of the Rights Issue</i>) of this document;
“Prudential Regulation Authority” . . .	the Prudential Regulation Authority of the United Kingdom;
“PSP”	the Serco Group plc Performance Share Plan as described in paragraph 7.1 of Part X (<i>Additional Information</i>) of this document;
“QIB” or “Qualified Institutional Buyer”	has the meaning given to such term by Rule 144A;
“QIB Representation Letter”	the letter in a form provided by the Company to be signed by a QIB who wishes to participate in the Rights Issue;
“Qualifying CREST Shareholders” . .	Qualifying Shareholders holding Ordinary Shares in uncertificated form;
“Qualifying non-CREST Shareholders”	Qualifying Shareholders holding Ordinary Shares in certificated form;
“Qualifying Shareholder(s)”	Shareholder(s) on the register of members of the Company at the Record Date;
“Receivables Financing Agreement” . .	the receivables financing agreement originally dated 1 December 2009 between Serco Limited, Serco Listening Company Limited and Barclays Bank PLC, as described in paragraph 9.6 of Part X (<i>Additional Information</i>) of this document;
“Receivables Financing Amendment and Restatement Agreement”	the amendment and restatement agreement dated 12 March 2015 between Serco Limited, Serco Listening Company Limited and Barclays Bank PLC, amending certain terms and conditions of the Receivables Financing Agreement, as described in paragraph 9.6 of Part X (<i>Additional Information</i>) of this document;
“Receiving Agent”	Equiniti, or any other receiving agent appointed by the Company from time to time;
“Record Date”	close of business on 26 March 2015;
“Registrar”	Equiniti, or any other registrar appointed by the Company from time to time;
“Regulation S”	Regulation S under the Securities Act;
“regulatory authority”	any central bank, ministry, governmental, quasi governmental (including the European Union), supranational, statutory, regulatory or investigative body or authority (including any national or supranational anti-trust or merger control authority), national, state, municipal or local government (including any subdivision, court, administrative agency or commission or other authority thereof), private body exercising any regulatory, taxing, importing or other authority, trade agency, association, institution or professional or environmental body or any other person or body whatsoever in any relevant jurisdiction, including, for the avoidance of doubt, the takeover panel, the FCA, the UKLA and the London Stock Exchange;

“Regulatory Information Service” . . .	one of the regulatory information services authorised by the UKLA to receive, process and disseminate regulatory information from listed companies;
“Remuneration Committee”	the remuneration committee of the Board;
“Resolution”	the ordinary resolution to be proposed at the Serco General Meeting (and set out in the Notice of General Meeting contained in this document) to, among other matters, give the Directors authority to allot the Rights Issue shares;
“Revolving Credit Facility”	the term and multicurrency revolving credit facility under the Facility Agreement, or, as the context requires, the Amended and Restated Facility Agreement, as described in paragraph 9.5 of Part X (<i>Additional Information</i>) of this document;
“Rights”	the Nil Paid Rights and/or the Fully Paid Rights;
“Rights Issue”	the proposed issue of the New Ordinary Shares to Qualifying Shareholders by way of Rights on the terms and subject to the conditions set out in this document and, in the case of Qualifying non-CREST Shareholders only, the Provisional Allotment Letters;
“Rothschild”	N M Rothschild & Sons Limited;
“RTGS payment mechanism”	has the meaning given to such term by the CREST Manual;
“RTGS settlement bank”	has the meaning given to such term by the CREST Manual;
“Rule 144A”	Rule 144A under the Securities Act;
“SDRT”	UK stamp duty reserve tax;
“SEC”	the Securities and Exchange Commission of the United States;
“Securities Act”	the United States Securities Act of 1933, as amended;
“SEDOL”	the London Stock Exchange Daily Official List of share identifiers;
“Senior Managers” or “Serco Senior Managers”	those persons employed by the Company to assist in the management of the Company from time to time, whose names appear in paragraph 2.1 of Part IX (<i>Directors, Senior Managers and Corporate Governance</i>) of this document and “Senior Manager” shall be construed accordingly;
“Serco” or “Company”	Serco Group plc, a company incorporated in England and Wales with registered number 02048608 and having its registered office at Serco House, 16 Bartley Wood Business Park, Bartley Way, Hook, Hampshire RG27 9UY;
“Serco Employee Share Schemes” . . .	the Serco Group plc Performance Share Plan (“PSP”), the Serco Group plc Deferred Bonus Plan (“DBP”), the 2005 Savings-Related Share Option Scheme (“Sharesave”), the Serco Group plc 2008 International Savings-Related Share Option Scheme (“International Sharesave”), the Serco Group plc Serco Sharesave Scheme for the Republic of Ireland 2008 (“Irish Sharesave”), ESPP the Serco Group plc 2006 Long Term Incentive Plan (“LTIP”) and the Serco Group plc 2005 Executive Option Plan (“Executive Plan”), as described in paragraph 7 of Part X (<i>Additional Information</i>) of this document;
“Serco Group” or “Group”	Serco and its subsidiary undertakings from time to time;
“Shareholder”	any holder of Ordinary Shares;

