Stock Exchange Announcement

12 March 2015

Serco Group plc – Underwritten Rights Issue of approximately £555m and refinancing of lending facilities

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The Board of Serco Group plc (Serco, the Group or the Company), the international services company, today announces a fully underwritten Rights Issue to raise gross proceeds of approximately £555m and a refinancing of existing lending facilities to reduce its gross indebtedness by £450m. Serco's full year results for the financial year ended 31 December 2014 have also been released today in an accompanying announcement.

Rights issue and use of proceeds:

- 1 for 1 fully underwritten Rights Issue of 549m New Ordinary Shares to raise gross proceeds of approximately £555m (approximately £528m net of expenses)
- The issue price of 101p per New Ordinary Share represents a discount of 51.1% to the closing price on 11 March 2015, and a 34.3% discount to the theoretical ex-rights price
- The proceeds of the Rights Issue will be primarily to reduce the Group's gross indebtedness, with the balance for continued investment in the business and general corporate purposes
- The Rights Issue, which is subject to shareholder approval, is fully underwritten by Bank of America Merrill Lynch and J.P. Morgan Cazenove acting as Joint Sponsors, Joint Global Co-ordinators, Joint Bookrunners and Joint Corporate Brokers; Barclays Bank plc and HSBC Bank plc acting as Co-bookrunners; and Credit Agricole Corporate and Investment Bank acting as Lead manager
- Each of the Directors, who together hold 0.1% of the Group's issued share capital, intend to take up their entitlements in full

Background and funding strategy:

- The Board believes that:
    - Serco needs a solid financial foundation upon which to build its future;
    - having a strong balance sheet with a prudent level of financial gearing is vital if customers' are to contemplate entrusting critical parts of their operations to Serco; and
    - financial flexibility is required to implement the transformation and the Group's strategy, allowing Serco to deliver attractive levels of growth and risk adjusted returns in the future.
- Following the Strategy Review, the Board has concluded that it believes the appropriate leverage for the business over the medium term is in the region of 1-2x net debt to Consolidated EBITDA
- Based upon the Group's forecasts for 2015, the net proceeds of the proposed Right Issue (and the associated refinancing) are expected to reduce leverage to around 2x average net debt to Consolidated EBITDA
- Leverage is expected to reduce further to around the bottom of the target range following the planned disposal of businesses that are no longer core to the Group's strategy

Refinancing:

- Agreements have been reached and signed with all our Bank and US Private Placement lenders to refinance existing facilities
- These include an extension of the Revolving Credit Facility from 2017 to the fourth anniversary of the completion of the Rights Issue alongside more flexible financial covenants
- Amendments will only become effective upon the receipt of the Rights Issue proceeds

Dividends:

- The Board is not recommending the payment of a final dividend for the 2014 financial year and it is not anticipated that the Board will recommend any dividend payment in respect of the 2015 financial year
- The Board is committed to resuming dividend payments and a progressive dividend policy when prudent to do so, taking into account underlying earnings, cash flows and an appropriate level of financial leverage

Documentation:

- The Prospectus containing full details of the Rights Issue is expected to be posted to shareholders and made available on www.serco.com shortly
- The Prospectus will be submitted to the National Storage Mechanism and be available for inspection at www.morningstar.co.uk/uk/nsm

Rupert Soames, Serco Group Chief Executive Officer, commented:

"The proposed Rights Issue and refinancing will give Serco the firm financial foundation from which we can implement our new strategy, which is to be a focused international provider of public services."

"We can now shift to transforming the Group's performance, leveraging Serco's competitive differentiation that comes from our breadth of capabilities and experience, and making it one of the best-managed businesses in the sector. We believe our chosen markets have compelling long-term structural growth drivers and that Serco can play a central role in helping governments respond to the challenge of improving the quality and reducing the cost of public services, whilst earning for our shareholders sustainable and attractive risk-adjusted returns."

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

Shareholder Helpline
If you have further questions, please telephone the Shareholder helpline 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 helpful 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 the Rights Issue Prospectus 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.

Shareholder Helpline
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This announcement is not a prospectus but an advertisement and investors should not acquire any Nil Paid Rights, Fully Paid Rights or New Ordinary Shares referred to in this announcement except on the basis of the information contained in the Prospectus. The information contained in this announcement is for background purposes only and does not purport to be full or complete. No reliance may be placed for any purpose on the information contained in this announcement or its accuracy or completeness. This announcement cannot be relied upon for any investment contract or decision. The information in this announcement is subject to change. Any purchase of Nil Paid Rights, Fully Paid Rights or New Ordinary Shares in the proposed Rights Issue should be made solely on the basis of the information contained in the Rights Issue Prospectus.

A copy of the Prospectus when published will be available from the registered office of Serco and on Serco's website at www.serco.com provided that the Prospectus will not, subject to certain exceptions, be available (whether through the website or otherwise) to Serco Shareholders in the Excluded Territories or the United States.

Neither the content of Serco's website nor any website accessible by hyperlinks on Serco's website is incorporated in, or forms part of, this announcement. The Prospectus will give further details of the New Ordinary Shares, the Nil Paid Rights and the Fully Paid Rights being offered pursuant to the Rights Issue.

