

# Stock Exchange Announcement

## Serco Group plc – 2015 full year results

25 February 2016

Year ended 31 December	2015	2014
Revenue - including discontinued operations <sup>(1)</sup>	£3,514.6m	£3,955.0m
Reported Revenue <sup>(1)</sup>	£3,177.0m	£3,595.7m
Underlying Trading Profit <sup>(2)</sup>	£96.0m	£113.2m
Reported Trading Profit/(Loss) <sup>(2)</sup>	£137.6m	(£632.1m)
Operating Profit/(Loss) Before Exceptional Items - continuing and discontinued	£132.7m	(£655.8m)
Operating Loss - continuing and discontinued	(£54.8m)	(£1,317.3m)
Underlying EPS (basic) <sup>(3)</sup>	3.44p	4.73p
EPS Before Exceptional Items (basic) - continuing and discontinued	6.55p	(107.43p)
EPS (basic) - continuing and discontinued	(15.47p)	(205.66p)
Dividend Per Share	-	3.10p
Free Cash Flow	(£16.2m)	£62.2m
Net Debt (including that for assets and liabilities held for sale)	£77.5m	£682.2m

- Underlying Trading Profit of £96m, ahead of our guidance provided at the time of the Rights Issue of £90m.
- Reported Trading Profit of £138m, significantly higher than Underlying Trading Profit, benefiting from £21m net release of Onerous Contract Provisions and Contract and Balance Sheet Review items, £9m one-off profit on a contract termination and £12m beneficial impact of assets held for sale.
- Exceptional operating charge of £188m, of which £166m are non-cash losses on disposals and impairments.
- Free Cash Outflow of £16m, better than previously anticipated.
- Net Debt reduced by £605m to £78m, as a result of the Rights Issue and offshore BPO disposal proceeds. Net Debt:EBITDA around 0.5x.
- £1.8bn total value of signed contracts, representing more than 700 individual customer orders of which 10 are worth more than £50m each.
- Pipeline of larger new bid opportunities increases by approximately £1.5bn to £6.5bn.
- Operating costs reduced by over £330m, broadly in proportion with revenue reduction.
- Guidance for 2016 reiterated – Revenue expected to reduce to approximately £2.8bn and Underlying Trading Profit to around £50m as a result of BPO disposal and contract attrition.

Rupert Soames, Serco Group Chief Executive, said: “The business has delivered a much better performance than we expected at the start of the year, which reflects the fact that we are making good progress in the first year of the implementation of our strategy.

“Serco has achieved a great deal in 2015: we have a significantly stronger balance sheet with materially less debt, we have successfully disposed of the majority of our offshore BPO business, reduced costs, improved our internal reporting processes, recruited new management, improved the position on several of our largest loss-making contracts, and strengthened our pipeline. Our plan has survived first contact with the enemy.

“Looking ahead, and in line with our plan, we expect revenues and profits to decline in 2016, as a result of the disposal of our private sector BPO business and contract attrition. We have four priorities this year: further improve the operational and financial performance of our contracts; build our new business pipeline; reduce our costs; and improve and embed our new management information systems.”

Sir Roy Gardner, Serco Group Chairman, commented: “Since joining Serco in June, I have seen first-hand the strong commitment of our people to delivering excellent public services. Much has been done in 2015 to implement Serco’s new strategy and strengthen the business, and we now have a good foundation upon which to build a successful future. There is much still to do to complete our transformation and restore Serco to appropriate growth and returns, and doing so whilst ensuring we meet the highest standards of operational performance, corporate governance, integrity and business ethics.”

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**Presentation**

A presentation for institutional investors and analysts will be held today at JPMorgan, 60 Victoria Embankment, London EC4Y 0JP, starting 9.30am. The presentation will be webcast live on [www.serco.com](http://www.serco.com) and subsequently available on demand. A dial-in facility is also available on +44(0)20 3427 1912 (USA: +1646 254 3361) with participant pin code 2518869.

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**Notes to summary table of financial results**

- (1) Revenue is as defined under IFRS, which excludes Serco's share of revenue of its joint ventures. Revenue including that from discontinued operations is shown for consistency with previous guidance.
- (2) Reported Trading Profit is defined as IFRS Operating Profit adjusted for (i) amortisation and impairment of intangibles arising on acquisition and (ii) exceptional items. Consistent with IFRS, it includes Serco's share of profit after tax of its joint ventures. Underlying Trading Profit excludes Contract and Balance Sheet Review adjustments (principally OCP releases or charges), the beneficial treatment of depreciation and amortisation of assets held for sale, and other material one-time items such as the profit on early termination of a UK local authority contract that occurred in 2015. Trading Profit measures include that from discontinued operations for consistency with previous guidance.
- (3) Underlying EPS reflects the Underlying Trading Profit measure after deducting pre-exceptional net finance costs (including those for discontinued operations) and related tax effects.

Reconciliations and further detail of financial performance are included in the Finance Review on pages 17 to 34. The consolidated financial statements and accompanying notes are on pages 35 to 63.

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**Forward looking statements**

This announcement contains statements which are, or may be deemed to be, "forward looking statements" which are prospective in nature. All statements other than statements of historical fact are forward looking statements. Generally, words such as "expect", "anticipate", "may", "should", "will" and similar expressions identify forward looking statements. By their nature, these forward looking statements are subject to a number of known and unknown risks, uncertainties and contingencies, and actual results and events could differ materially from those currently being anticipated as reflected in such statements. Factors which may cause future outcomes to differ from those foreseen or implied in forward looking statements include, but are not limited to: general economic conditions and business conditions in Serco's markets; contracts awarded to Serco; customers' acceptance of Serco's products and services; operational problems; the actions of competitors, trading partners, creditors, rating agencies and others; the success or otherwise of partnering; changes in laws and governmental regulations; regulatory or legal actions, including the types of enforcement action pursued and the nature of remedies sought or imposed; the receipt of relevant third party and/or regulatory approvals; exchange rate fluctuations; the development and use of new technology; changes in public expectations and other changes to business conditions; wars and acts of terrorism; and cyber-attacks. Many of these factors are beyond Serco's control or influence. These forward looking statements speak only as of the date of this announcement. Past performance should not be taken as an indication or guarantee of future results and no representation or warranty, express or implied, is made regarding future performance. Except as required by any applicable law or regulation, Serco expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward looking statements contained in this announcement to reflect any change in Serco's expectations or any change in events, conditions or circumstances on which any such statement is based after the date of this announcement, or to keep current any other information contained in this announcement. Accordingly, undue reliance should not be placed on the forward looking statements.

## Chief Executive's Review

### Introduction

The financial results for 2015 were much better than we expected both at the start of the year and at the time of the March 2015 Rights Issue. Underlying Trading Profit at £96m was ahead of the £90m we had forecast, and Reported Trading Profit was much higher still at £138m. Closing net debt of £78m was significantly lower than expected, and represented a year-on-year reduction of £605m. Revenue including discontinued operations was around the level we expected at £3.5bn; the discontinued operations comprise the private sector BPO division, the majority of which was disposed of at the end of December 2015. Not included in Underlying Trading Profit was a net positive movement of £21m in provisions for future losses on onerous contracts and other liabilities recognised at the end of 2014; although it has no impact on Underlying Trading Profit, it was also pleasing that Onerous Contract Provision (OCP) utilisation was £14m lower than expected at the beginning of the year. Looking ahead to 2016, and in line with our plan, we expect a further reduction in revenues and profits as we feel the impact of the disposal of our private sector Business Process Outsourcing (BPO) business, as well as further contract attrition.

To give some context to our performance in 2015, it is worth reflecting on where we have come from, and are going to. After a difficult period during which the business suffered a series of major setbacks, I joined the business in May 2014, and my colleague Angus Cockburn joined as Chief Financial Officer in October 2014. A thorough review of contracts in the business (the Contract and Balance Sheet Review) was carried out, resulting in an announcement in November 2014 that we anticipated a write-down of around £1.5bn, which included asset impairments, goodwill write-offs, and provisions against future losses on onerous contracts. This led to the requirement to refinance the business, which was completed by way of a Rights Issue and a renegotiation of our debt facilities in early 2015. In parallel with the Contract and Balance Sheet Review, we carried out a Strategy Review, which concluded that we should focus on being a leading supplier of public services to governments, and that the private sector outsourcing activities should be disposed of. At the same time as the Strategy Review, the business also undertook a thorough Corporate Renewal programme, in which new systems and processes were implemented to ensure that there would be no repeat of previous issues.

The Strategy Review, presented to investors in March 2015, identified three distinct phases in the turnaround of our business. The first phase, 'Stabilisation', involved developing a plan to take the business forward, refinancing the business, putting in place a new management team, and implementing new reporting processes. The end of this phase was marked by the successful completion of our Rights Issue and refinancing in April 2015. Since then we have been working hard on the second phase: 'Transformation'. This will take us through to 2018, when we expect to see the business starting the third phase: 'Growth'.

Within this context, significant progress has been made in 2015 against our plan. We now have a firm financial platform; our strategy – to be a leading international provider of public services operating in Defence, Justice & Immigration, Transport, Health and Citizen Services – has been well received by customers; our risk management and reporting processes have been hugely improved; we have made good progress mitigating the losses and improving service delivery on some of the largest onerous contracts; morale in the business, and most particularly amongst the management team, is much better; relationships with key customers are healthier; our pipeline of new business has started to grow again, and we have established our first Centres of Excellence; we have reduced the costs in the business by over £330m; and we have disposed of non-core businesses.

In summary, in 2015 we delivered on our promises, our plan has survived first contact with the enemy, and we go into 2016 in much better shape than we entered 2015. However, to paraphrase the Duke of Wellington at Waterloo, we know that much hard pounding lies ahead.

### Summary of financial performance

#### **Revenue and Trading Profit**

Reported Revenue was £3,177m (2014: £3,596m); this measure excludes revenue from discontinued operations (our private sector BPO division) of £338m as well as Serco's share of revenue from joint ventures of £737m. Revenue including discontinued operations was £3,515m (2014: £3,955m). At constant currency and adjusting for disposals and acquisitions, revenue including discontinued operations declined by 10%, largely as a result of the ending of contracts such as the Docklands Light Railway and National Physical Laboratory, as well as certain US intelligence agency support services and visa processing work; it also reflected the reduced volumes and rates in Australian immigration services. Partially offsetting these declines were the start of new contracts such as the Caledonian Sleeper and the start of full operations at Fiona Stanley Hospital in Australia.

Reported Trading Profit for the year was £137.6m (2014: loss of £632.1m). The difference between Reported Trading Profit of £137.6m and Underlying Trading Profit of £96.0m, is accounted for by three items. First, we have not included in Underlying Trading Profit £9.0m of profit arising from the early termination of a contract with Thurrock Council, on the basis that it is one-off in nature. Second, and in accordance with the accounting treatment of assets held for sale, depreciation and amortisation charges related to assets held for sale at 31 December 2014 are required to be excluded from the Group accounts; this had the effect of increasing Reported Trading Profit by £11.7m, but has been excluded from Underlying Trading Profit. Third, we have also excluded from Underlying Trading Profit a net benefit of £20.9m arising from our year-end review of OCPs and other Contract and Balance Sheet Review items.

In 2014, it became clear that a number of contracts would be unprofitable during their life and required OCPs, and numerous future liabilities needed to be reflected in our Balance Sheet; together, these led to a charge of £745.3m to Reported Trading Profit in 2014. We said at the time we created these provisions that they should be viewed as a portfolio of liabilities and charges, and that as subsequent events interfered with the hundreds of judgements we made at the end of 2014, we expected that individual items would vary from our original estimates; however, we believed that in aggregate, the charge was a reasonable and prudent estimation of the likely total value of future liabilities. Whilst there have been numerous charges and releases against individual contracts and provisions, the overall net release of £20.9m against the £745.3m charged last year indicates that our overall judgement at the end of 2014 was broadly correct. Within the net release of £20.9m, OCP releases totalled £88.8m, additional OCP charges totalled £91.8m, and a net total benefit of £23.9m arose from movements in other balance sheet provisions and charges related to contracts taken in 2014. The single largest OCP release was £63m related to the Armidale Class Patrol Boat (ACPB) contract; this followed the agreement we reached in 2015 with the Australian Government to amend the terms of the ACPB contract. The largest OCP charge related to a new provision of £34m in respect of our contract with Lincolnshire County Council; in addition, we judged it necessary to increase the existing OCP against our UK Prisoner Escorting Contract (PECS) by £11m.

Underlying Trading Profit includes £114m of OCP utilisation, which reflects the neutralisation of the losses on contracts identified in the 2014 Contract and Balance Sheet Review. A further £11m of OCP utilisation was applied to items classified in 2014 as exceptional. Total OCP utilisation during 2015 of £125m was £14m less than the £139m we had expected at the start of the year. Currency movements during the year had no material impact on Underlying Trading Profit.

Underlying Trading Profit of £113m in 2014 included losses of £54m incurred in 2014 on contracts that were subsequently provided for and had their equivalent losses in 2015 neutralised by OCP utilisation. Therefore Underlying Trading Profit of £96m for 2015 is best compared to £167m in 2014. The significant drop in profits is driven by contract attrition, volume and rate reductions on some contracts and the challenge of reducing costs in line with revenues that were £440m lower in 2015 than in 2014.

#### **Finance, tax and exceptional costs**

Pre-exceptional net finance costs, including discontinued operations, were £32.0m (2014: £36.7m). The reduction in average net debt over the year reduced the Group's net interest payable, but this was partially offset by the movement in the discount on provisions which, although a non-cash item, is recorded within overall finance costs. Cash net interest paid in the year was £32.7m (2014: £39.6m).

Pre-exceptional tax costs, including discontinued operations, were £36.6m (2014: £11.1m); on an underlying basis, tax costs were £30.5m and the effective rate was 47.7%; this rate reflects the combination of the current lack of a deferred tax credit in the UK to offset tax charges at locally prevailing rates in the international divisions (which tend to be higher than the UK's rate). When we are able to show sufficient profits in our UK business, we will be able to reflect the value of a tax asset in the UK, and we would therefore expect that at some point our effective tax rate will drop substantially. Net cash tax paid in the year, at £2.7m (2014: net repayment of £0.6m), was much lower than the accounting charge.

The Group incurred a £187.5m net exceptional operating charge for the year, of which £165.5m relates to non-cash losses on disposals and impairments. There was a £77.6m charge on discontinued operations reflecting the impairment in the carrying value of businesses held for sale prior to disposal. There was an £87.5m goodwill impairment related to the updated assessment for the Americas division. Exceptional restructuring and other incremental costs related to the development and implementation of the Strategy Review amounted to £21.9m. In addition to operating exceptionals, there was £32.8m of exceptional finance costs relating to the Rights Issue and debt refinancing, which included charges related to the early repayment of debt.



**Earnings per share**

Underlying Earnings Per Share, which reflects the Underlying Trading Profit measure after deducting pre-exceptional finance costs (including those for discontinued operations) and related tax effects, was 3.44p (2014: 4.73p); the reduction also reflects the movement in the weighted average number of shares in issue which increased to 986.5m shares (2014: 655.1m shares) as a consequence of the Rights Issue. Earnings before exceptional items, including those for discontinued operations, were 6.55p per share; including the impact of exceptional items, there was a loss of 15.47p per share.

**Cash flow and net debt**

In 2015 our ability to manage monthly cash flow far outstripped our ability to forecast it accurately, as we managed around poor cash forecasting systems and the unpredictable impact of our campaign to normalise working capital management. In previous years the focus was on optimising the net debt position at the end of reporting periods. The consequence of this was significant volatility in monthly cash flows, with large net inflows in December and June, followed by equally large net outflows in January and July, with the result that average net debt over the year was often much higher than that reported at period ends. In 2013 this difference between reported and average net debt amounted to £149m; in 2014 and 2015, we worked to progressively reduce this difference; in 2015 it had dropped to £59m across the year, and was a mere £34m in the second half of 2015.

As a consequence, our estimates of cash flow at the start of the year were less than perfect, and the reported result – a Free Cash outflow of £16m – was significantly better than we forecast at the beginning of the year. Admittedly, there were numerous items which could not have been foreseen at the beginning of the year, such as the inflows from the ending of the Thurrock and Shop Direct contracts, lower-than-expected cash outflow from OCPs, and the quantum of other working capital movements as we normalised debtor and creditor cycles.

As a result of better-than-expected Free Cash outflow, net debt, including that for assets and liabilities held for sale, was also better than we expected, and stood at £77.5m at the end of the year. This represented a reduction of £605m from the £682.2m at 31 December 2014. The main drivers of this reduction were the net proceeds of approximately £530m from the April 2015 Rights Issue, together with the approximate £200m received following the completion of the BPO disposal at the end of December 2015. Offsetting these inflows, there was an outflow of £88m related to exceptional items, £33m adverse currency impact and the £16m Free Cash outflow related to trading. The reduction in net debt results in our leverage for covenant purposes being 0.4x EBITDA; on a pro forma basis, removing the £35m of EBITDA associated with the BPO disposal, it would have been 0.5x, which compares with the requirement in our debt covenants to be lower than 3.5x.

**Dividends**

As indicated in March 2015, the Board is not recommending the payment of a dividend for 2015. The Board is committed to resuming dividend payments when it is prudent to do so. The 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 financial leverage, together with the requirement to maintain an appropriate level of dividend cover and the market outlook at the time.

The Revenue and Trading Profit performance are further described in the Divisional Reviews. More detailed analysis of earnings, cash flow, financing and related matters are described further in the Finance Review.

**Contract awards, pipeline, order book and rebids****Contract awards**

The Group signed contracts with an aggregate total value of £1.8bn during the year; this excludes £0.3bn signed by the private sector BPO business that was sold in December 2015. As anticipated, the year was relatively quiet with few major bidding outcomes announced. The value of new business won was £0.5bn, or approximately 30% of the total value signed, with the bulk of order intake represented by securing extensions or successfully rebidding existing work. Win rates by volume were around 50% for new bids and around 90% for rebids and extensions, but by value the win rates were around 20% and 75% respectively.

The largest new contracts signed were those to operate the North-South line for the Saudi Railway Company and to support the US Naval Facilities Engineering Command; these two were wins from our £5bn major opportunities pipeline at the start of the year. We were however unsuccessful on two larger new bids, one for Australian offshore immigration services and the other for Wellington metro rail service. It should be noted that in early February 2016, the Australian Government decided to re-tender the offshore immigration services contract, and as Reserve Bidder in the original tender, has invited Serco and the originally selected Preferred Bidder to re-tender for this opportunity, though we have not included the opportunity in our pipeline as at the time of reporting we have not decided whether to participate in the process. A third opportunity in the pipeline, the Icebreaker

vessel to be used by the Australian Antarctic Division (AAD), saw Serco selected as Preferred Tenderer, but, as this contract is yet to be signed, it has not been included in the value of signed contracts and remains in the Group's major bids pipeline. Smaller new bids won included facilities management for the new district general hospital for NHS Dumfries and Galloway, supply chain support for the US Navy, and several contracts for our European Agencies business, including the provision of a multi-lingual call centre based in Brussels offering support in 24 languages.

Major rebids and extensions secured during 2015 included: facilities management services to Wishaw and Norfolk & Norwich University Hospitals; IT and contact centre support for European Agencies; air traffic control services for the Federal Aviation Administration and classification services for the US Patent and Trademark Office; cost analysis support to the US military and personnel identification support to the US Navy; traffic camera services in Victoria, Australia; defence logistics and base support services in the Middle East; Baghdad Air Navigation Services; and operating the Palm Jumeirah Monorail System in Dubai. Major rebids lost during 2015 included two defence support contracts in the UK and the National Benefits Center contract in the US. We will also experience attrition in 2016 from contracts where we have either decided not to rebid at the end of the contract because they were losing money (examples being Suffolk Community Healthcare and National Citizen Service) or where the customer has decided to take the work back in house (for instance MoD Defence Business Services, Thurrock Council and Virginia Department of Transport).

### **Order book**

The Group's order book, excluding the discontinued Global Services division, now stands at £10.0bn, a reduction of £1.6bn over the year. The value of signed contracts in the year increased the order book, but this was outweighed by the reductions to the order book due to revenue delivered in 2015 and adjustments for contracts ending early. There is £2.5bn of revenue already secured in the order book for 2016, equivalent to approximately 90% revenue visibility of our £2.8bn revenue guidance. The secured order book is £1.6bn for 2017 and £1.2bn for 2018.