“stock account”	an account within a member account in CREST to which a holding of a particular share or other security in CREST is admitted;
“Strategy Review”	the review of Serco’s strategy undertaken by the Company since May 2013;
“Takeover Code”	the City Code on Takeovers and Mergers;
“Trading Profit” or “Trading Loss” . .	operating profit as defined under IFRS, adjusts to exclude (i) amortisation and impairment of intangibles arising on acquisition and (ii) exceptional items;
“TSR”	total shareholder return;
“UAE”	United Arab Emirates;
“UKLA”	the UK Listing Authority;
“uncertificated” or in “uncertificated form”	in relation to a share or other security, a share or other security, title to which is recorded in the relevant register of the share or other security concerned as being held in uncertificated form (i.e. in CREST) and title to which may be transferred by using CREST;
“Underwriters”	J.P. Morgan Cazenove, BofA Merrill Lynch, Barclays Bank PLC, HSBC Bank plc and Crédit Agricole CIB (and each an “Underwriter”);
“Underwriting Agreement”	the agreement dated 12 March 2015 between Serco and the Underwriters pursuant to which the Underwriters have conditionally agreed to underwrite the Rights Issue, a summary of which is contained in paragraph 9.1 of Part X (<i>Additional Information</i>) of this document;
“Underwritten Shares”	549,265,547 New Ordinary Shares to be allotted pursuant to the Rights Issue;
“United Kingdom” or “UK”	the United Kingdom of Great Britain and Northern Ireland;
“United States” or “US”	the United States of America, its territories and possessions, any state of the United States of America, the District of Columbia, and all other areas subject to its jurisdiction;
“US Note Amendment Agreements” . .	the amendment agreements dated 12 March 2015 amending each of the US Note Purchase Agreements, as described in paragraph 9.7 of Part X (<i>Additional Information</i>) of this document;
“US Note Purchase Agreements”	the 2003 Note Purchase Agreement, the May 2011 Note Purchase Agreement, the October 2011 Note Purchase Agreement and the 2013 Note Purchase Agreement, each as defined and described in paragraph 9.7 of Part X (<i>Additional Information</i>) of this document;
“US Private Placement Notes”	the senior notes issued by the Company under each of the US Note Purchase Agreements, as described in paragraph 9.7 of Part X (<i>Additional Information</i>) of this document;
“VAT” or “value added tax”	(i) within the EU, any tax imposed by any member state in conformity with the directive of the council of the European Union on the common system of value added tax (2006/112/EC), and (ii) outside the EU, any tax corresponding to, or substantially similar to, the common system of value added tax referred to in paragraph (i) of this definition.

A reference to a “**company**” in this document shall be construed so as to include any company, corporation or other body corporate, wherever and however incorporated or established.

GLOSSARY OF TECHNICAL TERMS

“ B2G ”	business to government;
“ BPO ”	business process outsourcing;
“ C4ISR ”	command, control, communications, computers, intelligence, surveillance and reconnaissance;
“ C4I2TSR ”	command, control, communications, computers, intelligence, information, technology, surveillance and reconnaissance;
“ FM ”	facilities management;
“ ICT ”	information and communication technology;
“ OEM ”	original equipment manufacturer;
“ PFI ”	private finance initiative.