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N M Rothschild & Sons Limited ("Rothschild"), which is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority 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.

Apart from the responsibilities and liabilities, if any, which may be imposed on the Underwriters under FSMA or the regulatory regime established thereunder, none of the Underwriters or any of their respective directors, officers, employees, advisers or agents accepts any responsibility or liability whatsoever for the contents of this announcement, (or whether any information has been omitted from the announcement), or makes any representation or warranty, express or implied, as to 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, whether written, oral or in a visual or electronic form, and howsoever transmitted or made available, or for any loss arising from any use of this announcement or its contents or otherwise arising in connection therewith. Subject to applicable law, each of 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 announcement or any such statement.

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FORWARD-LOOKING STATEMENTS

Certain statements contained in this announcement 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 Serco'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", “plans”, “projects”, "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 financing strategies may differ materially from the impression created by the forward looking statements contained in this announcement. 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 financing strategies are consistent with the forward looking statements contained in this announcement, those results or developments may not be indicative of results or developments in subsequent periods.

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

Each of the Underwriters and their respective affiliates expressly disclaims any obligation or undertaking to update, review or revise any forward looking statement contained in this announcement whether as a result of new information, future developments or otherwise.

Serco Group plc – Underwritten rights issue of approximately £555m and refinancing of lending facilities

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 announcement is to explain the background to and reasons for the Rights Issue, and set out the terms and conditions of the Rights Issue. A General Meeting will 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 announcement 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.

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, Serco has 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.

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, 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 and paragraph 9 of Part IV (Information on the Serco Group) of the Rights Issue Prospectus.

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.

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 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 Part I (Letter from the Chairman) and Part V (Operating and Financial Review of the Serco Group) of the Rights Issue Prospectus.

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 tightening 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).

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, please refer to the Rights Issue Prospectus.

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 the Letter from the Chairman in the Rights Issue Prospectus) 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; and (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 to 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 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.

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.

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 £88 million and an increase in share capital of £11 million (assuming 549,265,547 New Ordinary Shares are issued). 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.

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 up to 549.3m 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 the Rights Issue Prospectus) 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 as nearly as practicable 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 the Rights Issue Prospectus:

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. Serco has arranged for the Rights Issue to be fully underwritten by BoA Merrill Lynch, J.P. Morgan Cazenove, Barclays Bank plc, HSBC Bank plc, and Credit Agricole Corporate and Investment Bank. 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 the Rights Issue Prospectus 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 the Rights Issue Prospectus into a jurisdiction other than the United Kingdom, should refer to paragraph 12 of Part I (Letter from the Chairman), question 4.8 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 the Rights Issue Prospectus.

Current trading, trends and outlook for 2015

As set out above, 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 the Rights Issue Prospectus, 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 acquisitions, (ii) transaction-related costs, (iii) management estimates 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 Part I (Letter from the Chairman) in the Rights Issue Prospectus, 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 the section entitled Risk Factors of the Rights Issue Prospectus. Trading in January 2015 has been in line with the Directors' expectations and, as stated in paragraph 13 of Part X (Additional Information) of the Rights Issue Prospectus, 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 the Rights Issue Prospectus.

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.

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 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 the Rights Issue Prospectus.

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 have 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).

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 announcement, 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 announcement, 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.

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 announcement, 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.

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 announcement, 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.

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 announcement, 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.

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 renouncees and from subscribers of New Ordinary Shares not taken up by Qualifying Shareholders and renouncees 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 the Rights Issue Prospectus.

Shareholders resident in any jurisdiction other than the United Kingdom should refer to paragraph 12 of Part I (Letter from the Chairman), question 4.8 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 the Rights Issue Prospectus..

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 the Rights Issue Prospectus, 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 4.8 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 the Rights Issue Prospectus.

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 the Rights Issue Prospectus 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 the Rights Issue Prospectus or a Provisional Allotment Letter is required to disregard them, except with the consent of the Company.

Notwithstanding any other provision of the Rights Issue Prospectus 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 the Rights Issue Prospectus. The provisions of paragraph 2.3 of Part III (Terms and Conditions of the Rights Issue) of the Rights Issue Prospectus will apply to Overseas Shareholders who cannot or do not take up the New Shares provisionally allotted to them.

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.

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.

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 and 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.

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Appendix 1

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 J.P. Morgan Cazenove 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 the Rights Issue Propsectus.