### **Rebids**

In terms of contracts potentially ending during 2016, there is an unusually small number subject to a rebid or extension decision; in aggregate these have annual revenue totalling around £90m, with an in-year 'revenue at risk' of approximately £60m. In 2017, there are a larger number of contracts that will potentially end or need to be re-bid or extended, with these having aggregate annual revenue of around £240m. In 2018, there is a further £460m. In total over the next three years therefore, there are around 40 contracts in our order book with annual revenue of over £5m across the Group where an extension or rebid will be required, representing annual revenue of approximately £790m or around 30% of the Group's forecast revenue for 2016 of £2.8bn.

### **Pipeline**

The definition we use for our reported pipeline is new bid opportunities with annual revenue of at least £10m, and which we expect to bid and to be decided within the next 24 months. The definition does not include rebids and extension opportunities. It is therefore a relatively small proportion of the total universe of opportunities we have in our prospect list, many of which either have annual revenues less than £10m, or are likely to be decided beyond the next 24 months, or are rebids and extensions. It should also be remembered that in the Americas in particular, we have numerous contracts which are classed as 'IDIQ' – Indefinite Delivery / Indefinite Quantity – which are essentially framework contracts under which the customer issues task orders one at a time; whilst the ultimate value of such a contract may be very large and run over many years, the value of it is only recorded in our order book as individual task orders are contracted, and few of them would appear in the pipeline as they tend to be contracted on short lead times.

The reported pipeline has seen significant declines over recent years – from around £12bn at the end of 2013 to around £5bn at the end of 2014. It is encouraging that for the first time in several years, it has shown an increase to around £6.5bn as at the end of 2015. There continues to be around 20-30 opportunities, with the annual contract value averaging around £30m and a typical length of contract being 5-10 years.

### **Guidance for 2016 and outlook beyond**

Serco provided initial guidance in December 2015 for the 2016 financial year, and that guidance is unchanged at the date of reporting the results for the 2015 financial year. For 2016, we anticipate Revenue of approximately £2.8bn and Underlying Trading Profit of approximately £50m. This view of Underlying Trading Profit is before any future adjustments to OCPs should these arise during the year.

The exit of the private sector BPO operations is forecast to reduce Revenue by over £300m and Underlying Trading Profit by over £20m, driven by the absence of the £23m contribution from the offshore BPO operations

which were disposed of at the very end of 2015. The Underlying Trading Loss from the residual UK private sector BPO operations up to the point of their assumed exit is forecast to be approximately £10m in 2016, which is broadly unchanged from the loss in 2015, given the effect of 'stranded' costs, which will take some time to work out of the business.

Revenue attrition across the rest of the Group is estimated to be up to £500m. As previously described, and covered in more detail in the Divisional Reviews, the greatest attrition is in the Local and Regional Government division, and in the Americas division. In the Central Government division, the end of the Northern Rail franchise in early 2016 will also reduce the profit contribution, although, being a joint venture, will have no impact on revenues. In total, the impact of the profit contribution associated with contract attrition is approximately £40m, in addition to the £20m impact of the BPO disposal and wind-down of the private-sector BPO operations in the UK described above.

Our forecast for 2016 includes around £100m of incremental Revenue from already secured or potential new business. Limited progress on new growth in 2016 reflects the weakness in the bid pipeline during the last two years. The incremental profit contribution from this growth, together with retained cost efficiencies, will only partially mitigate the profit reductions from the BPO disposal and the significant amount of contract attrition.

In terms of cash flow and net debt movement, we anticipate an increased level of Free Cash outflow, as Underlying Trading Profit is expected to be significantly lower than in 2015, and we do not expect any one-off benefits such as the cash in-flows resulting from the end of the Shop Direct and Thurrock contracts. We also expect to see continued outflow related to the utilisation of OCPs and previously booked exceptional items. We therefore estimate that closing net debt at the end of 2016 could be around £200m, equivalent to leverage for covenant purposes of approximately 2x EBITDA.

For 2017, conditions remain uncertain and we do not expect anything more than limited financial progress. Rebuilding and ultimately converting our pipeline of new contract opportunities will take some time, as will delivering incremental net benefits of cost efficiency programmes. Our view of 2017 will clearly come more into focus as we progress through 2016.

### **Strategy implementation progress**

In March 2015, we set out our new strategy, which is to focus on the public sector market and be a leading provider of public services to governments. Specifically, we intend to focus on five market sectors: Defence, Justice & Immigration, Transport, Health and Citizen Services; and to do so across four geographies: UK & Europe, North America, Asia Pacific and the Middle East. The strategy builds upon Serco's long track record and expertise in the transformation and management of complex public services, and in supporting critical and sensitive activities central to the work of governments. We believe our chosen markets have 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.

In our strategy presentation in March 2015, we identified three distinct phases in the turnaround of our business. The first phase – Stabilisation – involved identifying all the issues which had impacted the company, changing management, setting a new strategy, reducing net debt, disposing of non-core businesses, and repairing relations with our customers, most particularly the UK Government. This phase is now complete. The next phase – Transformation – is now in full swing as we navigate a path towards our ambition of becoming one of the best managed businesses in our sector. Whilst achieving this ambition will take many years, we expect it to enter the final phase – Growth – in 2018-2020; the precise moment the business starts to grow again in a meaningful way is hard to predict, and will depend on both our performance and external events. Some, such as the speed with which we can reduce costs without prejudicing service quality, and building compelling service propositions are in our control; others, such as the timing of contract awards, the behaviour of competitors and the macro-economic environment, are not. But with any plan, it is very helpful if it can deliver on early promises, and we feel that, with our performance in 2015, in which we have outperformed on almost every metric we set ourselves, we have done that.

### **Strengthening our balance sheet**

Our strategy has to be properly funded, and a firm foundation is required to allow the Group to grow and flourish in the future as well as being an absolute necessity to retain customers' confidence. To achieve a sustainable balance sheet with a prudent level of financial gearing, we therefore launched a Rights Issue during the year, which was successfully completed raising net proceeds of £530m. We subsequently reached agreement with our lending banks and US private placement noteholders to refinance our debt facilities; we have therefore achieved

the necessary reduction in our borrowing, extended the time period of our Revolving Credit Facility and put in place more flexible financial covenants.

### ***Disposing of non-core businesses***

As a major part of reshaping our portfolio, we have concluded our programme of targeted disposals. In the first half of 2015, we sold the Great Southern Rail luxury tourist travel operation in Australia, which was losing money and could neither gain, nor deliver, synergies to the rest of the Group. Likewise, in September 2015, we reached agreement on the sale of our offshore private sector BPO operations for a gross consideration of approximately £250m. This business was acquired by Serco in 2011 on the premise that there were synergies between private and public outsourcing businesses; whilst in some parts of public sector operations such as IT and back office systems this may be true, however, for the majority of our business, which is heavily biased towards frontline services, often of a highly sensitive nature, using low-cost labour in emerging markets is not a palatable or practical option for our customers, and we determined that these synergies could not in reality be achieved.

We had previously stated our intention to dispose of our Environmental and Leisure businesses; this was prompted by our urgent need to reduce our debt burden rather than any strategic necessity. These businesses provide frontline services to UK Local Authorities, are profitable, and align with our strategy of providing public services; they also give added breadth and depth to our offering to Local Authorities, which is an important business for us in the UK. Once we had certainty around the disposal of our Private Sector BPO business and the proceeds of the Rights Issue, we were able to review the decision to dispose of these businesses, and we concluded that for both strategic and financial reasons these businesses should be retained within Serco's portfolio.

### ***Mitigating loss-making contracts***

We are working hard to mitigate our loss-making contracts throughout the Group in order to improve profitability and cash performance whilst meeting our contractual service obligations. The adjustments required to the Contract and Balance Sheet Review charges taken last year were a net positive in 2015, and we will maintain an intense focus on each and every onerous contract to make further progress. During the year, the major improvement was the agreement reached on the ACPB contract to improve the scope of work, the service regime and, very importantly, to bring an earlier end (2017 rather than 2022) to this highly onerous contract. Other operational or negotiated improvements included the Future Provision of Marine Services (FPMS) and HMP Ashfield contracts; we have also successfully exited onerous contracts such as Suffolk Community Healthcare and the National Citizen Service, in both these cases at significantly lower cost than we initially expected. A small number of other contracts have had new provisions or increases to reflect the latest operational performance and trading conditions, but overall, and with the total OCP balance reducing to £300m from £447m a year earlier, we have made pleasing progress on one of our biggest challenges.

### ***Reducing our costs***

We have also made good progress reducing costs. In 2015, our operating costs were reduced by over £330m, broadly in proportion with the revenue reduction. Much of this was direct cost reduction resulting from contracts which we exited, or where volumes reduced or businesses were sold; but we are also driving out cost to offset the effect of negative operating leverage as the Group becomes smaller. Our previously announced plans to extract £20m of overhead and procurement savings in 2015 from specific initiatives were soundly beaten.

### ***Improving management information***

Management information has improved noticeably, increasing our visibility of performance and strengthening our controls and governance. Additionally, the strengthening of our bid risk management through tightened procedures and more thorough commercial reviews is becoming more deeply embedded in the business. We now have high-quality monthly management accounts, which have become fundamental to the way in which monthly Divisional Performance Reviews now function, and the structure of these management accounts has been flowed down through the business units and to contract level. Our core SAP accounting platform has been both upgraded and better integrated with related systems. Further improvements will come in 2016 as we begin the year with new finance data structures and chart of accounts which have been reviewed, rationalised and standardised, and as we begin to fully utilise the power of new reporting tools. In addition, we have made significant investment in new Procurement and HR systems, which will go live during 2016, and we plan to continue our investment in new systems to improve the efficiency of the business.

### ***Rebuilding our pipeline and leveraging Centres of Excellence***

The Strategy Review led us to conclude that we needed to focus on sectors of government expenditure which had applicability across a number of our regional operations, so we could leverage our international scale to provide customers innovation and operational excellence. Historically, Serco has not been great at sharing skills, best practice and intellectual property across our businesses. To tackle this, in 2015 we started to build Centres of



Excellence in Health, Justice & Immigration and Transport. These Centres of Excellence comprise small teams of world-class people seconded from our businesses whose job it is to take a global view of opportunities, recommend resource allocation and bid prioritisation, build compelling propositions and support our regional operations in their bids. In time, as these Centres of Excellence become increasingly effective, we see us expanding the number of them to encompass a number of core operational, as well as market-centric, capabilities such as Workforce Management and Continuous Improvement. In all their activities, the principle behind the Centres of Excellence is to use a small number of high quality people, along with building a culture of sharing best practice around the world to enable us to excel at proposition development, bidding and operations.

### ***Delivering greater cost efficiency***

Serco over-achieved against our target of £20m in overhead and procurement savings in 2015. Whilst these will annualise to a higher figure in 2016, they will be offset in part by inflationary pressure on our labour costs, including the impact of the new National Living Wage, as well as further pressure from negative operating cost leverage as revenues decline. Across the business we are reducing the number of management layers, rolling out Continuous Improvement initiatives in our contract base, and making better use of our scale in procurement and the operation of shared services.

The total net Revenue reduction in 2016 is however expected to be approximately 20%, resulting from the exit of private sector BPO operations and the substantial amount of contract attrition. In the light of the associated reduction in profit contribution, we are targeting more significant cost reductions in both central support functions and other overheads. In our budgets we have set ourselves an increased target of achieving over £50m in further savings in 2016; this is to be delivered from a combined overhead and shared service centre cost base that in 2015 was approaching £500m. This cost base includes elements that are fixed or semi-fixed in the short term, or are areas of cost, such as business development and bidding, where we want to protect or even increase our spend in order to deliver a strategy for future growth.

Achieving over £50m in further cost savings is the level required to achieve our forecast of approximately £50m of Underlying Trading Profit. Even at this level, our cost base would not have reduced fully in line with the greater rate of revenue reduction, resulting in a further year of margin pressure. However, at the same time, we will be focused on developing a more efficient cost model for the longer term; with an overarching plan to stabilise revenues and move back to growth, our aim is to ensure positive operating cost leverage which contributes strongly to our planned outcome of Serco achieving margins at least in line with our industry by the end of our 2020 Strategy Review time horizon.

### **Concluding thoughts**

Having completed the Stabilisation phase of our plan in good order, and delivered on our promises for 2015, we are now focused on the hard work of Transformation. We are as serious about turning Serco into the best managed business in our sector, as we are about repaying our investors, customers and colleagues for the confidence and support they have shown us over the recent difficult times. It will take years to achieve all we aspire to, and as we have consistently said there will be bumps and mis-steps along the way. We are rightly cautious on the prospects for 2016 given further revenue attrition and profit pressure, but I am confident we are taking the necessary actions, and have the strategic plan, management team and stabilised financial position in place to succeed.

### ***Rupert Soames OBE***

Group Chief Executive Officer  
Serco – and proud of it.

## Divisional Reviews

Consistent with the reporting of the year ended 31 December 2014, this section is presented according to the management structure and internal reporting that Serco put in place for 2015 as a result of actions from the Corporate Renewal Programme and the Strategy Review. The UK Central Government division ('CG') brings together Serco's work for the UK Central Government, which is principally in the Defence, Justice & Immigration and Transport sectors, with the latter including that for devolved authorities. The UK and Europe Local and Regional Government ('LRG') division comprises our Health business and our Citizen Services operations, the latter including welfare, business support and BPO services for the public sector, our various support operations to European Agencies, and other direct services such as our environmental and leisure services for local authorities. Serco's operations in the three other geographic regions are reported as separate divisions, being Americas (consisting principally of our operations in the USA, together with those in Canada), 'AsPac' (the Asia Pacific region, consisting our operations in Australia, together with those in New Zealand and Hong Kong) and the Middle East. The Global Services division consists of Serco's private sector BPO operations, which for statutory reporting purposes are classified as discontinued operations following Serco's previously announced strategic exit from this market. Serco's underlying measures include the Revenue and Trading Profit of these discontinued operations for the sake of consistency with previous guidance.

Aligned to statutory reporting and consistent with the reporting of the Year ended 31 December 2014, Serco's share of revenue from its joint ventures is not included in divisional revenue, while Serco's share of joint ventures' profit after interest and tax costs is included in divisional Trading Profit. As previously disclosed and for consistency with guidance, Serco's Underlying Trading Profit measure excludes Contract and Balance Sheet Review adjustments (principally OCP releases or charges), the beneficial treatment of depreciation and amortisation of assets held for sale, and any other one-time items such as the profit on early termination of a UK local authority contract that occurred in 2015.

Year ended 31 December 2015 £m	CG	LRG	Americas	AsPac	Middle East	Corporate costs	Sub-total continuing	Global Services	Total
<b>Revenue including discontinued operations</b>	<b>742.1</b>	<b>905.8</b>	<b>693.0</b>	<b>544.7</b>	<b>291.4</b>	-	<b>3,177.0</b>	<b>337.6</b>	<b>3,514.6</b>
<i>Change</i>	(23%)	(6%)	(2%)	(23%)	+12%	-	(12%)	(6%)	(11%)
<i>Constant currency change</i>	(23%)	(4%)	(8%)	(15%)	+6%	-	(11%)	(8%)	(11%)
<i>Organic change</i>	(22%)	(4%)	(8%)	(9%)	+4%	-	(10%)	n/a	n/a
Discontinued operations adjustment*	-	-	-	-	-	-	-	(337.6)	(337.6)
<b>Revenue</b>	<b>742.1</b>	<b>905.8</b>	<b>693.0</b>	<b>544.7</b>	<b>291.4</b>	-	<b>3,177.0</b>	-	<b>3,177.0</b>
<b>Underlying Trading Profit/(Loss)</b>	<b>53.1</b>	<b>4.7</b>	<b>44.3</b>	<b>11.9</b>	<b>18.9</b>	<b>(51.2)</b>	<b>81.7</b>	<b>14.3</b>	<b>96.0</b>
<i>Change</i>	(8%)	+38%	+3%	(66%)	(1%)	(3%)	(23%)	+111%	(15%)
<i>Change at constant currency</i>	(8%)	+73%	(3%)	(62%)	0%	(3%)	(23%)	+100%	(15%)
<i>Margin</i>	7.2%	0.5%	6.4%	2.2%	6.5%	n/a	2.6%	4.2%	2.7%
Contract and Balance Sheet Review adjustments	7.1	(28.2)	(17.3)	46.9	8.5	3.3	20.3	0.6	20.9
Benefit from not depreciating and amortising assets held for sale**	-	-	-	-	-	-	-	11.7	11.7
Other one-time items***	-	9.0	-	-	-	-	9.0	-	9.0
<b>Reported Trading Profit/(Loss)</b>	<b>60.2</b>	<b>(14.5)</b>	<b>27.0</b>	<b>58.8</b>	<b>27.4</b>	<b>(47.9)</b>	<b>111.0</b>	<b>26.6</b>	<b>137.6</b>
Amortisation of intangibles arising on acquisition	-	(1.1)	(2.5)	(1.2)	-	-	(4.8)	(0.1)	(4.9)
Discontinued operations adjustment*	-	-	-	-	-	-	-	(26.5)	(26.5)
<b>Operating profit/(loss) before exceptionals</b>	<b>60.2</b>	<b>(15.6)</b>	<b>24.5</b>	<b>57.6</b>	<b>27.4</b>	<b>(47.9)</b>	<b>106.2</b>	-	<b>106.2</b>

\* Statutory reporting only includes the post-tax result of discontinued operations as a single line in the Consolidated Income Statement.

\*\* The total benefit from not depreciating and amortising assets held for sale is £11.8m including £0.1m of amortisation of intangibles arising on acquisition within Global Services.

\*\*\* Other one-time items in the year reflect the profit on early termination of a UK local authority contract.

Year ended 31 December 2014 £m	CG	LRG	Americas	AsPac	Middle East	Corporate costs	Sub-total continuing	Global Services	Total
<b>Revenue including discontinued operations</b>	<b>961.4</b>	<b>959.8</b>	<b>708.1</b>	<b>706.0</b>	<b>260.4</b>	-	<b>3,595.7</b>	<b>359.3</b>	<b>3,955.0</b>
Discontinued operations adjustment*	-	-	-	-	-	-	-	(359.3)	(359.3)
<b>Revenue</b>	<b>961.4</b>	<b>959.8</b>	<b>708.1</b>	<b>706.0</b>	<b>260.4</b>	-	<b>3,595.7</b>	-	<b>3,595.7</b>
<b>Underlying Trading Profit/(Loss)</b>	<b>58.0</b>	<b>3.4</b>	<b>43.2</b>	<b>35.5</b>	<b>19.1</b>	<b>(52.8)</b>	<b>106.4</b>	<b>6.8</b>	<b>113.2</b>
<i>Margin</i>	6.0%	0.4%	6.1%	5.0%	7.3%	n/a	3.0%	1.9%	2.9%
Contract and Balance Sheet Review adjustments	(300.8)	(93.8)	(26.7)	(237.1)	(19.3)	(37.3)	(715.0)	(30.3)	(745.3)
<b>Reported Trading Profit/(Loss)</b>	<b>(242.8)</b>	<b>(90.4)</b>	<b>16.5</b>	<b>(201.6)</b>	<b>(0.2)</b>	<b>(90.1)</b>	<b>(608.6)</b>	<b>(23.5)</b>	<b>(632.1)</b>
Amortisation of intangibles arising on acquisition	(0.1)	(1.7)	(2.3)	(2.2)	-	-	(6.3)	(5.1)	(11.4)
Impairment of intangibles arising on acquisition	-	(5.5)	-	(6.4)	-	-	(11.9)	(0.4)	(12.3)
Discontinued operations adjustment*	-	-	-	-	-	-	-	29.0	29.0
<b>Operating profit/(loss) before exceptionals</b>	<b>(242.9)</b>	<b>(97.6)</b>	<b>14.2</b>	<b>(210.2)</b>	<b>(0.2)</b>	<b>(90.1)</b>	<b>(626.8)</b>	-	<b>(626.8)</b>

\* Statutory reporting only includes the post-tax result of discontinued operations as a single line in the Consolidated Income Statement.

## UK Central Government

The UK Central Government division includes our frontline services in Defence, Justice & Immigration and Transport (including contracts for the Department for Transport as well as those for devolved authorities).