SERCO GROUP PLC

*(Incorporated and registered in England and Wales under the Companies Act 1985
with registered number 02048608)*

NOTICE OF GENERAL MEETING

NOTICE IS HEREBY GIVEN that a **GENERAL MEETING** of Serco Group plc (the “**Company**”) will be held at 10.00 a.m. on 30 March 2015 at the offices of Clifford Chance LLP, 10 Upper Bank Street, London E14 5JJ for the purpose of considering and, if thought fit, passing the following resolution which will be proposed as an ordinary resolution:

ORDINARY RESOLUTION

That, subject to and conditional upon admission to listing on the premium segment of the Official List by the UK Listing Authority and to trading on the London Stock Exchange plc’s market for listed securities of the new ordinary shares of 2 pence each to be issued by the Company in connection with the issue by way of rights of up to 549,265,547 new ordinary shares at a price of 101 pence per new ordinary share to qualifying shareholders on the register of members of the Company at close of business on 26 March 2015 (the “**Rights Issue**”), and in addition to all existing authorities, the Directors be generally and unconditionally authorised in accordance with section 551 of the Companies Act 2006 to exercise all the powers of the Company to allot shares in the Company or to grant rights to subscribe for or convert any security into shares in the Company up to a nominal amount of £10,985,310.94 pursuant to or in connection with the Rights Issue, such authority to expire at the conclusion of the annual general meeting of the Company to be held in 2015 (or adjournment thereof), save that the Company may allot shares in connection with the Rights Issue pursuant to any agreement entered into at any time prior to such expiry (whether before or after the passing of this resolution) which would, or might, require shares in the Company to be allotted or rights to subscribe for or convert securities into shares to be granted after such expiry and the Directors may allot shares or grant rights to subscribe for or convert securities into shares under any such offer or agreement as if this authority had not expired. References in this resolution to the nominal amount of rights to subscribe for or to convert any security into shares (including where such rights are referred to as equity securities as defined in the Companies Act 2006) are to the nominal amount of shares that may be allotted pursuant to the rights.

By order of the Board

David Eveleigh
Company Secretary

12 March 2015

Registered office:

Serco House
16 Bartley Wood Business Park
Bartley Way
Hook
Hampshire RG27 9UY

Notes:

1. Shareholders are entitled to appoint a proxy to exercise all or any of their rights to attend and to speak and vote on their behalf at the General Meeting. A shareholder may appoint more than one proxy in relation to the General Meeting provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that shareholder. A proxy need not be a shareholder of the Company. A proxy form (the “**Form of Proxy**”) which may be used to make such appointment and give proxy instructions accompanies this notice.
2. To be valid, the Form of Proxy or other instrument appointing a proxy must be received by post or (during normal business hours only) by hand at the Company’s registrar, Equiniti, Aspect House, Spencer Road, Lancing, BN99 6DA or at www.sharevote.co.uk, in each case no later than 10.00 a.m. on 26 March 2015.
3. The return of a completed Form of Proxy, other such instrument or any CREST Proxy Instruction (as described below) will not prevent a shareholder attending the General Meeting and voting in person if he/she wishes to do so.
4. Any person to whom this notice is sent who is a person nominated under section 146 of the Companies Act 2006 to enjoy information rights (a “**Nominated Person**”) may, under an agreement between him/her and the shareholder by whom he/she was nominated, have a right to be appointed (or to have someone else appointed) as a proxy for the General Meeting. If a Nominated Person has no such proxy appointment right or does not wish to exercise it, he/she may, under any such agreement, have a right to give instructions to the shareholder as to the exercise of voting rights.
5. The statement of the rights of shareholders in relation to the appointment of proxies in paragraphs 1 and 2 above does not apply to Nominated Persons. The rights described in these paragraphs can only be exercised by shareholders of the Company.
6. To be entitled to attend and vote at the General Meeting (and for the purpose of the determination by the Company of the votes they may cast), Shareholders must be registered in the register of members of the Company as at 6.00 p.m. on 26 March 2015 (or, in the event of any adjournment, on the date which is two days (excluding non-working days) before the time of the adjourned meeting). Changes to the register of members after the relevant deadline shall be disregarded in determining the rights of any person to attend and vote at the General Meeting or any adjourned meeting.
7. As at 10 March 2015 (being the last business day prior to the publication of this notice), the Company’s issued share capital consisted of 549,265,547 ordinary shares, carrying one vote each. Therefore, the total voting rights in the Company as at 10 March 2015 were 549,265,547.
8. CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so by using the procedures described in the CREST Manual (available via www.euroclear.com). CREST personal members or other CREST sponsored members, and those CREST members who have appointed a service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.
9. In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a “**CREST Proxy Instruction**”) must be properly authenticated in accordance with Euroclear UK & Ireland Limited’s specifications, and must contain the information required for such instruction, as described in the CREST Manual (available via www.euroclear.com). The message, regardless of whether it constitutes the appointment of a proxy or is an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by Equiniti (ID RA19) by 10.00 a.m. on 26 March 2015. For this purpose, the time of receipt will be taken to be the time (as determined by the time stamp applied to the message by the CREST Application Host) from which the Company’s registrar is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.
10. CREST members and, where applicable, their CREST sponsors, or voting service providers should note that Euroclear UK & Ireland Limited does not make available special procedures in CREST for any particular message. Normal system timings and limitations will, therefore, apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member, or sponsored member, or has appointed a voting service provider, to procure that his CREST sponsor or voting service provider(s) take(s)) such

