Update regarding Australian Armidale Class Patrol Boats contract

9 November 2015

Serco Group plc (‘Serco’ or ‘the Group’), announces that it has today reached agreement with the Australian Government to amend the terms of its contract to provide in-service support to the fleet of Armidale Class Patrol Boats (ACPB). The main changes agreed are:

- The amendments will provide an improved service regime under an enhanced maintenance and remediation scope of works and schedule.
- Serco will provide maintenance and remediation work on an agreed cost recovery basis subject to strict expenditure caps and audit processes.
- The contract will end in June 2017, rather than running through to 2022.
- Under the terms of the Settlement and Amendment Deed, both parties have agreed to a mutual release of claims they may have had against each other prior to the point of contract amendment.

The ACPB contract was subject to an Onerous Contract Provision (OCP) charged at the end of 2014 of £136m, reflecting anticipated future losses through to 2022, together with a further charge of £66m relating principally to the impairment of receivables. The provisions against the ACPB contract represented approximately 30% of the Group’s OCPs charged at the end of 2014 and ACPB was the single largest OCP. The Group utilised £16m of the ACPB provision in the first half of 2015.

Whilst a detailed assessment of Serco’s contracts subject to OCPs will be carried out at the year end, it is likely that the ACPB contract amendment will result in a significant decrease in the overall level of the Group’s provisions against future contract losses. Provision releases will be reflected in the reported financial result for 2015, although they will not affect Serco’s guidance of around £90m Trading Profit, which excludes Contract and Balance Sheet Review adjustments such as OCP releases. Trading Profit in future years is unlikely to be affected as a result of this contract amendment, as lower losses on the contract will be matched by lower OCP utilisation. The Group’s future cash generation will, however, be improved by the reduction in expected future cash losses on this contract.

Rupert Soames, Group Chief Executive Officer, said: “We are pleased to have reached a mutually beneficial agreement with our customer on this matter. Today’s amendments represent an equitable solution for both parties. We remain absolutely focussed on delivering the highest standard of operational performance on this challenging contract and continuing to support the Australian Defence Force as we have for nearly twenty years.”

Ends

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