Revenue for the year was £742.1m (2014: £961.4m), a decline of 23%. At constant currency and excluding the impact of disposals (the Collectica debt collection business disposed in June 2014), the organic decline was 22%. The principal drivers of the significant revenue reduction were the end of the contracts for the Docklands Light Railway (DLR), National Physical Laboratory (NPL) and the Colnbrook immigration removal centre; together, these three contracts accounted for around 90% of the organic revenue decline. Other reductions included lower project or volume-related revenue, for example managing the Thameside prison expansion in 2014. There was limited growth elsewhere to offset these contract ends or reductions, with the largest being the start of the Caledonian Sleeper contract which Serco began operating on 31 March 2015.

Underlying Trading Profit was £53.1m (2014: £58.0m), representing an implied margin of 7.2% (2014: 6.0%). Trading Profit includes the profit contribution from joint ventures (the vast majority of which for the Group are in this division), and if the £697m share of revenue was also included the overall divisional margin is 3.7% (2014: 3.5%); the joint venture profit contribution of £33.8m was £4.2m ahead of the prior year. Within Underlying Trading Profit there was £57m of Onerous Contract Provision (OCP) utilisation, which was broadly in line with our original expectations. This includes those for COMPASS, PECS and FPMS, which as previously disclosed were amongst the largest provisions taken as part of the Contract and Balance Sheet Review. While there was around an aggregate £28m of loss from these three contracts in 2014 which was neutralised by OCP utilisation in 2015, this benefit was more than offset by the significant reduction in profit contribution from contract attrition and lower project-related profitability, as well as the disposal of the Collectica business.

The Contract and Balance Sheet Review charge taken in 2014 in Central Government was £300.8m. The net impact of adjustments to key assumptions and other related changes was a £7.1m net release in 2015. The key movements were OCP releases due to operational improvements on the FPMS and HMP Ashfield contracts, which contributed to more than offset additional charges that were required to be taken such as on the PECS contract where reassessment indicates higher costs to deliver our contractual commitments; reassessment of the OCP required for COMPASS did not result in a charge or release. After the Contract and Balance Sheet Review adjustments of £7.1m, Reported Trading Profit for the year increased to £60.2m.

UK Central Government represented around £100m of the Group's aggregate total value of signed contracts during the year; there were a limited number of bids due for decision in 2015, with the majority of the value signed reflecting rebids or extensions such as our RAF Northolt and helicopter fleet support operations.

Looking ahead, the impact of known contract losses or other revenue reductions is currently anticipated to have a gross impact of around £100m or approximately 15% in 2016. The key drivers of this attrition are the transfer back of services that Serco had previously been providing to the Defence Science and Technology Laboratory (Dstl) and the end of the current Defence Business Services arrangement, together with a number of smaller contracts ending or reducing in scope. The end of the Northern Rail franchise in early 2016 will also result in a substantially lower joint venture profit contribution than the £8.2m received in 2015.

Additionally, of existing work where an extension or rebid will be required at some point during the next three years due to a scheduled contract end date before the end of 2018, there are 12 contracts with annual revenue of over £5m within the UK Central Government division; in aggregate, these represent approximately 40% of the current level of annual revenue for the division.

In terms of areas for future growth, there are two major bids currently under consideration, being the Defence Fire & Risk Management Organisation and the operation of the Clyde and Hebrides Ferries Services. Following the significant disruption to our customer relationships with UK Central Government in 2013 and the subsequent Corporate Renewal process that was put in place over the course of 2014, we now believe that our relationships with our UK customers are on a firmer footing. We believe that a number of major opportunities will emerge over the next two years as the UK Government continues its efforts to save cost and improve services. In particular, as one of the leading suppliers of custodial services in the UK, we are obviously heartened by the declared intention of the UK Government to focus on reform and improvement of the prison system, and are hopeful that this policy may in time produce opportunities for us.

## UK and Europe Local and Regional Government

The UK and Europe Local and Regional Government division includes our frontline services in the devolved public service delivery markets of Health, primarily hospital facilities management services, and Citizen Services, which includes welfare and business support operations, BPO services for the public sector, various support operations for European Agencies, and other direct services such as our environmental and leisure services for local authorities.

Revenue for the year was £905.8m (2014: £959.8m), a decline of 6%. At constant currency and excluding the impact of disposals (the Braintree Community Hospital clinical healthcare services business disposed in March 2014), the organic decline was 4%. There was modest revenue growth from the start of new contracts such as Lincolnshire County Council BPO services and Havering environmental services, together with additional volume-related revenues in health procurement services and a small number of other Citizen Services contracts. These areas of growth were offset by the end of contracts such as Westminster City Council BPO support, Suffolk Community Healthcare and private sector facilities management for an aviation industry customer, together with a number of other reductions in volume-related revenue predominantly in other Citizen Services operations.

Underlying Trading Profit was £4.7m (2014: £3.4m), representing a margin of 0.5% (2014: 0.4%). Within Underlying Trading Profit there was £11m of non-exceptional OCP utilisation, which was modestly better than our original expectations. The main movements in Underlying Trading Profit were the removal of loss on the National Citizen Service contract, together with some initial progress on reducing overhead costs, which were broadly offset by the reduction in profit contribution from the effect of contracts ending or reducing in scope and the in-year loss on the Lincolnshire County Council contract.

The Contract and Balance Sheet Review charge taken in LRG in 2014 was £93.8m. The net impact of adjustments to key assumptions and other related changes was a £28.2m net charge in 2015. The principal driver of this was the establishment of a new OCP, together with related impairments and charges, for our business process and contact centre services contract with Lincolnshire County Council; there has been significant operational challenge in the first year, predominantly related to our responsibility to implement a new ERP system, which is now expected to result in losses for the remaining contractual period. Separately, there was a one-time profit of £9.0m relating to the Thurrock BPO services contract where settlement on early termination had been mutually agreed with the customer; the one-time profit represents a payment to Serco in lieu of anticipated profit in future years, net of direct costs, impairments and other charges. After these Contract and Balance Sheet Review adjustments and the one-time profit on early termination, the Reported Trading Loss for the year was £14.5m.

LRG represented approximately £400m of the Group's aggregate total value of signed contracts during the year; the largest items were the successful rebids of Serco's support services to Wishaw General Hospital and Norfolk & Norwich University Hospital, various IT support services for European agencies, the new win for facilities management services to the new district general hospital for NHS Dumfries and Galloway, an extension until the end of 2017 for the Child Maintenance Group (CMG) case management contract and a one-year extension to our operation of the Work Programme.

Looking ahead, the impact of known contract losses or other revenue reductions is currently anticipated to have a gross impact of around £200m or approximately 25% in 2016. The key drivers of this significant rate of attrition are the end of the Suffolk Community Healthcare and National Citizen Services contracts which were heavily loss-making and were not rebid, the early termination of the Thurrock BPO services contract, the ending of certain infrastructure services support to private sector customers, lower revenues on healthcare procurement operations, the reducing scale of CMG operations and a number of other smaller contracts ending or reducing in scope.

Additionally, of existing work where an extension or rebid will be required at some point during the next three years due to a scheduled contract end date before the end of 2018, there are 10 contracts with annual revenue of over £5m within the LRG division; in aggregate, these represent approximately 20% of the current level of annual revenue for the division.

In terms of areas for future growth, we are focused on building our pipeline of opportunities in the UK in Citizen Services (which includes Environmental and Leisure) and Health. Sharply reduced Local Authority spending is having some unpredictable results: some Local Authorities are taking services back in-house, others are outsourcing them. Similar pressures apply in the Healthcare sector, where we have a strong position in non-clinical services. There are currently a number of environmental and hospital facilities management opportunities in the pipeline. We are working hard across all sectors of this market to develop compelling propositions, and are confident that they will appeal to customers. In our European business we continue to bid for major IT and operational support projects for government agencies, and are also looking for opportunities to offer other parts of our portfolio, such as immigration services.



## Americas

Our Americas division provides professional, technology and management services focused on Defence, Transport, and Citizen Services (principally process outsourcing for government agencies). The US federal government, including the military, civilian agencies and the national intelligence community, are our largest customers. We also provide services to the Canadian Government and to some US state and municipal governments.

Revenue for the year was £693.0m (2014: £708.1m), a decline of 2%. In US dollars, the main currency for operations of the division, revenue for the year was equivalent to US\$1,061m. The strengthening particularly of the US dollar provided growth of £40m or 6%, with the decline at constant currency being 8%. This decline was driven by contract attrition from the end of various areas of operations on behalf of the US Federal Retirement Thrift Investment Board (FRTIB), certain US intelligence agency support services and visa processing work. There was partial offset from expansion in existing services such as the US Affordable Care Act (ACA) eligibility support services contract and naval installation task order work under the Sea Enterprise IDIQ framework.

Underlying Trading Profit was £44.3m (2014: £43.2m), representing a margin of 6.4% (2014: 6.1%). Within Underlying Trading Profit there was £10m of OCP utilisation, which was more than our original expectations. The main movements in Underlying Trading Profit were the benefits of cost reduction initiatives and the £2m favourable currency movement, which were largely offset by the reduction in profit contribution from contract attrition.

The Contract and Balance Sheet Review charge taken in the Americas division in 2014 was £26.7m. The net impact of adjustments to key assumptions and other related changes was a £17.3m net charge in 2015. The principal drivers of this were the required provision, together with related impairments and charges, for the Virginia Department of Transport (VDOT) operations following operational challenges on the sub-contract related to implementing a new IT system, and an increase in the existing provision for the Ontario Driver Examination Services contract. After these Contract and Balance Sheet Review adjustments, Trading Profit for the year reduced to £27.0m.

Americas represented approximately £750m of the Group's aggregate total value of signed contracts and order book progress during the year. The largest were: the successful re-compete of air traffic control services for the Federal Aviation Administration and rebid of classification services for the US Patent and Trademark Office; securing a third year of the expanded services providing eligibility support to the US Affordable Care Act (ACA); and winning a new contract to support the US Naval Facilities Engineering Command (NAVFAC). Amongst a large number of other smaller contract awards were a one-year extension to the 5 Wing Canadian Forces Base in Goose Bay contract, and rebids of cost analysis support to the US military and personnel identification support to the US Navy.

Looking ahead, the impact of known contract losses or other revenue reductions is currently anticipated to have a gross impact of around £100m or approximately 15% in 2016. The key drivers of this significant rate of attrition are the early end of the VDOT contract, and the loss of the rebid for record processing at the National Benefits Center. Additionally, of existing work where an extension or rebid will be required at some point during the next three years due to a scheduled contract end date before the end of 2018, there are five contracts with annual revenue of over £5m within the Americas division; in aggregate, these represent approximately 40% of the current level of annual revenue for the division.

In terms of areas for future growth, our pipeline for the Americas division has remained more buoyant than the UK divisions. Major new bid opportunities due for decision over the next two years include passport processing for the Department of State and Department of Homeland Security and several opportunities to provide various support functions to the US Navy. Looking beyond, the market for defence services remains attractive in size and growth potential and other potential bids in transport operational support and Citizen Services are expected to progress through our longer term prospects list. Options to develop Serco's involvement in non-clinical health support and parts of the Justice & Immigration market will also be evaluated over the longer term.

## AsPac

Operations in the Asia Pacific division include Justice, Immigration, Defence, Health, Transport and Citizen Services. With Serco's operations in Australia being by far the largest element of the division, the country represents 16% of total Revenue for the Group.

Revenue for the year was £544.7m (2014: £706.0m), a decline of 23% in reported currency and 15% at constant currency. In Australian dollars, the main currency for operations of the division, revenue for the year was equivalent to A\$1,106m. Local currency weakness, particularly the Australian dollar, contributed a decline of £57m or 8%. Excluding the impact of disposals (the Great Southern Rail business disposed in May 2015), the organic decline was 9%. This decline was driven almost entirely by a further reduction in the volume of work in Australian immigration services, which more than offset growth from the Fiona Stanley Hospital in Perth and the Auckland South Corrections Facility which both became fully operational in 2015, as well as some growth from other areas of scope expansion to existing services such as Acacia prison.

Underlying Trading Profit was £11.9m (2014: £35.5m), representing a margin of 2.2% (2014: 5.0%). Within Underlying Trading Profit, there was £20m of OCP utilisation, relating principally to the Armidale Class Patrol Boat (ACPB) contract and which was lower than our original expectations; in 2014, the losses on ACPB were not included within Underlying Trading Profit as they were included as part of the Contract and Balance Sheet Review charge. The main drivers of the reduction in Underlying Trading Profit reflect the impact of the significant scale reduction in Australian immigration services, the in-year loss incurred at Mount Eden Correctional Facility, together with a £2m adverse currency impact.

The Contract and Balance Sheet Review charge taken in 2014 was £237.1m. The net impact of adjustments to key assumptions and other related changes was a £46.9m net release in 2015. The agreement reached with the Australian Government to amend the terms of the ACPB contract, which was the Group's single-largest OCP, resulted in a release of £63m, principally due to the contract now ending in June 2017 rather than running through to 2022. There was partial offset to this release from OCP charges being required on Serco's operations in Hong Kong and in relation to the operational challenges faced on the Mount Eden Correctional Facility contract. After these Contract and Balance Sheet Review adjustments, Reported Trading Profit for the year increased to £58.8m.

AsPac represented approximately £300m of the Group's aggregate total value of signed contracts and order book progress during the year; the single largest element of this reflects the order book increase to account for a rolling one-year estimate of volumes for Australian immigration services; additionally, a three-year extension for our traffic camera services contract in Victoria was awarded, while most of the other progress represented contracts for various Citizen Services processing support work.

Looking ahead, the impact of known contract losses or other revenue reductions is currently anticipated to have a gross impact of up to £50m or 10% in 2016; this includes the annualisation effect of the GSR disposal and a number of other small losses or reductions, though the result for 2016 will still be susceptible to the prevailing volume of work in Australian immigration services as this single contract represents more than a quarter of the total revenue for the division. Additionally, of existing work where an extension or rebid will be required at some point during the next three years due to a scheduled contract end date before the end of 2018, there are seven contracts with annual revenue of over £5m within the AsPac division; in aggregate, these represent approximately 15% of the current level of annual revenue for the division.

During the year, Serco was unsuccessful in the major new bid opportunities for Wellington's metro rail service and Australian offshore immigration detention services. It should be noted that in early February 2016, the Australian Government decided to re-tender the offshore immigration services contract, and as Reserve Bidder in the original tender, has invited Serco and the originally selected Preferred Bidder to re-tender for this opportunity, though as yet we have not included the opportunity in our pipeline as at the time of reporting we have not decided whether to participate in this tender. A third opportunity in the pipeline, the Icebreaker vessel to be used by the Australian Antarctic Division (AAD), saw Serco selected as Preferred Tenderer, but, as this contract is yet to be signed, it has not been included in the value of signed contracts and remains in the Group's major bids pipeline. In the short-term, there are few bids due for decision, however over the course of 2016 we expect more to enter the pipeline particularly in the areas of Justice and Immigration services. Looking beyond, other potential opportunities are expected to be developed in Transport, Citizen Services and non-clinical health services.

## Middle East

Operations in the Middle East division include Transport, Defence, Health and other Direct Services such as facilities management.

Revenue for the year was £291.4m (2014: £260.4m), an increase of 12%. Stronger local currency provided growth of 6% and a small health support services acquisition added 2%; organic growth at constant currency was therefore 4%. This revenue growth was driven by the start of the new contract for the Saudi Railway Company as well as growth from the annualisation of contracts won during 2014 or increases in scope of existing operations, which was partially offset by a small number of operations reducing in scope and the end of air traffic control operations in Erbil.

Underlying Trading Profit was £18.9m (2014: £19.1m), representing a margin of 6.5% (2014: 7.3%). Within Underlying Trading Profit, OCP utilisation was immaterial. While Underlying Trading Profit was held level with the prior year, there was margin pressure as a result of attrition and scope reductions being concentrated in areas that were higher margin.

The Contract and Balance Sheet Review charge taken in 2014 was £19.3m. The net impact of adjustments to key assumptions and other related changes was an £8.5m net release in 2015. This related to allowances for doubtful debts that had been charged in 2014 but subsequently collected in 2015. After these Contract and Balance Sheet Review adjustments, Reported Trading Profit for the year increased to £27.4m.

The Middle East represented approximately £200m of the Group's aggregate total value of signed contracts during the year; the largest of these was the new win to support the Saudi Railway Company in the operation of the North-South Railway. Other wins included successfully securing existing work for logistics and base support services provided to the Australian Defence Force (ADF) in the region, facilities management at Abu Dhabi Global Market Square (formerly Sowwah Square), for Baghdad Air Navigation Services (ANS) and to operate and maintain the Palm Jumeirah Monorail System in Dubai.

Looking ahead, known contract losses or other revenue reductions are currently not anticipated to have a material impact in 2016. There is though some pressure resulting from the planned transition of certain ANS roles to customers in the region. Additionally, of existing work where an extension or rebid will be required at some point during the next three years due to a scheduled contract end before the end of 2018, there are seven contracts with annual revenue of over £5m within the Middle East division; in aggregate, these represent approximately 30% of the current level of annual revenue for the division.

In terms of areas for future growth, there remains a vibrant public service outsourcing market in the region and Serco has strong references to continue expanding; whilst the recent reductions in the oil price may lead to some projects being delayed, we, as operators, tend to get involved only when the infrastructure build is at or near completion. Major pipeline opportunities due for award in 2016 or 2017 now include three major light rail and tram operations in the region, as well as further developments in defence training services and in non-clinical health and other facilities management support.

## Corporate Costs

Corporate costs relate to typical central function costs of running the Group, including executive, governance and support functions such as HR, finance and IT. 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.

Corporate costs in 2015, before Contract and Balance Sheet Review adjustments, were £51.2m (2014: £52.8m). While there was some one-time Corporate Renewal implementation work that occurred in 2014, and the benefit of actions taken during 2015 to reduce costs at the centre, these were partially offset by some increased costs in 2015 associated with implementing the Strategy Review and investment in improved management information, systems and processes.

The Balance Sheet Review charge taken in 2014 was £37.3m. The net impact of adjustments to key assumptions and other related changes was a £3.3m net release in 2015, reducing Corporate Costs within Reported Trading Profit to £47.9m.

## Global Services (discontinued operations)

The Global Services division consists of Serco's private sector BPO business, predominantly for customers in the UK, India and North America, following the transfer of public sector BPO operations to our other divisions. The operations consist of middle and back office skills and capabilities across customer contact, transaction and financial processing, and related consulting and technology services.

As part of Serco's previously announced strategy to exit non-core markets and to focus on the provision of public services, Serco is seeking to exit its private sector BPO operations. On 31 December 2015, the transaction to dispose of the majority of the offshore private sector BPO operations was completed. Two smaller but separate transactions relating to some operations in the Middle East are expected to complete in 2016. The remaining private sector operations, which are predominantly UK onshore operations, will be exited either by further disposals, transfers, early termination or running-off the contracts over their remaining contractual period.

For statutory reporting purposes, the Global Services division is classified as discontinued operations, therefore only the post-tax result of these operations is included as a single line in the reporting of the Group's Income Statement. However, for consistency with previous guidance, Serco's underlying measures include the Revenue and Trading Profit of these discontinued operations.

Revenue was £337.6m (2014: £359.3m), a decline of 6%. Stronger local currency provided growth of 2%, with the decline at constant currency being 8%. The start of the new contract won in 2014 for multi-channel contact services for a major UK retailer provided revenue growth, as did expansion in domestic Indian BPO operations; however, this was more than offset by contract attrition, largely as a result of our managed exit of a number of smaller loss-making contracts in the UK.

Underlying Trading Profit was £14.3m (2014: £6.8m), representing a margin of 4.2% (2014: 1.9%). Within Underlying Trading Profit, there was £15m of onerous contract provision utilisation. Drivers of the improvement in Underlying Trading Profit include the benefit of provision utilisation and other actions taken to reduce the impact of loss-making operations.

The Contract and Balance Sheet Review charge taken in 2014 was £30.3m. The net impact of adjustments to key assumptions and other related changes was a £0.6m net release in 2015. As the division included assets designated as held for sale, there is a benefit of not charging depreciation and amortisation of £11.7m. After these Contract and Balance Sheet Review adjustments and held for sale benefits, Reported Trading Profit for the year increased to £26.6m.

Given the disposal of the majority of the offshore operations completed on 31 December 2015, and because there was also good progress during 2015 in managing the exit from the loss-making contracts in the remaining UK onshore operations, the Revenue of £337.6m in 2015 reduces very substantially; Serco's budget for 2016 includes approximately £20m of residual revenue contribution, which will vary depending on the timing of exiting remaining contracts. The residual operations are expected to contribute an Underlying Trading Loss of around £10m in 2016, reflecting contract losses up to the point of exit together with the effect of 'stranded' shared service centre costs and other overheads previously absorbed by the Global Services division. Serco is targeting to make progress reducing these stranded costs through additional cost savings over the course of 2016 and beyond.