action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting system providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

11. The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.
12. Any corporation which is a shareholder can appoint one or more corporate representatives who may exercise on its behalf all of its powers as a shareholder provided that they do not do so in relation to the same shares.
13. Any shareholder attending the General Meeting has the right to ask questions. The Company must cause to be answered any such question relating to the business being dealt with at the meeting but no such answer need be given if (a) to do so would interfere unduly with the preparation for, or progress of, the meeting or involve the disclosure of confidential information, (b) the answer has already been given on a website in the form of an answer to a question, or (c) it is undesirable in the interests of the Company or the good order of the meeting that the question be answered.
14. The resolution to be put to the meeting will be voted on by poll and not by show of hands. A poll reflects the number of voting rights exercisable by each member and so the Directors consider it a more democratic method of voting. It is also in line with recommendations made by the Shareholder Voting Working Group and Paul Myners in 2004. The results of the poll will be published on the Company's website and notified to the UK Listing Authority once the votes have been counted and verified.
15. Shareholders may not use any electronic address provided in either this notice of meeting or any related documents (including the enclosed Form of Proxy) to communicate with the Company for any purposes other than those expressly stated.
16. A copy of this notice, and other information required by section 311A of the Companies Act 2006, can be found at www.serco.com.

ANNEX I
PROFIT FORECAST OF THE SERCO GROUP

SECTION A: PROFIT FORECAST FOR THE SERCO GROUP FOR THE 2015 FINANCIAL YEAR

1. GENERAL

The Serco Directors have today re-issued guidance, set out in paragraph 7 of Part I (*Letter from the Chairman*) of this document, that, before the impact of disposals, their current expectations for the 2015 Financial Year are Adjusted Operating Profit of around £100 million, Trading Profit of around £90 million and EBITDA (as defined for covenant purposes) of around £160 million (collectively, the “**Profit Forecast**”).

2. BASIS OF PREPARATION

The Profit Forecast has been properly compiled on the basis of the assumptions stated below and on a basis consistent with the accounting policies of the Serco Group, which are in accordance with IFRS and are those which Serco anticipates will be applicable to the 2015 Financial Year. In the Profit Forecast, Trading Profit is defined as IFRS operating profit adjusted to exclude (i) amortisation and impairment of intangibles arising on acquisition and (ii) exceptional items. As explained in paragraph 7 of Part I (*Letter from the Chairman*) of this document, in addition to Adjusted Operating Profit and EBITDA (as defined for covenant purposes) which were previously used and therefore need to be reported on, the Profit Forecast is expressed in terms of Trading Profit rather than profit before tax or the previously used metrics, as the Directors believe this new metric is simpler and more transparent, and therefore more helpful to investors. EBITDA (as defined for covenant purposes) is provided to help investors assess the Serco Group’s leverage as calculated for covenant purposes.