Appendix 2

DEFINITIONS AND GLOSSARY OF TECHNICAL TERMS

DEFINITIONS

The following definitions apply throughout this document unless the context requires otherwise:

"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;
"**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 (Additional Information) of the Rights Issue Prospectus;
"B2G"	business to government;
"BofA Merrill Lynch"	Merrill Lynch International;
"**Board**"	the board of Directors of the Company;
"BPO"	business process outsourcing;
"Business Day"	a day (excluding Saturdays, Sundays and public holidays in England and Wales) on which banks are generally open for business in London;
"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);
"Closing Price"	the closing middle market price of a relevant share as derived from SEDOL on any particular day;

"Consolidated EBITDA"	has the meaning ascribed to it in paragraph 9.5 of Part X (Additional Information) of the Rights Issue Prospectus;
"**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 (Letter from the Chairman) of the Rights Issue Prospectus;
"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;
"Directors"	the directors of the Company, whose names appear in paragraph 1.1 of Part IX (Directors, Senior Managers and Corporate Governance) of the Rights Issue Prospectus, or, as the context requires, the directors from time to time of the Company, and "Director" shall be construed accordingly;
"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;
"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 (Letter from the Chairman) of the Rights Issue Prospectus;
"**Euroclear**"	Euroclear UK & Ireland Limited;
"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;
"Existing Financings"	the financings available to the Group under the Facility Agreement, the Receivables Financing Agreement and the US Private Placement Notes;
"Existing Finance Agreements"	the Facility Agreement, the Receivables Financing Agreement and the US Note Purchase Agreements;
"Existing Ordinary Shares"	the Ordinary Shares of two pence each in the capital of Serco in issue immediately prior to the Rights Issue;
"**Equiniti**"	Equiniti Limited;
"**EU**"	the European Union;

"Facility Agreement"	the term and multicurrency revolving credit facility agreement originally dated 28 March 2012 between, inter alia, 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 (Additional Information) of the Rights Issue Prospectus;
"**Facility Amendment and Restatement Agreement**"	the amendment and restatement agreement dated 12 March 2015 between, *inter alia*, 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 (Additional Information) of the Rights Issue Prospectus;
"FCA"	the Financial Conduct Authority of the UK;
"Form of Proxy"	the form of proxy to be enclosed with the Rights Issue Prospectus 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;
"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 the Rights Issue Prospectus;
"HMRC"	HM Revenue & Customs, the UK tax authority;
"HSBC"	HSBC Bank plc;
"IFRS"	the International Financial Reporting Standards as adopted by the EU;
"Intelenet"	Intelenet Global Services Private Ltd., a company in India that was acquired by the Serco Group in 2011;
"Issue Price"	101 pence per New Ordinary Share;
"Joint Bookrunners"	Barclays Bank PLC and HSBC;
"Joint Global Coordinators"	J.P. Morgan Cazenove and BofA Merrill Lynch (and each a "Global Coordinator");
"J.P. Morgan Cazenove"	J.P. Morgan Securities plc;
"Joint Sponsors"	J.P. Morgan Cazenove and BofA Merrill Lynch (and each a "Sponsor");
"Lead Manager"	Crédit Agricole CIB;
"Lenders"	the lenders under the Revolving Credit Facility and the Receivables Financing Agreement;
"Listing Rules"	the listing rules made by the FCA under section 73A of FSMA;

"London Stock Exchange"	London Stock Exchange plc;
"Newco"	Marengo Funding Limited;
"New Ordinary Shares"	the Ordinary Shares of two pence each proposed to be issued by Serco pursuant to the Rights Issue;
"Nil Paid Rights"	New Ordinary Shares in nil paid form provisionally allotted to Qualifying Shareholders pursuant to the Rights Issue;
"Noteholders"	the holders of the US Private Placement Notes;
"Notice of General Meeting"	the notice of General Meeting contained in the Rights Issue Prospectus;
"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 the Rights Issue Prospectus;
"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;
"PECS Contract"	Serco Group's contract with the UK Government to provide prisoner escort and custody services in London and East Anglia;
"PRC"	the People's Republic of China (for the purposes of the Rights Issue Prospectus, 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 (Letter from the Chairman) of the Rights Issue Prospectus;
"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 (Letter from the Chairman) of the Rights Issue Prospectus;
"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 (Terms and Conditions of the Rights Issue) of the Rights Issue Prospectus;
"Prudential Regulation Authority"	the Prudential Regulation Authority of the United Kingdom;
"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;
"Receiving Agent"	Equiniti, or any other receiving agent appointed by the Company from time to time;
"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 (Additional Information) of the Rights Issue Prospectus;
"Record Date"	close of business on 26 March 2015;
"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 the Rights Issue Prospectus) 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 (Additional Information) of the Rights Issue Prospectus;
"**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 the Rights Issue Prospectus and, in the case of Qualifying non-CREST Shareholders only, the Provisional Allotment Letters;
"Rights Issue Prospectus"	the prospectus in relation to the Rights Issue expected to be published today;
"Rothschild"	N M Rothschild & Sons Limited;
"SEDOL"	the London Stock Exchange Daily Official List of share identifiers;
"Securities Act"	the United States Securities Act of 1933, as amended;
"Serco Group" or "Group"	Serco and its subsidiary undertakings from time to time;
"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 (Additional Information) of the Rights Issue Prospectus;
"Shareholder"	any holder of Ordinary Shares;
"Strategy Review"	the review of Serco's strategy undertaken by the Company since May 2013;
"Trading Profit"	operating profit as defined under IFRS, adjusts to exclude (i) amortisation and impairment of intangibles arising on acquisition and (ii) exceptional items;
"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 (Additional Information) of the Rights Issue Prospectus;
"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 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 (Additional Information) of the Rights Issue Prospectus;
"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 (Additional Information) of the Rights Issue Prospectus.