## Finance Review

### Overview of Financial Performance

For the year ended 31 December	2015 £m	2014 £m
Revenue – including discontinued operations	3,514.6	3,955.0
Less: Revenue from discontinued operations	(337.6)	(359.3)
<b>Revenue</b>	<b>3,177.0</b>	<b>3,595.7</b>
<b>Underlying Trading Profit</b>	<b>96.0</b>	113.2
Onerous contract and Balance Sheet Review adjustments	20.9	(745.3)
Benefit from non-depreciation and non-amortisation of assets held for sale	11.7	-
Other one-time items	9.0	-
<b>Trading Profit/(Loss)</b>	<b>137.6</b>	(632.1)
Other expenses – amortisation and impairment of intangibles arising on acquisition	(4.9)	(23.7)
<b>Operating profit/(loss) before exceptional items on continuing and discontinued operations</b>	<b>132.7</b>	(655.8)
Less: Operating (loss)/profit before exceptional items arising on discontinued operations	(26.5)	29.0
<b>Operating profit/(loss) before exceptional items</b>	<b>106.2</b>	(626.8)
Exceptional loss on disposal of subsidiaries and operations	(2.6)	(2.3)
Other exceptional operating items	(107.3)	(323.4)
<b>Exceptional operating items</b>	<b>(109.9)</b>	(325.7)
<b>Operating loss</b>	<b>(3.7)</b>	(952.5)
Investment income	6.1	4.6
Other finance costs	(39.0)	(42.6)
Exceptional finance costs	(32.8)	-
Total net finance costs	(65.7)	(38.0)
<b>Loss before tax</b>	<b>(69.4)</b>	(990.5)
Tax on profit/(loss) before exceptional items	(17.9)	(7.2)
Tax on exceptional items	0.4	8.2
Tax	(17.5)	1.0
<b>Loss for the year from continuing operations</b>	<b>(86.9)</b>	(989.5)
<b>Discontinued operations</b>		
Profit/(loss) for the year from discontinued operations	(66.2)	(357.6)
<b>Loss for the year</b>	<b>(153.1)</b>	(1,347.1)
Underlying earnings/(loss) per share (restated)* from continuing and discontinued operations	<b>3.44p</b>	4.73p
Underlying trading margin from continuing and discontinued operations	<b>2.7%</b>	2.9%
Earnings/(loss) per share before exceptional items (restated)* from continuing and discontinued operations	<b>6.55p</b>	(107.43p)
Earnings/(loss) per share (restated)* from continuing and discontinued operations	<b>(15.47p)</b>	(205.66p)
Dividend per share	-	3.10p

\*Restatement of earnings per share reflects adjustment to the weighted average number of shares associated with the Rights Issue

## Revenue

Revenue declined by 11.6% in the year to £3,177.0m (2014: £3,595.7m), an 11.2% reduction in constant currency.

Revenue including that arising from operations classified as discontinued declined by 11.1% in the year to £3,514.6m (2014: £3,955.0m), an 11.1% reduction in constant currency.

Commentary on the revenue performance of the Group is provided in the Chief Executive's Review and the Divisional Reviews sections above.

## Trading Profit

Trading Profit is defined as operating profit as shown on the face of the Consolidated Income Statement before i) amortisation and impairment costs of intangibles arising on acquisitions and ii) exceptional items, adjusted to include the Trading Profit arising on discontinued operations.

Trading Profit increased in the year to £137.6m (2014: Trading Loss £632.1m). The improvement from 2014 is primarily attributable to the 2014 impact of the Contract and Balance Sheet Review that resulted in significant asset impairments, onerous contract provisions (OCPs) and other charges of £745.3m being recorded in that year.

Trading Profit for the Group includes that arising on discontinued operations of £26.6m.

## Underlying Trading Profit

Underlying Trading Profit is defined as Trading Profit adjusted to exclude charges and releases made to OCPs, charges and releases made in respect of other items identified during the 2014 Contract and Balance Sheet Review, the beneficial treatment of depreciation and amortisation on assets held for sale and any other one-time items.

Underlying Trading Profit was £96.0m, a decline of 15.2% from 2014. At constant currency Underlying Trading Profit was £95.9m. Commentary on the trading performance of the Group is provided in the Chief Executive's Review and the Divisional Reviews sections above.

Excluded from Underlying Trading Profit were net charges to OCPs of £3.0m following the annual reassessment undertaken as part of the budgeting process, which would have been a net release of £5.4m at constant currency. Also excluded from Underlying Trading Profit were net releases of £23.9m relating to other provisions and accruals for items identified during the 2014 Contract and Balance Sheet Review.

Underlying Trading Profit excludes the benefit arising from the non-depreciation of assets classified as held for sale. In 2015 depreciation and amortisation of £10.0m and £1.7m respectively was not charged to operating profit on assets classified as held for sale relating to those businesses classified as discontinued operations.

Other one-time items relate to the early termination of a UK Local Authority contract where settlement has been mutually agreed with the customer. The one-time profit represents a payment to Serco in lieu of anticipated profits in future years, net of direct costs, impairments and other charges.

In 2014, Underlying Trading Profit of £113.2m excludes non-exceptional charges made in respect of OCPs, asset impairments and other provisions arising from the 2014 Contract and Balance Sheet Review of £745.3m.

## Discontinued operations

Completion of the sale of the majority of the offshore private sector BPO business, which accounted for the bulk of the Global Services division, occurred on 31 December 2015. The disposal of operations based in the Middle East to the same purchaser is expected to complete in two tranches during 2016 following receipt of the necessary approvals; the balance sheet items associated with these operations remain within assets and liabilities held for sale at 31 December 2015.

During the course of 2015 the other predominantly UK onshore private sector BPO operations have either been sold or exited early, or will be in the near future. As a result, in 2015 the Global Services division is deemed to be a discontinued operation in accordance with IFRS. Those onshore BPO businesses which have not yet been exited are treated as assets held for sale and segregated from the other assets and liabilities on the balance sheet.

The results of discontinued operations were as follows:

For the year ended 31 December	2015 £m	2014 £m
Revenue	337.6	359.3
<b>Underlying Trading Profit</b>	<b>14.3</b>	6.8
Onerous contract and balance sheet review adjustments	0.6	(30.3)
Benefit from non-depreciation and non-amortisation of assets held for sale	11.7	-
<b>Trading Profit/(Loss)</b>	<b>26.6</b>	<b>(23.5)</b>
Other expenses – amortisation and impairment of intangibles arising on acquisition	(0.1)	(5.5)
<b>Operating profit/(loss) before exceptional items</b>	<b>26.5</b>	<b>(29.0)</b>
Exceptional gain/(loss) on disposal of subsidiaries and operations	5.4	(3.1)
Other exceptional operating items	(83.0)	(332.7)
<b>Operating loss</b>	<b>(51.1)</b>	<b>(364.8)</b>
Investment revenue	2.1	1.6
Finance costs	(1.2)	(0.3)
<b>Loss before tax</b>	<b>(50.2)</b>	<b>(363.5)</b>
Tax on profit/(loss) before exceptional items	(18.8)	(3.9)
Tax on exceptional items	2.8	9.8
<b>Net loss of discontinued operations (attributable to equity owners of the Company) as presented in the income statement</b>	<b>(66.2)</b>	<b>(357.6)</b>

## Joint ventures – share of results

The most significant joint ventures are the Atomic Weapons Establishment (AWE) and Northern Rail. Serco manages AWE in a consortium with Lockheed Martin and Jacobs Engineering Group in a 25-year contract that runs to 2025. In 2015 Serco's share of revenue was £326.1m (2014: £329.8m) and profit after tax was £18.6m (2014: £16.9m). Northern Rail is a 50% joint venture with Abellio to operate a rail franchise that runs until 31 March 2016. In 2015 Serco's share of revenue was £292.7m (2014: £288.7m) and profit after tax was £8.2m (2014: £6.5m). While the revenues and individual line items are not consolidated in the Group Income Statement, summary financial performance measures of the aggregate of all joint ventures are set out below for information purposes.

For the year ended 31 December	2015 £m	2014 £m
Revenue	737.2	798.3
Operating profit	42.6	37.9
Net finance cost	(0.4)	(0.3)
Tax expense	(5.2)	(7.6)
Profit after tax	37.0	30.0
Dividends received from joint ventures	32.5	34.8

## Exceptional items

Exceptional items are non-recurring items of financial performance that are outside normal operations and are material to the results of the Group either by virtue of size or nature. As such, the items set out below require separate disclosure on the face of the income statement to assist in the understanding of the underlying performance of the Group.

Exceptional items have arisen on both the continuing and discontinued operations of the Group. Exceptional items arising on discontinued operations are disclosed on the face of the Consolidated Income Statement within the profit or loss attributable to discontinued operations. Those arising on continuing operations are disclosed on the face of the Consolidated Income Statement within exceptional operating items.

For the year ended 31 December	2015 £m	2014 £m
<b>Exceptional items arising on continuing operations</b>		
Exceptional loss on disposal of subsidiaries and operations	(2.6)	(2.3)
<b>Other exceptional operating items</b>		
Impairment of goodwill	(87.5)	(181.2)
Restructuring costs	(19.7)	(24.0)
Aborted transaction costs	(1.7)	-
Costs associated with UK Government review	(1.2)	(9.2)
UK frontline clinical health contract provisions	2.8	(16.1)
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)
<b>Other exceptional operating items</b>	<b>(107.3)</b>	<b>(323.4)</b>
<b>Exceptional operating items arising on continuing operations</b>	<b>(109.9)</b>	<b>(325.7)</b>
<b>Exceptional items arising on discontinued operations</b>		
Loss on disposal of discontinued operations prior to reserve recycling	(45.6)	(3.1)
Recycling of gains in hedging and translation reserves	51.0	-
Exceptional gain/(loss) on disposal	5.4	(3.1)
<b>Other exceptional operating items</b>		
Restructuring costs	(2.2)	(8.7)
Impairment of goodwill	(65.9)	(284.8)
Impairment of other assets transferred to held for sale	(14.9)	(39.2)
<b>Other exceptional operating items</b>	<b>(83.0)</b>	<b>(332.7)</b>
<b>Exceptional operating items arising on discontinued operations</b>	<b>(77.6)</b>	<b>(335.8)</b>
<b>Exceptional items arising on continuing and discontinued operations</b>	<b>(187.5)</b>	<b>(661.5)</b>

## Exceptional loss on disposal of businesses arising on continuing operations

The total exceptional loss on disposal of businesses in 2015, excluding profits or losses arising on the disposal of business classified as discontinued operations, was £2.6m (2014: £2.3m). In May 2015 the Group completed the sale of its Great Southern Rail (GSR) business in Australia for a cash consideration of £2.9m, resulting in a loss on disposal of £2.8m. The transaction was part of the disposal programme of businesses identified as not being core to Serco's future strategy, as announced initially in November 2014. In addition, in January 2015, the Group disposed of its National Physical Laboratory (NPL) business for a consideration of £12.1m, with no gain or loss on disposal. AgPlus was a subsidiary of NPL which was retained and sold separately with a gain of £0.5m being recognised. In June 2015, the Group also disposed of its Serco India Private Limited business, representing the Group's frontline public services operations in the Indian transport sector, for a consideration of £1.0m, resulting in a loss on disposal of £0.8m. All of these businesses were classified as held for sale as at 31 December 2014. In 2015 there was also an exceptional gain of £0.5m recognised relating to transactions completed in prior periods.



## Other exceptional operating items arising on continuing operations

Goodwill is tested for impairment annually or more frequently if there are indications that there is a risk that it could be impaired. The recoverable amount of each Cash Generating Unit (CGU) is based on value in use calculations derived from forecast cash flows based on past experience, adjusted to reflect market trends, economic conditions, the Group's strategy and key risks. These forecasts include an estimated level of new business wins and contract attrition and an assumption that the final year forecast continues into perpetuity at a CGU-specific terminal growth rate. The terminal growth rates are provided by external sources and are based on long-term inflation rates of the geographic market in which the CGUs operate and therefore do not exceed the average long-term growth rates forecast for the individual markets.

In 2015, we conducted impairment testing of our CGUs that has identified a non-cash exceptional impairment to continuing operations of £87.5m (2014: £181.2m), primarily due to a higher level of contract attrition than previously forecast and the associated impact on future cash flows. The impairments arose in the following CGUs.

For the year ended 31 December	2015 £m	2014 £m
Local & Regional Government: Direct Services and Europe	-	(57.6)
Local & Regional Government: UK Health	-	(22.9)
Americas	<b>(87.5)</b>	(100.7)
<b>Total exceptional goodwill impairment charge</b>	<b>(87.5)</b>	(181.2)

In 2015, a charge of £19.7m (2014: £24.0m) arose in relation to the restructuring programme resulting from the Strategy Review. This included redundancy payments, provisions, external advisory fees and other incremental costs.

The disposal of the Environmental and Leisure businesses was aborted in the year and as a result the one-off costs of £1.7m associated with the aborted sale have been treated as exceptional.

In 2015, there were exceptional costs totalling £1.2m associated with the UK Government reviews, this reflected external costs incurred and included external adviser costs related to these reviews. In 2014 costs totalling £9.2m were incurred associated with both the UK Government reviews and the programme of corporate renewal.

In 2015, the exit of the UK Frontline Clinical Health contracts was completed with the Cornwall Out of Hours contract being exited in May and the Suffolk Community Healthcare contract ended in September. On completion of the contract exits, existing OCPs of £2.8m that are no longer required were released and recorded as a credit in exceptional items.

In November 2014 the Group agreed to settle a dispute with the Trustees of the Docklands Light Railway (DLR) Pension Scheme over the extent of its liability to fund the deficit on the scheme. The settlement resulted in a total exceptional charge inclusive of costs of £35.6m, consisting of the full and final settlement amount of £33.0m and costs of £2.6m. 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 an exceptional provision of £20.1m was recognised for legal claims made against Serco for commercial disputes. This provision was based on legal advice received by the Company. There have been no further charges in 2015 in relation to these disputes.

In 2014 an impairment review was performed on the Australian rail business, Great Southern Rail (GSR), resulting in a charge totalling £37.2m. This consisted of an impairment of £23.1m to reduce the carrying value of its net assets to the estimated recoverable amount and a charge of £14.1m in relation to the break costs of leases relating to the business. The GSR business was exited in May 2015, with the loss on disposal of £2.8m, included within loss on disposal of businesses.

### Exceptional profit or loss on disposal of discontinued operations

Completion of the sale of the majority of the offshore private sector BPO business occurred on 31 December 2015. During the year the Group also disposed of businesses in relation to the predominantly UK onshore private sector BPO business. The net assets at the date of disposal of discontinued operations were:

	Offshore £m	UK onshore £m	Total £m
Goodwill	156.7	-	156.7
Other intangible assets	30.4	-	30.4
Property, plant and equipment	35.1	0.8	35.9
Trade and other receivables	82.8	0.5	83.3
Deferred tax assets	3.1	-	3.1
Cash and cash equivalents	31.0	0.8	31.8
Trade and other payables	(51.5)	(0.5)	(52.0)
Obligations under finance leases	(1.1)	(0.1)	(1.2)
Provisions	(16.8)	(4.9)	(21.7)
Corporation tax liabilities	(26.0)	(0.3)	(26.3)
Deferred tax liabilities	(5.1)	-	(5.1)
Minority interest disposed	0.4	-	0.4
<b>Net assets/(liabilities) disposed</b>	<b>239.0</b>	<b>(3.7)</b>	<b>235.3</b>

The loss on disposal is calculated as follows:

	Offshore £m	UK onshore £m	Total £m
Cash consideration	212.8	(1.6)	211.2
Face value of loan note received	30.0	-	30.0
<b>Gross consideration</b>	<b>242.8</b>	<b>(1.6)</b>	<b>241.2</b>
Loan note fair value adjustment	(10.5)	-	(10.5)
Indemnities provided	(30.7)	(2.3)	(33.0)
<b>Net consideration</b>	<b>201.6</b>	<b>(3.9)</b>	<b>197.7</b>
Less:			
Net (assets)/liabilities disposed	(239.0)	3.7	(235.3)
Disposal related costs	(7.5)	(0.5)	(8.0)
<b>Loss on disposal of discontinued operations prior to reserve recycling</b>	<b>(44.9)</b>	<b>(0.7)</b>	<b>(45.6)</b>
Recycling of gains on translation of foreign operations	43.0	-	43.0
Recycling of gains on hedged derivative financial instruments from reserves	8.0	-	8.0
<b>Exceptional gain/(loss) on disposal</b>	<b>6.1</b>	<b>(0.7)</b>	<b>5.4</b>

The offshore disposal reflects the majority of the offshore BPO operations, which excludes the consideration and net assets related to the smaller but separate disposal transactions of operations in the Middle East that are subject to separate completion in 2016. As at 31 December 2015 the net assets relating to the Middle East were £15.0m and expected consideration in respect of the disposal was £15.0m.

The UK onshore business is being sold or transferred as components to various different purchasers. One element was sold in the year and the elements remaining at the year-end are expected to be sold or transferred during 2016.

### Other exceptional operating items arising on discontinued operations

In 2015 a charge of £2.2m (2014: £8.7m) has arisen in discontinued operations in relation to the restructuring programme resulting from the Strategy Review.

During 2015, an impairment test of the Global Services business was conducted as a result of the offers received in the year together with movements of the assets held for sale since the end of 2014. The impairment testing identified a non cash exceptional impairment of goodwill relating to discontinued operations of £65.9m (2014: £284.8m) as a result of a reduction in the carrying value of net assets due to a decrease in the estimated

recoverable amount of the CGU; this was recorded at the half year. Assets other than goodwill have also been impaired by a total of £14.9m (2014: £39.2m). The impairment of goodwill relates primarily to the offshore Global Services business, the majority of which was disposed of on 31 December 2015, and the other asset impairments to the UK onshore business.

### Exceptional finance costs

In December 2014, agreement was reached for the Group to defer its December 2014 covenant test until 31 May 2015. As a result, costs were incurred in 2015 to preserve the existing finance facilities. In addition, payments were made to the US Private Placement (USPP) Noteholders as a result of early settlement following the Group refinancing. Total charges of £32.8m have been treated as exceptional items as they are outside of the normal financing arrangements of the Group and are significant in size.

### Other finance costs and investment income on continuing and discontinuing operations

Investment income of £8.2m (2014: £6.2m) principally relates to interest earned on deposits during the period of £3.2m and interest accruing on net retirement benefit assets of £4.9m.

Other finance costs of £40.2m (2014: £42.9m) principally relate to interest incurred on the USPP loans and the Revolving Credit Facility (£24.7m), facility fees and other charges (£7.2m) and the movement in discount on provisions (£5.6m).

In total, pre-exceptional net finance costs were £32.0m (2014: £36.7m).

### Taxation on continuing and discontinuing operations

Our tax strategy is to manage all taxes to ensure that we pay the appropriate amount in the countries in which we operate, while both respecting applicable tax legislation and utilising appropriate legislative reliefs. Our strategy is aligned with the Group's 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 tax professionals who are aligned with our businesses and who work closely with local tax authorities and local advisers.

#### *Tax charge*

In 2015, we recognised a tax charge of £36.7m on a pre-tax and pre-exceptional profit of £100.7m representing an effective tax rate of 36.4%. The tax charge on an underlying basis, reflecting Underlying Trading Profit of £96.0m less pre-exceptional net finance costs of £32.0m, was £30.5m, representing an effective tax rate of 47.7%.

A £3.1m tax credit was also recognised on exceptional losses of £220.3m. The principal reasons for the absence of a tax credit on these exceptional costs is that no UK deferred tax asset is being recognised in respect of UK costs and no tax deduction is available for the impairment of goodwill in any territory. The credit of £3.1m represents tax relief on restructuring costs in overseas territories and the benefit of a tax credit from losses sold to joint venture partners.

The principal reasons why the effective tax rates are higher than the UK standard corporation tax rate of 20.25% are due to higher rates of tax on profits arising on our international operations, together with the absence of any deferred tax credit for losses incurred in the UK (which includes the result of UK divisions, the majority of corporate costs and certain interest costs). The increase in the effective tax rate has been partially offset by a tax credit on the recognition of additional deferred tax assets that were not previously recognised on provisions in Australia.