The Serco Directors have prepared the Profit Forecast on the basis of (i) the audited 2014 Financial Statements; (ii) the unaudited management accounts of the Group in the first month of the 2015 Financial Year; (iii) the projected financial performance of the Group in accordance with Serco’s new strategy for the remaining 11 months of the 2015 Financial Year, which is considerably longer than the forecasting period covered by profit forecasts typically included in prospectuses; (iv) no disposals taking place during the 2015 Financial Year; and (v) completion of the Rights Issue (and associated refinancing) taking place.

While the Serco Directors have provided their best estimate (on the basis set out above and the assumptions set out below) for the Group’s Adjusted Operating Profit, Trading Profit and EBITDA (as defined for covenant purposes) for the 2015 Financial Year, it is inevitable that the degree of uncertainty relating to the Profit Forecast and the assumptions is greater than in the case of a typical profit forecast that covers a shorter forecasting period. The Profit Forecast should therefore be read in this context and construed accordingly.

In addition, as stated above, the Profit Forecast has been prepared on the assumption that no disposals take place during the 2015 Financial Year. As described in paragraph 10 of Part I (*Letter from the Chairman*) of this document, Serco intends to dispose of a number of businesses that are not core to its future strategy. If any of the Proposed Disposals complete during the 2015 Financial Year, it is expected that this would result in a reduction in the Group’s profits (as compared with the Profit Forecast) for the 2015 Financial Year and, depending on the business being disposed of and the timing of the disposal, such reduction may be material.

3. ASSUMPTIONS

The Serco Directors have prepared the Profit Forecast on the basis of the following assumptions:

3.1 Factors outside the influence or control of the Serco Directors

During the 2015 Financial Year:

- There will be no change to current prevailing global (and in particular, the regions in which Serco operates) macroeconomic and political conditions during the year ending 31 December 2015 which is material in the context of the Profit Forecast;
- There will be no deterioration in the Serco Group’s relationship with any key customers which is material in the context of the Profit Forecast;

- There will be no change in market conditions within the global outsourcing industry in relation to either customer demand or competitive environment which is material in the context of the Profit Forecast;
- The announcement of the proposed Rights Issue (and associated refinancing) will not result in any change in the Serco Group's obligations to clients or its ability to negotiate new business, resolve contract disputes or retain key management which is material in the context of the Profit Forecast;
- There will be no change in the euro, US dollar, Indian rupee or Australian dollar exchange rates compared with the average foreign exchange rates assumed in the Profit Forecast which is material in the context of the Profit Forecast;
- There will be no change in inflation, interest or tax rates in the Serco Group's principal markets compared with Serco's budgeted estimates which is material in the context of the Profit Forecast;
- There will be no change in the Serco Group's labour costs, including medical and pension and other post-retirement benefits, driven by external parties or regulations which is material in the context of the Profit Forecast;
- There will be no adverse event that will have an impact on the Serco Group's financial performance which is material in the context of the Profit Forecast;
- There will be no change in legislation or regulatory requirement that impacts on the Serco Group's operations or the accounting principles and standards to which it is subject which is material in the context of the Profit Forecast; and
- There will be no change in control of the Serco Group.

3.2 Factors within the influence or control of the Serco Directors

During the 2015 Financial Year:

- The Serco Group's current and new contract negotiations, bids and rebids will conclude substantially as the Serco Directors would reasonably expect based on Serco's past experience;
- The Serco Group does not carry out any acquisitions or disposals, or enter into, terminate or vary any joint venture, which is material in the context of the Profit Forecast (taking into account any potential related transaction or abortive costs);
- The level of contract-related provisions reflected in the 2014 Financial Statements appropriately covers future losses under the relevant contracts;
- No other issue which is material in the context of the Profit Forecast, beyond those issues that are already known to the Serco Directors at the current time, will arise in respect of the Serco Group's contracts; and
- There will be no change in the current key management (including managers of key business units) of the Serco Group.

SECTION B: ACCOUNTANTS' REPORT ON THE PROFIT FORECAST OF THE SERCO GROUP

Deloitte.