Our tax charge in future years will continue to be materially impacted by our accounting for UK deferred taxes. To the extent that future UK tax losses are not recognised, our effective tax rate will be higher than prevailing standard corporation tax rates as we will not be able to recognise the associated tax benefits arising. To the extent that our existing UK tax losses are subsequently recognised or utilised, our effective rate will be impacted by the associated tax benefit and will reduce accordingly.

### *Contingent tax assets*

At 31 December 2015, the Group has gross estimated unrecognised deferred tax assets of £1.05bn (£195m net), which are potentially available to offset against future taxable profits. These principally relate to tax losses of £890m. Of these tax losses, £761m arise in the UK business (net £137m) - £584m arising in Serco Limited, the Group's principal UK trading entity; the remaining £177m of tax losses arise in other UK group companies. Of the net £137m of UK tax assets in respect of losses, only £10.5m is recognised on the balance sheet on the basis of forecast utilisation against future taxable profits, with the remaining £126.5m being a contingent asset not recognised.

### *Taxes paid*

Net corporate income tax of £9.4m was paid during the year, relating primarily to our operations in Americas (£2.2m), India (£6.7m), Middle East (£1.3m), Europe (£3.6m) and offset by tax refunds arising in AsPac (£4.4m) in respect of prior years. The Group's UK operations have been loss making overall and accordingly no tax payments have been due. During the year the Group has transferred tax losses to its profitable joint ventures in return for cash payments from the joint ventures of £6.7m, resulting in an overall tax paid figure in our cash flow of £2.7m.

### **Dividend**

As indicated in March, the Board is not recommending the payment of a dividend in respect of the 2015 financial year. The Board is committed to resuming dividend payments 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 financial leverage, together with the requirement to maintain an appropriate level of dividend cover and the market outlook at the time.

### **Share count and earnings per share**

The equity placing conducted in May 2014 and Rights Issue in April 2015 increased the weighted average number of shares for earnings per share ('EPS') purposes to 986.5m (2014: 655.1m). The annualising effect of the Rights Issue will further increase the weighted average number of shares to approximately 1,099m for 2016.

EPS before exceptional items from both continuing and discontinuing operations was 6.55p per share; including the impact of exceptional items there was a loss of 15.47p per share.

Underlying EPS was 3.44p per share. This measure reflects the Underlying Trading Profit £96.0m and deducts pre-exceptional net finance costs (including those for discontinued operations) and related tax effects.

### **Cash flow and reconciliation to net debt**

The table below shows the operating loss and Free Cash Flow reconciled to movements in net debt. Free Cash Flow is the cash flow from subsidiaries and dividends received from joint ventures and is stated before exceptional items which are considered non-recurring in nature. Free Cash Flow for 2015 was an outflow of £16.2m compared to an inflow of £62.2m in 2014.

Operating cash flow (before movements in working capital, exceptional items and tax) was £82.5m, a reduction of £3.9m from the prior year; included within this are movements in provisions that in the year predominantly reflect the cash outflows in relation to onerous contracts whilst in the prior year the movement reflects the establishing of provisions for onerous contracts identified following the 2014 Contract and Balance Sheet Review. The year-on-year decrease in other non-cash movements is principally due to the 2014 impairment of working capital items that arose following the Contract and Balance Sheet Review.

2015 free cash flow reflects a £22.6m outflow in working capital from the continued normalisation of balances at the end of the statutory period compared to the average for the period, tax returning to a paid position compared with a small net refund received in 2014 and higher net purchases of tangible and intangibles assets of £36.0m.

The impact of the Contract and Balance Sheet Review was mostly non-cash in nature in 2014, relating principally to provision movements and other impairments.

	2015	2014
	£m	£m
<b>Cash Flow: Year ended 31 December</b>		
Operating loss on continuing operations	(3.7)	(952.5)
Operating loss on discontinued operations	(51.1)	(364.8)
Less: exceptional items	187.5	661.5
Operating profit/(loss) before exceptional items on continuing and discontinued operations	132.7	(655.8)
Less: profit from joint ventures	(37.0)	(30.0)
Movement in provisions	(116.0)	472.6
Other non-cash movements	102.8	299.6
<b>Operating cash inflow before movements in working capital, exceptional items and tax</b>	<b>82.5</b>	86.4
Working capital movements	(22.6)	17.0
Tax (paid)/received	(2.7)	0.6
Non-cash R&D expenditure	(0.7)	(0.5)
<b>Cash flow from operating activities before exceptional items</b>	<b>56.5</b>	103.5
Dividends from joint ventures	32.5	34.8
Interest received	3.4	2.7
Interest paid	(36.1)	(42.3)
Purchase of intangible and tangible assets net of proceeds from disposals	(72.5)	(36.5)
<b>Free Cash Flow</b>	<b>(16.2)</b>	62.2
Net disposal/(acquisition) of subsidiaries	184.9	(4.6)
Costs of equity rights issue	-	(4.1)
Proceeds from rights issue and share placement	530.3	156.3
Purchase of own shares net of share option proceeds	4.4	2.3
Other movements on investment balances	(1.3)	(3.5)
Capitalisation and amortisation of loan costs	(0.6)	3.6
Impairment of loan receivable	-	(4.6)
Non-recourse loan disposals, repayments and advances	24.0	(6.8)
New, acquired and disposed finance leases	0.5	(13.7)
Exceptional items	(88.4)	(40.4)
Dividends paid	-	(53.1)
Foreign exchange loss on net debt	(32.9)	(30.4)
<b>Movement in net debt including assets and liabilities held for sale</b>	<b>604.7</b>	63.2
Asset held for sale movement in net debt	(44.2)	39.5
<b>Net debt at 1 January</b>	<b>(642.7)</b>	(745.4)
<b>Net debt at 31 December</b>	<b>(82.2)</b>	(642.7)
Net debt at 1 January including assets and liabilities held for sale	(682.2)	(745.4)
<b>Net debt at 31 December including assets and liabilities held for sale</b>	<b>(77.5)</b>	(682.2)

Average net debt for the year ended 31 December 2015, calculated on a daily basis, was £454.8m a reduction of (£323.8m) from the 2014 average net debt of £778.6m. The reduction in net debt was predominantly due to the Rights Issue and proceeds from the disposal of the offshore private sector BPO business.

The table below provides an analysis of trading cash flow and provides the pre-interest and pre-tax cash flows equivalent to Underlying Trading Profit. This is derived from the cash flow from operating activities excluding tax items and is shown after net capital expenditure and after dividends received from joint ventures.

The percentage conversion of Underlying Trading Profit into trading cash flow is also provided in this table and this is a measure of the efficiency of the business in terms of converting profit into cash before taking account of the impact of interest, tax and exceptional items. This measure is impacted by provisions related to onerous contracts, and we would expect it to be impacted in future periods by the expected utilisation of OCPs.



Trading cash flow: Year ended 31 December	2015 £m	2014 £m
<b>Free cash flow from operating activities before exceptional items</b>	<b>(16.2)</b>	62.2
Add back:		
Tax paid/(received)	3.4	(0.1)
Interest received	(3.4)	(2.7)
Interest paid	36.1	42.3
<b>Trading Cash Flow</b>	<b>19.9</b>	101.7
<b>Underlying Trading Profit</b>	<b>96.0</b>	<b>113.2</b>
<b>Underlying Trading Profit cash conversion</b>	<b>20.7%</b>	<b>89.8%</b>

The Underlying Trading Profit conversion into trading cash flow was 20.7%. This was due primarily to the cash outflows on provisions movement, including assets held for sale £116.0m, the outflow of working capital of £22.6m in the year from the continued normalisation of balances at the end of the statutory period compared to the average for the period, and from the net purchase of tangible and intangible assets £72.5m. These reductions to cash were largely offset by the impact of depreciation, amortisation and impairments during the year, including the Underlying Trading Profit benefit relating to assets held for sale, £83.2m, the cash inflows arising from one-time items and the collection of bad debts provided for under the Contract and Balance Sheet review £18.4m and other non-cash items £31.3m.

### Analysis of net debt

Net debt, including assets held for sale, reduced to £77.5m (2014: £682.8m), predominately due to the proceeds received from the Rights Issue and from the disposal of the offshore private sector BPO business.

	2015 As reported £m	2015 Assets and liabilities held for sale adjustment £m	2015 Including assets and liabilities held for sale £m
As at 31 December			
Cash and cash equivalents	323.6	5.2	328.8
Loans receivable	19.9	-	19.9
Other loans	(381.9)	-	(381.9)
Obligations under finance leases	(43.8)	(0.5)	(44.3)
<b>Recourse net debt</b>	<b>(82.2)</b>	<b>4.7</b>	<b>(77.5)</b>
Non-recourse debt	-	-	-
<b>Net debt</b>	<b>(82.2)</b>	<b>4.7</b>	<b>(77.5)</b>

	2014 As reported £m	2014 Assets and liabilities held for sale adjustment £m	2014 Including assets and liabilities held for sale £m
As at 31 December			
Cash and cash equivalents	180.1	22.4	202.5
Loans receivable	1.0	-	1.0
Other loans	(797.3)	(0.8)	(798.1)
Obligations under finance leases	(26.5)	(37.1)	(63.6)
<b>Recourse net debt</b>	<b>(642.7)</b>	<b>(15.5)</b>	<b>(658.2)</b>
Non-recourse debt	-	(24.0)	(24.0)
<b>Net debt</b>	<b>(642.7)</b>	<b>(39.5)</b>	<b>(682.2)</b>

## Treasury operations and risk management

The Group's operations expose it to a variety of financial risks that include liquidity, the effects of changes in foreign currency exchange rates, interest rates and credit risk. The Group has a centralised treasury function whose principal role is to ensure that adequate liquidity is available to meet the Group's funding requirements as they arise and that the financial risk arising from the Group's underlying operations is effectively identified and managed.

Treasury operations are conducted in accordance with policies and procedures approved by the Board and are reviewed annually. Financial instruments are only executed for hedging purposes - speculation is not permitted. A monthly report is provided to senior management outlining performance against the treasury policy and the treasury function is subject to periodic internal review.

### *Liquidity and funding*

As at 31 December 2015, the Group had committed funding of £855m, comprising a £480m revolving credit facility with a syndicate of banks and £375m of private placement notes. In addition the Group had a receivables financing facility of £30m. The principal financial covenants attaching to these facilities are that the ratio of net debt to EBITDA should not exceed 3.5x and the ratio of EBITDA to interest expense should be greater than 3.0x.

In April 2015 the Group raised gross proceeds of £555m from the Rights Issue, of which £450m was used to reduce gross indebtedness (see *Rights Issue, debt refinancing and covenants* below).

Following the disposal of the majority of the offshore private sector BPO operations, the Group was required to offer the net disposal proceeds to the debt holders in prepayment. Two thirds of the proceeds were offered to private placement note holders at par and one third to repay any outstanding drawdowns on the revolving credit facility (nil outstanding at 31 December 2015). As a result of this process, £113m of private placement notes were repaid on 16 February 2016, leaving £262m of private placement notes in issue at that date.

### *Interest rate risk*

Given the nature of the Group's business, we have a preference for fixed rate debt to reduce the volatility of net finance costs. Our treasury policies require us to maintain a minimum proportion of fixed rate debt as a proportion of overall net debt and for this proportion to increase as the ratio of EBITDA to interest expense falls. As at 31 December 2015, more than 100% of the Group's net debt was at fixed rates. Interest on the revolving credit facility is at floating rate, however it was undrawn.

### *Foreign exchange risk*

The Group is subject to currency exposure on the translation to GBP of its net investments in overseas subsidiaries. The Group manages this risk where appropriate by borrowing in the same currency as those investments. Group borrowings are predominantly denominated in GBP and USD.

The Group manages its currency flows to minimise foreign exchange risk arising on transactions denominated in foreign currencies and uses forward contracts where appropriate to hedge net currency flows.

### *Credit risk*

Cash deposits and in-the-money financial instruments give rise to credit risk on the amounts due from counterparties. The Group manages this risk by adhering to counterparty exposure limits based on external credit ratings of the relevant counterparty.

## Rights Issue, debt refinancing and covenants

The Group announced in November 2014 plans for new equity to be raised through a Rights Issue and for the proceeds to be used primarily to reduce the Group's indebtedness. This was launched on 12 March 2015 and received shareholder approval on 30 March 2015. The equity Rights Issue successfully completed in April 2015 raising approximately £555m of gross proceeds (£530m net after expenses), with trading in new shares commencing on 17 April 2015 and 549,265,547 new shares being issued.

On 30 April 2015, the Group concluded a refinancing with its lending banks and private placement noteholders. This included the reduction of gross indebtedness by £450m. The Group's committed revolving credit facility was reduced in size from £730m to £480m and the maturity date extended by two years to April 2019. Financial covenants across the Group's funding arrangements are unchanged, reflecting the strengthening of the Group's balance sheet by the Rights Issue. Fees and expenses relating to the repayment of the Group's borrowings and amendments to the existing finance agreements were £33m, and these included a premium of £25m on the early settlement of private placement notes. These expenses have been treated as exceptional finance costs. In accordance with the amended terms of Serco Group plc's borrowing facilities, compliance certificates for the year to 31 December 2014 and 12 months to 30 June 2015 were submitted to its lenders in May and September 2015 respectively, and these showed the Group complied with the financial covenants.

For covenant purposes the definition of Consolidated Total Net Borrowings (CTNB) 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 EBITDA is the twelve month operating profit of the business before exceptional items, deducting profits from joint ventures and after adding back depreciation, intangible amortisation, share-based payment charges and dividends received from joint ventures. The covenant test for 31 December 2014 was deferred until 31 May 2015. The covenant definition of EBITDA for 31 December 2014 and the 12 months to 30 June 2015 was amended to exclude the impact of charges arising from the Contract and Balance Sheet Review whilst CTNB was calculated after the proceeds less underwriting charges from the equity Rights Issue. The covenant test for the years ended 31 December 2014 and 2015 are shown below.

	2015 £m	2014 £m
<b>As at 31 December</b>		
Operating (loss)/profit before exceptional items	132.7	(655.8)
Less: Joint venture post-tax profits	(37.0)	(30.0)
Add: Dividends from joint ventures	32.5	34.8
Amortisation of other intangible assets	40.5	38.7
Depreciation of property, plant and equipment	28.9	41.8
Impairment of property, plant and equipment	2.1	-
Share-based payment expense	9.8	5.4
Balance sheet and contract write-downs in 2014	-	757.6
<b>EBITDA per covenant</b>	<b>209.5</b>	<b>192.5</b>
Net finance costs	32.0	36.7
Other adjustments	(0.6)	0.2
<b>Net finance costs per covenant</b>	<b>31.4</b>	<b>36.9</b>
Recourse net debt (including assets and liabilities held for sale)	77.5	658.2
Encumbered cash and other items	14.2	-
Proceeds from rights issue less underwriting charge	-	(543.7)
<b>Consolidated Total Net Borrowings (CTNB)</b>	<b>91.7</b>	<b>114.5</b>
<b>Covenant CTNB/EBITDA (not to exceed 3.5x)</b>	<b>0.44x</b>	<b>0.59x</b>
<b>Covenant EBITDA / Net finance costs (at least 3.0x)</b>	<b>6.67x</b>	<b>5.22x</b>

## Balance sheet summary

The balance sheet at 31 December 2015 is summarised below showing the impact of the assets and liabilities held for sale for each line item. At the year end the balance sheet had net assets of £282.1m, a movement of £348.3m from the 2014 closing net liabilities position of £66.2m. The movement is mainly due to the funds raised through the Rights Issue and a reduction in provisions due predominantly to utilisation, partially offset by the impairment to goodwill. The balance sheet is summarised below:

As at 31 December	2015	2015	2015	2014	2014	2014
	Including assets held for sale	Adjustment for assets held for sale	As reported	Including assets held for sale	Adjustment for assets held for sale	As reported
	£m	£m	£m	£m	£m	£m
<b>Non-current assets</b>						
Goodwill	517.7	(7.8)	509.9	820.6	(279.1)	541.5
Other intangible assets	90.2	(0.4)	89.8	123.8	(5.0)	118.8
Property, plant and equipment	74.1	(0.9)	73.2	132.9	(94.5)	38.4
Other non-current assets	72.0	(0.2)	71.8	73.5	(26.8)	46.7
Deferred tax assets	42.2	-	42.2	48.4	(11.0)	37.4
Retirement benefit assets	127.1	-	127.1	143.9	-	143.9
	923.3	(9.3)	914.0	1,343.1	(416.4)	926.7
<b>Current assets</b>						
Inventories	26.4	-	26.4	33.9	(2.7)	31.2
Trade and other current assets	549.7	(20.6)	529.1	623.7	(119.0)	504.7
Current tax	11.3	(4.7)	6.6	20.7	(4.2)	16.5
Cash and cash equivalents	328.8	(5.2)	323.6	202.5	(22.4)	180.1
	916.2	(30.5)	885.7	880.8	(148.3)	732.5
Assets classified as held for sale	-	39.8	39.8	-	564.7	564.7
<b>Total current assets</b>	916.2	9.3	925.5	880.8	416.4	1,297.2
<b>Total assets</b>	1,839.5	-	1,839.5	2,223.9	-	2,223.9
<b>Current liabilities</b>						
Trade and other current liabilities	(558.6)	7.4	(551.2)	(695.7)	96.1	(599.6)
Current tax liabilities	(14.3)	0.1	(14.2)	(34.4)	21.8	(12.6)
Provisions	(191.2)	22.6	(168.6)	(223.8)	18.1	(205.7)
Obligations under finance leases	(16.3)	0.5	(15.8)	(18.5)	8.9	(9.6)
Loans	(132.2)	-	(132.2)	(48.4)	4.5	(43.9)
	(912.6)	30.6	(882.0)	(1,020.8)	149.4	(871.4)
Amounts classified as held for sale	-	(32.5)	(32.5)	-	(219.9)	(219.9)
<b>Total current liabilities</b>	(912.6)	(1.9)	(914.5)	(1,020.8)	(70.5)	(1,091.3)
<b>Non-current liabilities</b>						
Other non-current liabilities	(18.3)	-	(18.3)	(37.3)	7.6	(29.7)
Deferred tax liabilities	(22.3)	-	(22.3)	(11.7)	2.5	(9.2)
Provisions	(315.0)	1.9	(313.1)	(384.1)	11.9	(372.2)
Obligations under finance leases	(28.0)	-	(28.0)	(45.1)	28.2	(16.9)
Loans	(249.7)	-	(249.7)	(773.7)	20.3	(753.4)
Retirement benefit obligations	(11.5)	-	(11.5)	(17.4)	-	(17.4)
	(644.8)	1.9	(642.9)	(1,269.3)	70.5	(1,198.8)
<b>Total liabilities</b>	(1,557.4)	-	(1,557.4)	(2,290.1)	-	(2,290.1)
<b>Net assets/(liabilities)</b>	282.1	-	282.1	(66.2)	-	(66.2)

## Provisions

The total of current and non-current provisions, excluding provisions related to businesses held for sale, has decreased by £96.2m since 31 December 2014, the majority of which relates to a reduction in contract provisions as a result of the utilisation and release of provisions against losses on onerous contracts, offset by new or additional onerous contract provision charges made in the year. Movements in contract provisions, including those related to businesses held for sale since the 31 December 2014 balance sheet date, are as follows:

	Onerous Contract Provisions £m	Other Contract Provisions £m	Total contract provisions including assets held for sale £m	Held for sale adjustment £m	Total contract provisions as reported £m
At 31 December 2014	(447.1)	(4.9)	<b>(452.0)</b>	21.6	<b>(430.4)</b>
Charged to income statement	(91.8)	(10.1)	<b>(101.9)</b>	12.8	<b>(89.1)</b>
Released to income statement	88.8	2.7	<b>91.5</b>	(1.3)	<b>90.2</b>
Released to income statement (exceptional)	2.8	-	<b>2.8</b>	-	<b>2.8</b>
Utilised during the year	114.1	16.6	<b>130.7</b>	(24.7)	<b>106.0</b>
Utilised during the year (exceptional)	10.8	-	<b>10.8</b>	-	<b>10.8</b>
Unwinding of discount	(5.5)	-	<b>(5.5)</b>	-	<b>(5.5)</b>
Disposals	6.5	0.4	<b>6.9</b>	(6.9)	-
FX	8.2	0.3	<b>8.5</b>	-	<b>8.5</b>
Transfer to trade payables	-	(4.5)	<b>(4.5)</b>	4.5	-
Assets held for sale	-	-	-	4.9	<b>4.9</b>
Reclassifications	13.3	(13.6)	<b>(0.3)</b>	-	<b>(0.3)</b>
<b>At 31 December 2015</b>	<b>(299.9)</b>	<b>(13.1)</b>	<b>(313.0)</b>	<b>10.9</b>	<b>(302.1)</b>

Onerous Contract Provisions (OCPs) arising from the Contract and Balance Sheet Review in 2014 accounted for £447.1m of the 31 December 2014 contract provisions balance shown above. A full assessment of the forecasts that form the basis of the OCPs is conducted annually as part of the budgeting process.

In 2015, additional charges have been made in respect of future forecast losses on onerous contracts of £91.8m. This increase related to revisions to existing contracts of £53.1m and new provisions raised on contracts of £38.7m. New contract provisions include charges of £34.0m in respect of the Lincolnshire contract, details of which are provided below. In 2015, releases to the income statement from OCPs were £91.6m, including a release of £62.7m resulting from the renegotiation completed in November 2015 of our contract to operate and maintain a fleet of patrol boats for the Royal Australian Navy. This contract was the single largest OCP charged in 2014. Utilisation of OCPs in 2015 was £124.9m; of this £10.8m was utilised against OCPs recorded as exceptional items. The OCPs arising as exceptional items relate solely to contracts within the UK Frontline Clinical Health sector following the decision in 2013 to exit this sector; this exit was completed in September 2015 when the Suffolk Community Healthcare contract ended.

Below is an update for the largest OCP contracts following the reassessment conducted as part of the annual budget process:

### *Armidale Class Patrol Boats (ACPB)*

The ACPB contract relates to the operations and maintenance of 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. Serco's key obligation is to have the fleet available for operations for a fixed number of days a year.

In November 2015, agreement was reached with the Australian Government customer to amend the terms of the ACPB contract. The main changes agreed within the amendment are for an improved service regime under an enhanced maintenance and remediation scope of works and schedule, for Serco to provide maintenance and remediation work on an agreed cost recovery basis subject to strict expenditure caps and audit processes, and that the contract will end in June 2017 rather than running through to 2022. Furthermore, under the terms of the Settlement and Amendment Deed, both parties agreed to a mutual release of claims they may have had against



each other prior to the point of contract amendment. As a result of the agreement the OCP forecast has been reassessed resulting in a release of £62.7m.

#### *Commercial and Operational Managers Procuring Asylum Support Services (COMPASS)*

The COMPASS contract with the UK Home Office 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; the North West, comprising fourteen Local Authority areas; and Scotland and Northern Ireland. The contract runs to December 2017, with a further extension of up to two years at the option of the customer.

In 2015, the numbers of service users continued to be volatile, however for the year as a whole utilisation of the onerous contract provision was in line with the forecast expectation. The forecasts for the contract have been reassessed with the result being that the remaining balance of the provisions as at 31 December 2015 of £89.1m, is considered sufficient to cover the anticipated losses over the remaining contract term. The final outcome over the contract life will be heavily dependent on the future number of asylum seekers, the volatility of numbers and our ability to find suitable accommodation.

#### *Future Provision of Marine Services (FPMS)*

The FPMS contract that commenced in 2007, which has a 15-year duration, provides marine support services to the UK Ministry of Defence (MOD) dockyard ports of Portsmouth, Plymouth and Faslane as well as support to military exercises and training to the Raasay Ranges.

In 2015 the contract has performed better than expected due largely to lower costs in respect of backfill vessel bookings and dockings, and the revenues from additional taskings from the customer. The forecasts for the contract have been reassessed with the result being a net release of £2.1m due to both the favourable performance in the year and savings expected in future years from a voluntary redundancy programme run in 2015; partially offset by lower RPI inflation on the contract than previously forecast and costs relating to the purchase of a new vessel.

#### *Prisoner Escort and Custody Services (PECS)*

The contract provides prisoner transportation between courts and prisons and for the management of prisoner welfare when at court for the Ministry of Justice (MOJ). It was awarded in 2011 and runs for seven years.

In 2015, utilisation of the OCP was slightly higher than originally expected. The contract is operated with a very challenging KPI regime and in order to meet these KPIs we require a larger workforce than previous envisaged, along with the associated recruitment, training and contract management costs; the forecast for the contract has been reassessed with the result being an increase to the OCP of £11.3m. In the case of this contract, we have judged that it is unlikely that the customer will wish to extend this contract beyond its minimum term in 2018 on the current basis. If this judgement proves to be incorrect, further OCP charges may be required.

#### *HMP Ashfield*

The HMP Ashfield PFI contract commenced in 1999 and runs through to 2024. In 2013 the operational role of Ashfield changed from a Young Offender Institution to an adult male sex offenders' prison, resulting in a changed cost base. Since the change of operational role of the prison the MoJ has imposed a level of pricing that we dispute, and which would result in substantial losses over the remaining life of the contract. Discussions with the MoJ around re-pricing proposals are expected to conclude in 2016.

In 2015 performance has been slightly better than expected due to the benefit of in year cost savings. The forecast for the contract has been reassessed with the result being a release of £8.7m due to the expected future ongoing benefits of the cost reductions and efficiencies delivered in 2015.

#### *Lincolnshire County Council*

The Lincolnshire contract commenced in April 2014 with a transition phase expected to complete in March 2015 before full operational services were due to commence in April 2015. The contract is for an initial five year term, commencing April 2015, with a further two extension periods of two years each exercisable at the customer's option.

The contract scope is to provide the following outsourced services: information management and technology services and support; back office services including finance, HR and payroll services; and customer services acting as the internal and external point of contact for Lincolnshire County Council and all Council services.

In 2015 the contract had difficulties implementing a new Enterprise Resource Planning (ERP) system and resolving these issues has been more complex and protracted than originally anticipated. While we are making good progress, the full implementation of the new system is not expected until later this year. The delay has impacted our ability to make the wider service transformation changes needed to make the contract more efficient and also led to operational service difficulties, triggering service credits. The issues have also resulted in the requirement to increase and maintain additional management and support resources on the contract to remediate the problems faced.

As a result of these factors a charge totalling £34.0m was taken in 2015, comprising a provision for future losses over the remaining term of the contract. In 2015 £5.3m of the provision was utilised against the impairment of assets. The in-year losses incurred on the contract, of £5.2m, were recorded within Underlying Trading Profit.

The OCPs referred to above account for 76% of the total OCP balance as at 31 December 2015.

Other OCP movements in the year occurred across multiple sectors and geographies in which Serco operates and at 31 December 2015 there were no other OCPs that have expected cumulative future losses in excess of £15m.

The other movements include additional charges made in the Americas in respect of revised expectations and contract exits, additional charges relating to our Hong Kong operations, a further provision on a UK Transport contract and new charges made in respect of a Justice and Immigration contract in AsPac.

#### **Other Contract and Balance Sheet Review items**

In addition to the net charge of £3.0m impacting non-exceptional OCPs, there were other adjustments arising in the period on items identified during the Contract and Balance Sheet Review. These adjustments relate to a number of items including:

- The releases of other provisions and accruals of £26.5m where liabilities have either been settled for less than the amount provided or accrued or have lapsed due to the passage of time.
- The release of allowances for bad debts of £8.5m following the receipt of payments in respect of old outstanding balances.
- Additional charges made in the year of £11.1m to increase provisions or settle further liabilities arising on items identified during the Contract and Balance Sheet Review.

The overall net improvement to Trading Profit from OCPs and other Contract and Balance Sheet Review adjustments was therefore £20.9m in the year.

## Pensions

At 31 December 2015, the net retirement benefit asset included in the balance sheet arising from our defined benefit pension scheme obligations was £94.8m (2014: £101.1m). The pension scheme asset base is £1.3bn (2014: £1.5bn).

<b>Defined Benefit Pension Schemes As at 31 December</b>	<b>2015 £m</b>	2014 £m
Group schemes – non contract specific	<b>115.6</b>	130.5
Contract specific schemes (including franchise adjustment)	-	(4.0)
<b>Net retirement benefit asset</b>	<b>115.6</b>	126.5
Retirement benefit assets	127.1	143.9
Retirement benefit obligations	(11.5)	(17.4)
Deferred tax liabilities	(20.8)	(25.4)
<b>Net retirement benefit asset (after tax)</b>	<b>94.8</b>	101.1
Key assumptions:		
Discount rate	<b>3.80%</b>	3.60%
Inflation rate of increase in pensions in payment	<b>2.0% CPI and 3.0% RPI</b>	2.0% CPI and 3.0% RPI
Life expectancy (years)		
Current pensioners at 65 - male	<b>87.6</b>	87.5
Current pensioners at 65 - female	<b>90.1</b>	90.0
Future pensioners at 65 - male	<b>89.4</b>	89.3
Future pensioners at 65 - female	<b>92.1</b>	92.0

The Group provides a number of occupational defined benefit and defined contribution schemes for its employees. The Group's principal defined benefit pension scheme is the Serco Pension and Life Assurance Scheme (SPLAS) and this had a surplus of £127.1m (2014: £143.9m) calculated under IAS19 rules and is shown in the non-contract specific section of the above table.

The decrease in the surplus was driven principally by a decrease in the value of Liability Driven Investment (LDI) assets in the year. Certain LDI assets were transferred to a separate gilt portfolio in late December to back the longevity swap and those gilts (£50m) still contribute to the Scheme's overall interest rate and inflation protection but do not fall under the classification of LDI. Assets have also been disinvested to meet cashflow requirements (particularly member benefits) over the year.

Of the total net retirement benefit asset of £115.6m (2014: £130.5m), of that related to non-contract specific schemes there was a surplus of £127.1m (2014: £143.9m) in SPLAS, a deficit of £11.1m (2014: £13.1m) in the Serco Section of the Railways Pension Scheme and a deficit of £0.4m (2014: £0.3m) in a small German pension scheme.

The last formal actuarial valuation of SPLAS was undertaken as at 5 April 2012 and showed a deficit of £24m. The estimated actuarial deficit at 31 December 2015 was approximately £28m (2014: deficit £5m). The principal difference between the actuarial valuation and the IAS19 valuation relates to the use of a lower discount rate applied to measure the scheme liabilities for the actuarial basis. The main investments of this scheme are LDI assets 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.

In the period, Serco Caledonian Sleepers Ltd began to trade and the Serco Caledonian Sleeper Shared Cost Section of the Railways Scheme became part of the Group. As at 31 December 2015 there was a nil deficit on the Serco Caledonian Sleeper Shared Cost Section of the Railways Scheme contract after the franchise adjustment.

## Pre-tax ROIC

Pre-tax ROIC is calculated as Trading Profit divided by the Invested Capital balance. Invested Capital represents the assets and liabilities considered to be deployed in delivering the trading performance of the business. Of the total assets on the balance sheet, Invested Capital assets are: goodwill and other intangible assets; property, plant and equipment; interests in joint ventures; trade and other receivables; inventories; and assets classified as held for sale. All other assets are excluded from Invested Capital, being: retirement benefit assets; tax assets; derivative financial instruments; and cash and cash equivalents. Of the total liabilities on the balance sheet, Invested Capital liabilities are trade and other payables and liabilities classified as held for sale. All other liabilities are excluded from Invested Capital being: retirement benefit obligations; tax liabilities; provisions; obligations under finance leases; derivative financial instruments; and loans.

In 2015 Invested Capital is calculated using the two-point average of the opening and closing balance sheets for the year. For 2014 a single point was utilised due to the significant reduction in net assets during the year.

For 2015 the return from Underlying Trading Profit was 11.1%. The composition of Invested Capital and calculation of ROIC is summarised in the table below.

### Invested Capital and Pre-tax ROIC %

As at 31 December	2015 £m	2014 £m
<b>Non-current assets</b>		
Goodwill	509.9	541.5
Other intangible assets	89.8	118.8
Property, plant and equipment	73.2	38.4
Interest in joint ventures	13.8	1.6
Trade and other receivables	50.2	38.1
	<b>736.9</b>	738.4
<b>Current assets</b>		
Inventory	26.4	31.2
Trade and other receivables	519.7	498.8
Assets classified as held for sale	39.8	564.7
	<b>585.9</b>	1,094.7
<b>Total invested capital assets</b>	<b>1,322.8</b>	1,833.1
<b>Current liabilities</b>		
Trade and other payables	(548.8)	(581.9)
Assets classified as held for sale	(32.5)	(219.9)
<b>Non-current liabilities</b>		
Trade and other payables	(18.3)	(29.7)
<b>Total invested capital liabilities</b>	<b>(599.6)</b>	(831.5)
<b>Invested capital</b>	<b>723.2</b>	1,001.6
<b>Trading profit/(loss)</b>	<b>137.6</b>	(632.1)
<b>ROIC %</b>	<b>16.0%</b>	n/a
<b>Underlying Trading Profit</b>	<b>96.0</b>	113.2
<b>ROIC %</b>	<b>11.1%</b>	11.3%

## Profit Forecast

On 11 March 2015, we issued profit forecast guidance based on a number of forecasting assumptions that were published in the Group's Rights Issue Prospectus. Our Trading Profit results for the year, prepared on a comparable basis to the profit forecast assumptions, are consistent with our reported Underlying Trading Profit of £96m. Hence, our results for the year are broadly in line with the published Trading Profit forecast of around £90m.

## Consolidated Income Statement

For the year ended 31 December

	Note	2015 £m	2014 £m
<b>Continuing operations</b>			
Revenue		3,177.0	3,595.7
Cost of sales		(2,849.1)	(3,661.4)
<b>Gross profit/(loss)</b>		<b>327.9</b>	<b>(65.7)</b>
<b>Administrative expenses</b>			
General and administrative expenses		(253.9)	(573.0)
Exceptional loss on disposal of subsidiaries and operations	5,6	(2.6)	(2.3)
Other exceptional operating items	6	(107.3)	(323.4)
Other expenses – amortisation and impairment of intangibles arising on acquisition		(4.8)	(18.1)
Share of profits in joint ventures, net of interest and tax	4	37.0	30.0
<b>Operating loss</b>		<b>(3.7)</b>	<b>(952.5)</b>
<b>Operating profit/(loss) before exceptional items</b>			
		<b>106.2</b>	<b>(626.8)</b>
Investment revenue	7	6.1	4.6
Finance costs	8	(39.0)	(42.6)
Exceptional finance costs	6	(32.8)	-
Total net finance costs		(65.7)	(38.0)
<b>Loss before tax</b>		<b>(69.4)</b>	<b>(990.5)</b>
Tax on profit/(loss) before exceptional items		(17.9)	(7.2)
Tax credit on exceptional items		0.4	8.2
<b>Tax (charge)/credit</b>		<b>(17.5)</b>	<b>1.0</b>
<b>Loss for the year from continuing operations</b>		<b>(86.9)</b>	<b>(989.5)</b>
Loss for the year from discontinued operations	2	(66.2)	(357.6)
<b>Loss for the year</b>		<b>(153.1)</b>	<b>(1,347.1)</b>
Attributable to:			
Equity owners of the Company		(152.6)	(1,347.3)
Non controlling interests		(0.5)	0.2
<b>Earnings per share (EPS)</b>			
Basic EPS from continuing operations	11	<b>(8.78p)</b>	(151.12p)
Diluted EPS from continuing operations	11	<b>(8.78p)</b>	(151.12p)
Basic EPS from discontinued operations	11	<b>(6.69p)</b>	(54.54p)
Diluted EPS from discontinued operations	11	<b>(6.69p)</b>	(54.54p)
Basic EPS from continuing and discontinued operations	11	<b>(15.47p)</b>	(205.66p)
Diluted EPS from continuing and discontinued operations	11	<b>(15.47p)</b>	(205.66p)



## Consolidated Statement of Comprehensive Income

For the year ended 31 December

	Note	2015 £m	2014 £m
<b>Loss for the year</b>		<b>(153.1)</b>	<b>(1,347.1)</b>
<b>Other comprehensive income for the year:</b>			
<b>Items that will not be reclassified subsequently to profit or loss:</b>			
Net actuarial (loss)/gain on defined benefit pension schemes <sup>1</sup>		<b>(15.8)</b>	<b>52.8</b>
Actuarial (loss)/gain on reimbursable rights <sup>1</sup>		<b>(0.4)</b>	<b>13.5</b>
Tax relating to items not reclassified <sup>1</sup>		<b>4.1</b>	<b>(12.9)</b>
Share of other comprehensive income in joint ventures	4	<b>5.0</b>	<b>1.9</b>
<b>Items that may be reclassified subsequently to profit or loss:</b>			
Net exchange gain on translation of foreign operations <sup>2</sup>		<b>(40.9)</b>	<b>24.9</b>
Fair value gain/(loss) on cash flow hedges during the year <sup>2</sup>		<b>2.2</b>	<b>(2.7)</b>
Share of other comprehensive expense in joint ventures	4	<b>2.6</b>	<b>(3.8)</b>
<b>Total other comprehensive income for the year</b>		<b>(43.2)</b>	<b>73.7</b>
<b>Total comprehensive expense for the year</b>		<b>(196.3)</b>	<b>(1,273.4)</b>
Attributable to:			
Equity owners of the Company		<b>(195.9)</b>	<b>(1,273.7)</b>
Non-controlling interest		<b>(0.4)</b>	<b>0.3</b>

Notes:

1 Recorded in retirement benefit obligations reserve in the Consolidated Statement of Changes in Equity.

2 Recorded in hedging and translation reserve in the Consolidated Statement of Changes in Equity.

### Consolidated Statement of Changes in Equity

	Share capital	Share premium account	Capital redemption reserve	Retained earnings	Retirement benefit obligations reserve	Share-based payment reserve	Own shares reserve	Hedging and translation reserve	Total share holders' equity	Non-controlling interest
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
At 1 January 2014	10.0	327.8	0.1	941.0	(142.4)	70.2	(70.5)	(41.0)	1,095.2	0.7
Total comprehensive (expense) for the year	-	-	-	(1,349.2)	53.4	-	-	22.1	(1,273.7)	0.3
Issue of share capital	1.0	-	-	155.3	-	-	-	-	156.3	-
Shares transferred to option holders on exercise of share options	-	0.1	-	-	-	(3.8)	6.0	-	2.3	-
Dividends paid	-	-	-	(53.1)	-	-	-	-	(53.1)	-
Expense in relation to share-based payments	-	-	-	-	-	5.4	-	-	5.4	-
Tax charge in relation to share-based payments	-	-	-	-	-	(0.4)	-	-	(0.4)	-
Change in non-controlling interest	-	-	-	-	-	-	-	-	-	0.8
<b>At 1 January 2015</b>	<b>11.0</b>	<b>327.9</b>	<b>0.1</b>	<b>(306.0)</b>	<b>(89.0)</b>	<b>71.4</b>	<b>(64.5)</b>	<b>(18.9)</b>	<b>(68.0)</b>	<b>1.8</b>
Total comprehensive (expense) for the year	-	-	-	(145.0)	(12.1)	-	-	(38.8)	(195.9)	(0.4)
Issue of share capital <sup>1</sup>	11.0	-	-	519.3	-	-	-	-	530.3	-
Shares transferred to option holders on exercise of share options	-	-	-	-	-	(0.3)	4.7	-	4.4	-
Transfer on disposal	-	-	-	0.2	(0.2)	-	-	-	-	-
Expense in relation to share-based payments	-	-	-	-	-	9.8	-	-	9.8	-
Change in non-controlling interest	-	-	-	-	-	-	-	-	-	0.1
<b>At 31 December 2015</b>	<b>22.0</b>	<b>327.9</b>	<b>0.1</b>	<b>68.5</b>	<b>(101.3)</b>	<b>80.9</b>	<b>(59.8)</b>	<b>(57.7)</b>	<b>280.6</b>	<b>1.5</b>

1 During the year the Group raised £530.3m via a Rights Issue. A cash box structure was used in such a way that merger relief was available under Companies Act 2006, section 612 and thus no share premium needed to be recorded. As the redemption of the cash box entity's preference shares was in the form of cash, the transaction was treated as qualifying consideration and the premium is therefore considered to be a realised profit.