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EC4A 3BQ

The Board of Directors
on behalf of
Serco Group plc
Serco House
16 Bartley Wood Business Park
Hook
Hampshire
RG27 9UY

J.P. Morgan Securities plc
25 Bank Street
Canary Wharf
London
E14 5JP

Merrill Lynch International
2 King Edward Street
London
EC1A 1HQ

12 March 2015

Dear Sirs

Serco Group plc

We report on the profit forecast comprising forecast Trading Profit, Adjusted Operating Profit and EBITDA (as defined for covenant purposes) of Serco Group plc (the "Company") and its subsidiaries (together the "Group") for the year ending 31 December 2015 (the "Profit Forecast"). The Profit Forecast, and the material assumptions upon which it is based, are set out in Annex I to the prospectus issued by the Company dated 12 March 2015 (the "Prospectus"). This report is required by Annex I item 13.2 of Commission Regulation (EC) No 809/2004 (the "Prospectus Directive Regulation") and is given for the purpose of complying with that rule and for no other purpose.

Responsibilities

It is the responsibility of the directors of the Company (the "Directors") to prepare the Profit Forecast in accordance with the requirements of the Prospectus Directive Regulation.

It is our responsibility to form an opinion as required by the Prospectus Directive Regulation as to the proper compilation of the Profit Forecast and to report that opinion to you.

Save for any responsibility arising under Prospectus Rule 5.5.3R(2)(f) to any person as and to the extent there provided, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in connection with this report or our statement, required by and given solely for the purposes of complying with Annex I item 23.1 of the Prospectus Directive Regulation, consenting to its inclusion in the Prospectus.

Basis of Preparation of the Profit Forecast

The Profit Forecast has been prepared on the basis stated in Annex I to the Prospectus and is based on the unaudited management accounts for the 1 month ended 31 January 2015 and a forecast for the 11 months to 31 December 2015. The Profit Forecast is required to be presented on a basis consistent with the accounting policies of the Group.

Basis of opinion

We conducted our work in accordance with the Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. Our work included evaluating the basis on which the historical financial information included in the Profit Forecast has been prepared and considering whether the Profit Forecast has been accurately computed based upon the disclosed assumptions and the accounting policies of the Group. Whilst the assumptions upon which the Profit Forecast are based are solely the responsibility of the Directors, we considered whether anything came to our attention to indicate that any of the assumptions adopted by the Directors which, in our opinion, are necessary for a proper understanding of the Profit Forecast have not been disclosed or if any material assumption made by the Directors appears to us to be unrealistic.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with reasonable assurance that the Profit Forecast has been properly compiled on the basis stated.

Since the Profit Forecast and the assumptions on which it is based relate to the future and may therefore be affected by unforeseen events, we can express no opinion as to whether the actual results reported will correspond to those shown in the Profit Forecast and differences may be material.

Our work has not been carried out in accordance with auditing or other standards and practices generally accepted in jurisdictions outside the United Kingdom, including the United States of America, and accordingly should not be relied upon as if it had been carried out in accordance with those standards and practices. We accept no responsibility to, and deny any liability to, any person or in any way arising from or in connection with the use of this report and opinion in connection with any offering of securities inside the United States of America.

Opinion

In our opinion, the Profit Forecast has been properly compiled on the basis stated and the basis of accounting used is consistent with the accounting policies of the Group.

Declaration

For the purposes of Prospectus Rule 5.5.3R(2)(f) we are responsible for this report as part of the Prospectus and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the Prospectus in compliance with Annex I item 1.2 of the Prospectus Directive Regulation.

Yours faithfully

Deloitte LLP
Chartered Accountants

Deloitte LLP is a limited liability partnership registered in England and Wales with registered number OC303675 and its registered office at 2 New Street Square, London EC4A 3BZ, United Kingdom. Deloitte LLP is the United Kingdom member firm of Deloitte Touche Tohmatsu Limited ("DTTL"), a UK private company limited by guarantee, whose member firms are legally separate and independent entities. Please see www.deloitte.co.uk/about for a detailed description of the legal structure of DTTL and its member firms.