## Consolidated Balance Sheet

	Note	At 31 December 2015 £m	At 31 December 2014 £m
<b>Non current assets</b>			
Goodwill	12	509.9	541.5
Other intangible assets		89.8	118.8
Property, plant and equipment		73.2	38.4
Interests in joint ventures	4	13.8	1.6
Trade and other receivables		50.2	38.1
Derivative financial instruments	16	7.8	7.0
Deferred tax assets		42.2	37.4
Retirement benefit assets		127.1	143.9
		<b>914.0</b>	<b>926.7</b>
<b>Current assets</b>			
Inventories		26.4	31.2
Trade and other receivables		519.7	498.8
Current tax assets		6.6	16.5
Cash and cash equivalents		323.6	180.1
Derivative financial instruments	16	9.4	5.9
		<b>885.7</b>	<b>732.5</b>
Assets classified as held for sale	18	39.8	564.7
		<b>925.5</b>	<b>1,297.2</b>
<b>Total assets</b>		<b>1,839.5</b>	<b>2,223.9</b>
<b>Current liabilities</b>			
Trade and other payables		(548.8)	(581.9)
Derivative financial instruments	16	(2.4)	(17.7)
Current tax liabilities		(14.2)	(12.6)
Provisions	14	(168.6)	(205.7)
Obligations under finance leases		(15.8)	(9.6)
Loans		(132.2)	(43.9)
		<b>(882.0)</b>	<b>(871.4)</b>
Liabilities directly associated with assets classified as held for sale	18	(32.5)	(219.9)
		<b>(914.5)</b>	<b>(1,091.3)</b>
<b>Non current liabilities</b>			
Trade and other payables		(18.3)	(29.7)
Deferred tax liabilities		(22.3)	(9.2)
Provisions	14	(313.1)	(372.2)
Obligations under finance leases		(28.0)	(16.9)
Loans		(249.7)	(753.4)
Retirement benefit obligations		(11.5)	(17.4)
		<b>(642.9)</b>	<b>(1,198.8)</b>
<b>Total liabilities</b>		<b>(1,557.4)</b>	<b>(2,290.1)</b>
<b>Net assets/(liabilities)</b>		<b>282.1</b>	<b>(66.2)</b>
<b>Equity</b>			
Share capital	35	22.0	11.0
Share premium account	36	327.9	327.9
Capital redemption reserve		0.1	0.1
Retained (loss)/earnings		68.5	(306.0)
Retirement benefit obligations reserve		(101.3)	(89.0)
Share based payment reserve		80.9	71.4
Own shares reserve		(59.8)	(64.5)
Hedging and translation reserve		(57.7)	(18.9)
<b>Equity attributable to owners of the Company</b>		<b>280.6</b>	<b>(68.0)</b>
<b>Non-controlling interest</b>		<b>1.5</b>	<b>1.8</b>
<b>Total equity</b>		<b>282.1</b>	<b>(66.2)</b>

The financial statements were approved by the Board of Directors on 25 February 2016 and signed on its behalf by:

**Rupert Soames**  
Group Chief Executive Officer

**Angus Cockburn**  
Group Chief Financial Officer

## Consolidated Cash Flow Statement

For the year ended 31 December

		2015	2014
	Note	£m	£m
<b>Net cash inflow from operating activities before exceptional items</b>		<b>56.5</b>	103.5
Exceptional items		(56.6)	(40.4)
<b>Net cash (outflow)/inflow from operating activities</b>	17	<b>(0.1)</b>	63.1
<b>Investing activities</b>			
Interest received		3.4	2.7
Increase in security deposits		0.3	-
Dividends received from joint ventures		32.5	34.8
Proceeds from disposal of property, plant and equipment		0.8	5.8
Proceeds from disposal of intangible assets		0.9	1.1
Proceeds on disposal of subsidiaries and operations	2,5	165.6	1.9
Acquisition of subsidiaries, net of cash acquired		(0.2)	(6.5)
Acquisition of other investments		-	(3.5)
Purchase of other intangible assets		(37.5)	(20.0)
Purchase of property, plant and equipment		(36.7)	(23.4)
<b>Net cash inflow/(outflow) from investing activities</b>		<b>129.1</b>	(7.1)
<b>Financing activities</b>			
Interest paid		(34.7)	(42.3)
Exceptional finance costs paid		(31.8)	-
Dividends paid	10	-	(53.1)
Repayment of loans		(448.4)	(36.0)
Repayment of non recourse loans		-	(3.1)
Increase in loans to joint ventures		(1.6)	-
New loan advances		-	17.4
Capital element of finance lease repayments		(18.8)	(18.2)
Costs of equity rights issue		-	(4.1)
Share placement net proceeds		530.3	156.3
Proceeds from issue of other share capital and exercise of share options		4.4	2.3
<b>Net cash (outflow)/inflow from financing activities</b>		<b>(0.6)</b>	19.2
<b>Net increase in cash and cash equivalents</b>		<b>128.4</b>	75.2
<b>Cash and cash equivalents at beginning of year</b>		<b>180.1</b>	125.1
Net exchange (loss)/gain		(2.1)	2.2
Cash reclassified to assets held for sale		17.2	(22.4)
<b>Cash and cash equivalents at end of year</b>		<b>323.6</b>	180.1

## Notes to the Consolidated Financial Statements

### 1. General Information, Going Concern and Accounting Policies

The basis of preparation in this preliminary announcement is set out below.

The financial information in this announcement does not constitute the Company's statutory accounts for the years ending 31 December 2015 or 2014, but is derived from these accounts.

Statutory accounts for 2014 have been delivered to the Registrar of Companies and those for 2015 will be delivered following the Company's Annual General Meeting. The auditors' report on the 2014 financial statements, whilst unqualified, contained an emphasis of matter which drew attention to the existence of a material uncertainty which may have cast significant doubt about the Company's ability to continue as a going concern. The auditors' report on the 2015 accounts contained no emphasis of matter and did not contain statements under S498 (2) or (3) or the Companies Act 2006 or equivalent preceding legislation.

The preliminary announcement has been prepared in accordance with International Financial Reporting Standards (IFRS) adopted for use in the European Union. Whilst the financial information included in this preliminary announcement has been computed in accordance with IFRS, this announcement does not itself contain sufficient information to comply with IFRS. The Company expects to publish full Group and parent company only financial statements that comply with IFRS and FRS101 respectively, in March 2016.

The financial statements have been prepared on the historical cost basis.

### Adoption of New and Revised Standards

The following changes to IFRSs became effective in the current reporting period:

Title	Type	Background	Impact on Serco
<b>Annual Improvements to IFRSs: 2011-2013 Cycle</b>	Amendments	<p>Covers various matters:</p> <ul style="list-style-type: none"> <li>IFRS 1 <i>First-time Adoption of International Financial Reporting Standards</i></li> <li>IFRS 3 <i>Business Combinations</i></li> <li>IFRS 13 <i>Fair Value Measurement</i></li> <li>IAS 40 <i>Investment Property</i></li> </ul> <p>Effective for annual periods beginning on or after 1 January 2015, following EU Adoption.</p>	<p>IFRS 1 is not relevant as IFRSs have already been adopted.</p> <p>IFRS 3 changes relate to accounting within joint arrangements themselves and are therefore not relevant.</p> <p>IFRS 13 was amended to clarify the scope of the portfolio exception, which is not applied in the Group financial statements.</p> <p>IAS 40 is not relevant to Serco as no investment properties are held.</p>
<b>IFRIC 21 Levies</b>	New interpretation	<p>The interpretation was issued to clarify the timing of recognition of a levy payment, being a payment to a government for which no specific goods or services are received.</p>	<p>No material levy payments are made by the Group.</p>

### Going Concern

In assessing the basis of preparation of the financial statements for the year ended 31 December 2015, the Directors have considered the principles of the Financial Reporting Council's 'Guidance on Risk Management, Internal Control and Related Financial and Business Reporting, 2014'; namely assessing the applicability of the going concern basis, the review period and disclosures.

The Group's current principal debt facilities at the year end comprised a £480m revolving credit facility, and £375m of US private placements notes. Subsequent to the year end, the Group has repaid £113m of the US private placement notes, which left £262m of notes outstanding. As at 31 December 2015, the Group had £855m of committed credit facilities and committed headroom of £777m.



## 1. General Information, Going Concern and Accounting Policies (continued)

### Assessment of going concern

The Directors have undertaken a rigorous assessment of going concern and liquidity, taking into account financial forecasts. In order to satisfy ourselves that we have adequate resources for the future, the Directors have reviewed the Group's existing debt levels, the committed funding and liquidity positions under our debt covenants, and our ability to generate cash from trading activities.

### Review period

In undertaking this review the Directors have considered the business plans which provide financial projections for the foreseeable future. For the purposes of this review, we consider that to be the period ending 30 June 2017. The Directors have also reviewed the principal risks and taken account of the results of sensitivity testing.

### Assessment

The Directors have a reasonable expectation that the Company and the Group will be able to operate within the level of available facilities and cash for the foreseeable future and accordingly believe that it is appropriate to prepare the financial statements on a going concern basis.

## Critical Accounting Judgements and Key Sources of Estimation Uncertainty

In the process of applying the Group's accounting policies, which are described in note 2 of the financial statements above, management has made the following judgements that have the most significant effect on the amounts recognised in the financial statements. As described below, many of these areas of judgement also involve a high level of estimation uncertainty.

### **Provisions for Onerous Contracts**

Determining whether provisions are required for loss making contracts requires significant judgements to be made regarding the ability of the company to maintain or improve operational performance. Judgements can also be made regarding the outcome of matters dependent on the behaviour of the customer in question or other parties involved in delivering the contract.

The level of uncertainty in the estimates made, either in determining whether a provision is required, or in the calculation of a provision booked, is linked to the complexity of the underlying contract and the form of service delivery.

In the current year material revisions have been made to historic provisions, which have led to a charge to contract provisions of £89.1m (excluding £12.8m in respect of businesses held for sale) and releases of £93.0m (excluding £1.3m in respect of businesses held for sale). All of these revisions have resulted from triggering events in the current year, either through changes in contractual positions or changes in circumstances which could not have been reasonably foreseen at the previous balance sheet date. To mitigate the level of uncertainty in making these estimates Management regularly compares actual performance of the contracts against previous forecasts and considers whether there have been any changes to significant judgements. A detailed bottom up review of the provisions is performed as part of the Group's formal annual budgeting process.

### **Impairment of Assets**

Identifying whether there are indicators of impairment for assets involves a high level of judgement and a good understanding of the drivers of value behind the asset. At each reporting period an assessment is performed in order to determine whether there are any such indicators, which involves considering the performance of our business and any significant changes to the markets in which we operate. The total value of assets which are covered by this assessment process (after previous impairments) is £1,255.0m (2014: £1,252.9m), which is the maximum exposure related to this judgement. We mitigate the risk associated with this judgement by putting in place processes and guidance for the finance community and internal review procedures.

## 1. General Information, Going Concern and Accounting Policies (continued)

Determining whether assets with impairment indicators require an actual impairment involves an estimation of the expected value in use of the asset (or CGU to which the asset relates). The value in use calculation involves an estimation of future cash flows and also the selection of appropriate discount rates, both of which involve considerable judgement. The future cash flows are derived from approved forecasts, with the key assumptions being revenue growth, margins and cash conversion rates. Discount rates are calculated with reference to the specific risks associated with the assets and are based on advice provided by external experts. Our calculation of discount rates are performed based on a risk free rate of interest appropriate to the geographic location of the cash flows related to the asset being tested, which is subsequently adjusted to factor in local market risks and risks specific to Serco and the asset itself. Discount rates used for internal purposes are post tax rates, however for the purpose of impairment testing in accordance with IAS 36 *Impairment of Assets* we calculate a pre tax rate based on post tax targets.

During the year, goodwill associated with the Americas CGU was determined to be impaired, resulting in an exceptional charge in respect of continuing operations of £87.5m (2014: three CGUs impaired resulting in charges of £182.2m). In addition, a charge of £9.0m (2014: £32.4m) was recognised in respect of certain intangible assets. A charge of £2.0m (2014: £36.7m) was recognised in respect of certain items of property, plant and equipment and a credit of £6.8m (2014: charge of £17.4m) was recognised in respect of billed receivables.

### **Valuation of Assets Held for Sale**

Held for sale assets are measured at the lower of their carrying amount and fair value less costs to sell and up to the point a sales price has been formally agreed a level of judgement is required in assessing the value of these assets. All assets included as held for sale are based on the latest offer received which is likely to be acceptable to us and the customer of the affected contract, but unforeseen events may lead to a change in this price prior to completion of the transaction. The total value of assets held for sale is £7.3m (2014: £344.8m) which is stated after an impairment charge for the year of £72.4m (2014: £39.2m), which corresponded to £65.9m in relation to goodwill and £6.5m for other assets (2014: all other assets).

### **Revenue and Recognition**

Calculating the fair value of the Group's revenue typically does not require a significant level of judgement, the exceptions to this are the following areas:

- Uncontracted variations or claims. Where work has been performed outside of the normal contracting framework at the request of the customer or a claim has been made for work performed but in a dispute, judgement is required in order to determine whether there is sufficient certainty that the Group will be financially compensated. Revenue is only recognised to the extent that they have been orally agreed by the customer or are virtually certain of being received.
- Payments by results contracts. When returns are directly linked to performance through cost savings or other customer driven key performance indicators over a period of time an estimate is made of the likelihood of achieving the necessary level of performance when the period covers a financial year end. Revenue is only recognised when we can be reasonably certain of achieving the required level of performance.
- Long term contracts. Revenue and profit is recognised for certain long-term project-based contracts based on the stage of completion of the contract activity. The assessment of the stage of completion requires the exercise of judgement and is measured by the proportion of costs incurred to estimated whole-life contract costs, except where whole life contract costs exceed the contract value, in which case the excess is expensed immediately.

### **Separation of Income Statement Items from Underlying Results**

IAS 1 requires material items to be disclosed separately in a way that enables users to assess the quality of a company's profitability. In practice, these are commonly referred to as "exceptional" items, but this is not a concept defined by IFRS and therefore there is a level of judgement involved in determining what to include in underlying profit. We consider items which are material, non-recurring and outside of the normal operating practice of the company to be suitable for separate presentation.

## 1. General Information, Going Concern and Accounting Policies (continued)

### Retirement Benefit Obligations

The calculation of retirement benefit obligations is dependent on material key assumptions including discount rates, mortality rates, inflation rates and future contribution rates. The value of net retirement benefit obligations at the balance sheet date is an asset of £115.6m (2014: £126.5m). Details of the impact of changes in assumptions relating to retirement benefit obligations are disclosed in note 34 of the financial statements.

## 2. Discontinued operations

Following the transfer of the public sector Business Process Outsourcing (BPO) operations to the UK and Europe Local and Regional Government division in 2014, the Global Services division represented only onshore and offshore private sector BPO operations. While the exit of the whole of the private sector BPO operations had been planned and announced in 2014, certain UK onshore contracts were planned to be exited early rather than be sold and therefore it was not appropriate to treat these operations as discontinued in 2014.

On 16 September 2015 the disposal of the offshore private sector BPO operations was agreed and completion of the sale of the majority of these operations occurred on 31 December 2015. The disposal of the remaining offshore business to the same purchaser is expected to complete in 2016 following receipt of the necessary regulatory approval and the balance sheet items associated with these operations remain within items held for sale at 31 December 2015. As at 31 December the net assets relating to the remaining element, being the operations based in the Middle East, were equal to the expected consideration in respect of the disposal of £15.0m.

During the course of 2015 the UK onshore private sector BPO businesses have either been sold, are planned to be sold, or have been exited early and as a result the Global Services division is deemed to be a discontinued operation. Those UK onshore BPO businesses which have not yet been sold are also treated as held for sale.

The decision to exit these operations is a core element of the strategy to focus Serco on being a leading supplier of pic services. This not only strengthens the balance sheet position but also enables the Group to focus on the five core markets.

The results of the discontinued operations were as follows:

For the year ended 31 December	2015 £m	2014 £m
Revenue	337.6	359.3
Expenses	(311.1)	(388.3)
<b>Operating profit/(loss) before exceptional items</b>	<b>26.5</b>	(29.0)
Exceptional gain/(loss) on disposal of subsidiaries and operations	5.4	(3.1)
Other exceptional operating items	(83.0)	(332.7)
<b>Operating loss</b>	<b>(51.1)</b>	(364.8)
Investment revenue	2.1	1.6
Finance costs	(1.2)	(0.3)
<b>Loss before tax</b>	<b>(50.2)</b>	(363.5)
Tax charge on profit/(loss) before exceptional items	(18.7)	(3.9)
Tax credit on exceptional items	2.7	9.8
<b>Net loss attributable to discontinued operations presented in the income statement</b>	<b>(66.2)</b>	(357.6)
Attributable to:		
Equity owners of the Company	(66.0)	(357.3)
Non controlling interests	(0.2)	(0.3)

## 2. Discontinued operations (continued)

Included above are items classified as exceptional as they are considered to be material, non recurring and outside of the normal course of business. These are summarised as follows:

For the year ended 31 December	2015 £m	2014 £m
<b>Exceptional items arising on discontinued operations</b>		
Loss on disposal of discontinued operations prior to reserve recycling	(45.6)	(3.1)
Recycling of gains in hedging and translation reserves	51.0	-
Exceptional gain/(loss) on disposal	5.4	(3.1)
<b>Other exceptional operating items</b>		
Restructuring costs	(2.2)	(8.7)
Impairment of goodwill	(65.9)	(284.8)
Impairment of other assets transferred to held for sale	(14.9)	(39.2)
<b>Other exceptional operating items</b>	(83.0)	(332.7)
<b>Exceptional operating items arising on discontinued operations</b>	(77.6)	(335.8)

In 2015 a charge of £2.2m (2014: £8.7m) has arisen in discontinued operations in relation to the restructuring programme resulting from the Strategy Review. This includes redundancy payments, provisions and other charges relating to the exit of the UK private sector BPO business, external advisory fees and other incremental costs.

During 2015, an impairment test of the Global Services business was conducted based on a level 3 fair value measurement, with reference to offers received less costs of disposal. The impairment testing identified a non-cash exceptional impairment of goodwill relating to discontinued operations of £65.9m (2014: £284.8m) which was recorded at the half year. Assets other than goodwill have also been impaired by a total of £14.9m (2014: £39.2m).

The impairment of goodwill relates primarily to the offshore Global Services business, the majority of which was disposed of on 31 December 2015, with the other asset impairments relating to the UK onshore business.

The loss on disposal of discontinued operations is calculated as follows:

	Offshore £m	UK onshore £m	Total £m
Cash consideration	212.8	(1.6)	211.2
Face value of Loan Note received	30.0	-	30.0
<b>Gross consideration</b>	242.8	(1.6)	241.2
Loan Note fair value adjustment	(10.5)	-	(10.5)
Indemnities provided	(30.7)	(2.3)	(33.0)
<b>Net consideration</b>	201.6	(3.9)	197.7
Less:			
Net (assets)/liabilities disposed	(239.0)	3.7	(235.3)
Disposal related costs	(7.5)	(0.5)	(8.0)
<b>Loss on disposal of discontinued operations prior to reserve recycling</b>	(44.9)	(0.7)	(45.6)
Recycling of gains on translation of foreign operations	43.0	-	43.0
Recycling of gains on hedged derivative financial instruments from reserves	8.0	-	8.0
<b>Exceptional gain/(loss) on disposal</b>	6.1	(0.7)	5.4

### 3. Segmental Information

The Group's operating segments reflecting the information reported to the Board in 2015 under IFRS 8 *Operating Segments* are as set out below. The only material change on the prior year is the Global Services segment being reclassified as a discontinued operation.

Reportable segments	Operating segments
UK Central Government	Frontline services for sectors including Defence, Justice & Immigration and Transport delivered to UK Government and devolved authorities;
UK & Europe Local & Regional Government Americas	Services for sectors including Health, Local Government Direct Services, Citizen Services and BPO services delivered to UK & European public sector customers; Professional, technology and management services for sectors including Defence, Transport and Citizen Services delivered to US federal and civilian agencies, selected state and municipal governments and the Canadian Government;
AsPac	Frontline services for sectors including Defence, Justice & Immigration, Transport, Health and Citizen Services in the Asia Pacific region including Australia, New Zealand and Hong Kong;
Middle East	Frontline services for sectors including Defence, Transport and Health in the Middle East region; and
Corporate	Central and head office costs.

The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 2 of the financial statements.

### Geographic Information

Year ended 31 December	Revenue	Non current assets*	Revenue	Non-current assets*
	2015	2015	2014	2014
	£m	£m	£m	£m
United Kingdom	1,529.2	259.2	1,789.4	464.7
United States	632.0	347.7	642.1	336.6
Australia	514.7	125.5	657.0	140.3
Middle East	291.3	16.2	260.4	14.6
Other countries	209.8	34.0	246.8	246.4
<b>Total</b>	<b>3,177.0</b>	<b>782.6</b>	<b>3,595.7</b>	<b>1,202.6</b>

\*Non-current assets exclude financial instruments, deferred tax assets and loans to joint ventures and include assets of £1.2m (2014: £405.4m) reclassified as held for sale.

Revenues from external customers are attributed to individual countries on the basis of the location of the customer.



### 3. Segmental Information (continued)

The following is an analysis of the Group's revenue, results, assets and liabilities by reportable segment:

Year ended 31 December 2015	CG £m	LRG £m	Americas £m	AsPac £m	Middle East £m	Corporate £m	Total £m
<b>Revenue</b>	<b>742.1</b>	<b>905.8</b>	<b>693.0</b>	<b>544.7</b>	<b>291.4</b>	<b>-</b>	<b>3,177.0</b>
<b>Result</b>							
Trading profit/(loss)*	60.2	(14.5)	27.0	58.8	27.4	(47.9)	111.0
Amortisation and impairment of intangibles arising on acquisition	-	(1.1)	(2.5)	(1.2)	-	-	(4.8)
<b>Operating profit/(loss) before exceptional items</b>	<b>60.2</b>	<b>(15.6)</b>	<b>24.5</b>	<b>57.6</b>	<b>27.4</b>	<b>(47.9)</b>	<b>106.2</b>
Exceptional profit/(loss) on disposal of subsidiaries and operations	0.5	0.3	-	(2.6)	-	(0.8)	(2.6)
Other exceptional operating items	(0.2)	(1.7)	(87.5)	(1.3)	(1.8)	(14.8)	(107.3)
<b>Operating profit/(loss)</b>	<b>60.5</b>	<b>(17.0)</b>	<b>(63.0)</b>	<b>53.7</b>	<b>25.6</b>	<b>(63.5)</b>	<b>(3.7)</b>
Investment revenue							6.1
Finance costs							(71.8)
<b>Loss before tax</b>							<b>(69.4)</b>
Tax charge							(17.5)
<b>Loss for the year from continuing operations</b>							<b>(86.9)</b>
*Trading profit/(loss) is defined as operating profit/(loss) before exceptional items and amortisation and impairment of intangible assets arising on acquisition.							
<b>Segment assets</b>							
Interests in joint ventures	4.4	6.5	0.2	2.3	0.4	-	13.8
Other segment assets	126.0	202.2	473.6	235.0	100.7	218.9	1,356.4
Total segment assets	130.4	208.7	473.8	237.3	101.1	218.9	1,370.2
Unallocated assets, including assets held for sale							469.3
Consolidated total assets							1,839.5
<b>Segment liabilities</b>							
Segment liabilities	(104.3)	(130.8)	(63.7)	(109.3)	(60.0)	(135.4)	(603.5)
Unallocated liabilities, including liabilities linked to assets held for sale							(953.9)
Consolidated total liabilities							(1,557.4)

### 3. Segmental Information (continued)

Year ended 31 December 2014	CG £m	LRG £m	Americas £m	AsPac £m	Middle East £m	Corporate £m	Total £m
<b>Revenue</b>	961.4	959.8	708.1	706.0	260.4	-	3,595.7
<b>Result</b>							
Trading (loss)/profit*	(242.8)	(90.4)	16.5	(201.6)	(0.2)	(90.1)	(608.6)
Amortisation and impairment of intangibles arising on acquisition	(0.1)	(7.2)	(2.3)	(8.6)	-	-	(18.2)
<b>Operating (loss)/profit before exceptional items</b>	<b>(242.9)</b>	<b>(97.6)</b>	<b>14.2</b>	<b>(210.2)</b>	<b>(0.2)</b>	<b>(90.1)</b>	<b>(626.8)</b>
Exceptional (loss)/profit on disposal of subsidiaries and operations	1.9	0.4	-	-	-	(4.6)	(2.3)
Other exceptional operating items	(42.7)	(95.9)	(101.7)	(41.3)	(1.7)	(40.1)	(323.4)
<b>Operating (loss)/profit</b>	<b>(283.7)</b>	<b>(193.1)</b>	<b>(87.5)</b>	<b>(251.5)</b>	<b>(1.9)</b>	<b>(134.8)</b>	<b>(952.5)</b>
Investment revenue							4.6
Finance costs							(42.6)
<b>Loss before tax</b>							<b>(990.5)</b>
Tax credit							1.0
<b>Loss for the year from continuing operations</b>							<b>(989.5)</b>

\*Trading (loss)/profit is defined as operating (loss)/profit before exceptional items and amortisation and impairment of intangible assets arising on acquisition.

<b>Segment assets</b>							
Interests in joint ventures	(7.0)	5.0	0.2	3.0	0.4	-	1.6
Other segment assets	135.1	431.9	458.9	236.3	99.7	178.9	1,540.8
Total segment assets	128.1	436.9	459.1	239.3	100.1	178.9	1,542.4
Unallocated assets, including assets held for sale							681.5
Consolidated total assets							2,223.9
<b>Segment liabilities</b>							
Segment liabilities	(146.1)	(247.5)	(62.0)	(99.2)	(55.2)	(93.3)	(703.3)
Unallocated liabilities, including liabilities linked to assets held for sale							(1,586.8)
Consolidated total liabilities							(2,290.1)

### 4. Joint Ventures

The Group has certain arrangements where control is shared equally with one or more parties. As each arrangement is a separate legal entity and legal ownership and control are equal with all other parties, there are no significant judgements required to be made.

AWE Management Limited and Northern Rail Holdings Limited are the only joint ventures which are material to the Group. Dividends of £17.8m (2014: £16.8m) and £5.9m (2014: £8.9m) respectively were received from these companies in the year.

Summarised financial information of AWE Management Limited and Northern Rail Holdings Limited, and an aggregation of the other joint ventures in which the Group has an interest, is as follows:

## 4. Joint Ventures (continued)

## 31 December 2015

Summarised financial information	AWE Management Limited (100% of results) £m	Northern Rail Holdings Limited (100% of results) £m	Other joint venture arrangements (100% of results) £m	Group portion of material joint ventures* £m	Group portion of other joint venture arrangements* £m	Total £m
Revenue	978.3	585.3	277.1	618.7	118.5	737.2
Operating profit	61.2	19.4	27.0	30.1	12.5	42.6
Net investment revenue/(finance costs)	0.4	0.4	(1.4)	0.3	(0.7)	(0.4)
Income tax expense	(5.9)	(3.5)	(3.8)	(3.7)	(1.5)	(5.2)
Profit from continuing operations	55.7	16.3	21.8	26.7	10.3	37.0
Other comprehensive income	-	11.9	5.0	5.9	1.7	7.6
Total comprehensive income	55.7	28.2	26.8	32.6	12.0	44.6
Non current assets	464.2	10.3	52.7	159.9	17.3	177.2
Current assets	358.8	97.2	85.6	168.2	35.7	203.9
Current liabilities	(342.6)	(93.4)	(75.1)	(160.9)	(32.7)	(193.6)
Non current liabilities	(461.7)	(3.8)	(52.3)	(155.8)	(17.9)	(173.7)
Net assets	18.7	10.3	10.9	11.4	2.4	13.8
Proportion of group ownership	33%	50%	Various	-	-	-
Carrying amount of investment	6.2	5.2	2.5	11.4	2.4	13.8

## 31 December 2014

Summarised financial information	AWE Management Limited (100% of results) £m	Northern Rail Holdings Limited (100% of results) £m	Other joint venture arrangements (100% of results) £m	Group portion of material joint ventures* £m	Group portion of other joint venture arrangements* £m	Group portion Total £m
Revenue	989.3	577.5	397.0	618.5	179.8	798.3
Operating profit	54.9	17.7	23.8	27.2	10.7	37.9
Net investment revenue/(finance costs)	0.3	0.4	(1.4)	0.3	(0.6)	(0.3)
Income tax expense	(4.6)	(5.1)	(7.0)	(4.1)	(3.5)	(7.6)
Profit from continuing operations	50.6	13.0	15.4	23.4	6.6	30.0
Other comprehensive income/(expense)	-	0.8	(4.3)	0.4	(2.3)	(1.9)
Total comprehensive income	50.6	13.8	11.1	23.8	4.3	28.1
Non current assets	583.7	10.5	44.9	199.8	18.1	217.9
Current assets	246.5	72.9	74.4	118.6	31.5	150.1
Current liabilities	(230.1)	(83.5)	(65.7)	(118.4)	(29.4)	(147.8)
Non current liabilities	(583.3)	(6.0)	(51.1)	(197.5)	(21.1)	(218.6)
Net assets	16.8	(6.1)	2.5	2.5	(0.9)	1.6
Proportion of group ownership	33%	50%	-	-	-	-
Carrying amount of investment	5.5	(3.0)	(0.9)	2.5	(0.9)	1.6

## 5. Disposals

Disposals relating to discontinued operations are included in Note 2.

In May 2015 the Group completed the sale of its Great Southern Rail (GSR) business in Australia for a cash consideration of £2.9m, resulting in a loss on disposal of £2.8m. The transaction is part of the disposal programme of businesses identified as not being core to Serco's future strategy, as announced initially in November 2014. In addition, in January 2015, the Group disposed of its National Physical Laboratory (NPL) business for a consideration of £12.1m, with no gain or loss on disposal. AgPlus was a subsidiary of NPL which was retained and sold separately with a gain of £0.5m recognised. All of these businesses were classified as held for sale as at 31 December 2014.

In June 2015, the Group also disposed of its Serco India Private Limited business, representing the Group's frontline public services operations in the Indian transport sector, for a consideration of £1.0m, resulting in a loss on disposal of £0.8m. Details of these transactions are given below:

The net assets at the date of disposal were:	Great Southern Rail 2015 £m	National Physical Laboratory 2015 £m	Other 2015 £m	Total 2015 £m	Total 2014 £m
Goodwill	-	-	-	-	3.4
Other intangible assets	-	-	-	-	0.2
Property, plant and equipment	0.9	25.4	-	26.3	0.2
Deferred tax assets	-	1.1	-	1.1	-
Current tax assets	-	-	0.9	0.9	-
Inventories	1.2	-	-	1.2	-
Trade and other receivables	9.7	13.9	0.8	24.4	6.3
Cash and cash equivalents	7.3	10.6	0.4	18.3	1.0
Trade and other payables	(14.2)	(14.9)	-	(29.1)	(1.8)
Tax liabilities	-	-	(0.4)	(0.4)	(0.1)
Non recourse loans	-	(24.0)	-	(24.0)	-
Other loans	-	-	(0.1)	(0.1)	-
Provisions	(0.7)	-	-	(0.7)	-
<b>Net assets disposed</b>	<b>4.2</b>	<b>12.1</b>	<b>1.6</b>	<b>17.9</b>	<b>9.2</b>

The (loss)/profit on disposal is calculated as follows:

Cash consideration	2.9	12.1	1.4	16.4	6.3
Less:					
Net assets disposed	(4.2)	(12.1)	(1.6)	(17.9)	(9.2)
Non-controlling interest dispose of	-	-	0.4	0.4	-
Impairment of loan receivable in respect of prior year disposal	-	-	-	-	(4.6)
Disposal related costs	(1.5)	-	-	(1.5)	5.2
<b>(Loss)/profit on disposal</b>	<b>(2.8)</b>	<b>-</b>	<b>0.2</b>	<b>(2.6)</b>	<b>(2.3)</b>

The net cash inflow/(outflow) arising on disposals is as follows:

Consideration received	2.9	12.1	1.4	16.4	8.3
Less:					
Deferred consideration	-	-	-	-	0.5
Cash and cash equivalents disposed	(7.3)	(10.6)	(0.4)	(18.3)	(1.0)
Disposal related costs paid during the period	(1.1)	-	-	(1.1)	(2.3)
<b>Net cash (outflow)/inflow on disposal</b>	<b>(5.5)</b>	<b>1.5</b>	<b>1.0</b>	<b>(3.0)</b>	<b>5.5</b>

## 6. Exceptional Items

Exceptional items are non recurring items of financial performance that are outside normal operations and are material to the results of the Group either by virtue of size or nature. As such, the items set out below require separate disclosure on the face of the income statement to assist in the understanding of the underlying performance of the Group.

In the year exceptional items have arisen on both the continuing and discontinued operations of the Group. Exceptional items arising on discontinued operations are disclosed on the face of the income statement within the loss attributable to discontinued operations, those arising on continuing operations are disclosed on the face of the income statement within exceptional operating items. Further information regarding the exceptional items arising on discontinued operations can be seen in note 2.

### Net (loss)/profit on disposal of subsidiaries and operations

The exceptional net loss on disposal of subsidiaries and operations is included in note 5.

### Other Exceptional Operating Items arising on continuing operations

For the year ended 31 December	2015 £m	2014 £m
Impairment of goodwill	(87.5)	(181.2)
Restructuring costs	(19.7)	(24.0)
Aborted transaction costs	(1.7)	-
Costs associated with UK Government review	(1.2)	(9.2)
UK frontline clinical health contract provisions	2.8	(16.1)
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)
<b>Other exceptional operating items</b>	<b>(107.3)</b>	<b>(323.4)</b>

Goodwill is tested for impairment annually or more frequently if there are indications that there is a risk that it could be impaired. The recoverable amount of each cash generating unit (CGU) is based on value in use calculations derived from forecast cash flows based on past experience, adjusted to reflect market trends, economic conditions, the Group's strategy and key risks. These forecasts include an estimated level of new business wins and contract attrition and an assumption that the final year forecast continues into perpetuity at a CGU-specific terminal growth rate. The terminal growth rates are provided by external sources and are based on the long-term inflation rates of the geographic market in which the CGUs operate and therefore do not exceed the average long-term growth rates forecast for the individual markets.

In 2015, we conducted impairment testing of our CGUs that has identified a non-cash exceptional impairment to continuing operations of £87.5m (2014: £181.2m), primarily due to a higher level of contract attrition than previously forecast and the associated impact on future cash flows. This arose in the Americas CGU in the current year, which is also a reportable segment as defined in IFRS8. In the prior year impairments arose in the Direct Services & Europe business and UK Health operations, both of which form part of the UK Local & Regional Government segment.

Year ended 31 December	2015 £m	2014 £m
UK Local & Regional Government: Direct Services & Europe	-	(57.6)
UK Local & Regional Government: UK Health	-	(22.9)
Americas	(87.5)	(100.7)
<b>Total exceptional goodwill impairment charge</b>	<b>(87.5)</b>	<b>(181.2)</b>



## 6. Exceptional Items (continued)

In 2015, a charge of £19.7m (2014: £24.0m) arose in relation to the restructuring programme resulting from the Strategy Review. This included redundancy payments, provisions, external advisory fees and other incremental costs.

The disposal of the Environmental and Leisure businesses were aborted in the year and as a result one-off costs of £1.7m associated with the aborted sale have been treated as exceptional.

In 2014 there were exceptional costs totalling £9.2m associated with the UK Government reviews and the programme of corporate renewal. This reflected external costs related to these reviews and the Corporate Renewal Programme. In 2015, £1.2m of external adviser costs arose from dealing with these historic matters.

In 2015 the exit of the UK Frontline Clinical Health contracts was completed with the Cornwall Out of Hours contract exited in May and the Suffolk Community Healthcare contract exited in September. On completion of the contract exits onerous contract provisions of £2.8m, for which the charges were recorded as exceptional costs and that are no longer expected to be utilised, were released as credits through exceptional items.

In November 2014 the Group agreed to settle a dispute with the Trustees of the Docklands Light Railway (DLR) Pension Scheme over the extent of its liability to fund the deficit on the scheme. The settlement resulted in a total exceptional charge inclusive of costs of £35.6m, consisting of the full and final settlement amount of £33.0m and costs of £2.6m. 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 an exceptional provision of £20.1m was recognised for legal claims made against Serco for commercial disputes. This provision was based on legal advice received by the Company. There have been no further charges in 2015 in relation to these disputes.

In 2014 an impairment review was performed on the Australian rail business, Great Southern Rail (GSR), resulting in a charge totalling £37.2m. This consisted of an impairment of £23.1m to reduce the carrying value of its net assets to the estimated recoverable amount and a charge of £14.1m in relation to the break costs of leases relating to the business. The GSR business was exited in May 2015, with the loss on disposal included within loss on disposal of businesses.

### Exceptional Finance Costs

In December 2014, agreement was reached for the Group to defer its December 2014 covenant test until 31 May 2015. As a result costs were incurred in 2015 to preserve the existing finance facilities. In addition, payments were made to the US Private Placement (USPP) Noteholders as a result of early settlement following the Group refinancing. Total charges of £32.8m have been treated as exceptional items as they are outside of the normal financing arrangements of the Group and are significant in size.

### Tax Impact of above Items

The tax impact of these exceptional items was a tax credit of £0.4m (2014: £8.2m).

**7. Investment Revenue**

	2015	2014
Year ended 31 December	£m	£m
Interest receivable on other loans and deposits	1.1	1.5
Net interest receivable on retirement benefit obligations	4.9	3.1
Movement in discount on other debtors	0.1	-
	<b>6.1</b>	<b>4.6</b>

**8. Finance Costs**

	2015	2014
Year ended 31 December	£m	£m
Interest payable on non recourse loans	-	0.8
Interest payable on obligations under finance leases	2.5	2.9
Interest payable on other loans	24.7	29.4
Facility fees and other charges	6.2	9.5
Movement in discount on provisions	5.6	-
	<b>39.0</b>	<b>42.6</b>

**9. Tax**

The effective tax rate on profit before exceptional items is 24.4% (2014: 1.1%). The principal drivers of this tax rate are, higher tax on profits arising on our international operations, together with the absence of any deferred tax credit for losses incurred in the UK.

The effective tax rate on exceptional items is 0.3% (2014: 2.5%). The principal reasons for the reduced credit on these exceptional costs is that no UK deferred tax asset is being recognised in respect of UK losses and no tax deduction is available for the impairment of goodwill.

As at 31 December 2015 the Group has a gross unrecognised deferred tax asset of £1.05bn, £890m of which relate to tax losses. A £10.5m (2014: £10.5m) deferred tax asset has been recognised in respect of UK losses on the basis of forecast utilisation against future profits.

**10. Dividends**

	2015	2014
	£m	£m
<b>Amounts recognised as distributions to equity holders in the year:</b>		
Final dividend for the year ended 31 December 2014 of £nil per share (2014: Final dividend for the year ended 31 December 2013 of 7.45p per share on 487.4 million ordinary shares)	-	36.4
Interim dividend for the year ended 31 December 2015 of £nil per share (2014: Interim dividend for the year ended 31 December 2014 of 3.10p per share on 538.4 million ordinary shares)	-	16.7
	-	53.1
Proposed final dividend for the year ended 31 December 2015 of £nil per share (2014: £nil per share)	-	-

A dividend waiver is effective for those shares held on behalf of the Company by its Employee Share Ownership Trust.

## 11. Earnings per Share

Basic and diluted earnings per ordinary share (EPS) have been calculated in accordance with *IAS 33 Earnings per Share*.

The calculation of the basic and diluted EPS is based on the following data:

### Number of shares

	2015	2014 (restated*)
	Millions	Millions
Weighted average number of ordinary shares for the purpose of basic EPS	986.5	655.1
Effect of dilutive potential ordinary shares: share options	-	-
Weighted average number of ordinary shares for the purpose of diluted EPS	986.5	655.1

\*Restatement of earnings per share reflects adjustments associated with the rights issue

At 31 December 2015 options over 560,060 (2014 (restated): 1,855,924) shares were excluded from the weighted average number of shares used for calculating diluted earnings per share because their exercise price was above the average share price for the year and they were, therefore, anti-dilutive.

A further 26.5m shares are potentially dilutive but are not included in the above calculation due to the loss making position in the year.

### Earnings per share

Continuing and Discontinued EPS	Earnings 2015	Per share amount 2015	Earnings 2014 (restated*)	Per share amount 2014 (restated*)
	£m	Pence	£m	Pence
Earnings for the purpose of basic EPS	(152.6)	(15.47)	(1,347.3)	(205.66)
Effect of dilutive potential ordinary shares	-	-	-	-
Diluted EPS	(152.6)	(15.47)	(1,347.3)	(205.66)

### Basic EPS Excluding Exceptional Items

Earnings for the purpose of basic EPS	(152.6)	(15.47)	(1,347.3)	(205.66)
Add back exceptional operating items	220.3	22.33	661.5	100.98
Add back tax on exceptional items	(3.1)	(0.31)	(18.0)	(2.75)
Earnings excluding exceptional operating items for the purpose of basic EPS	64.6	6.55	(703.8)	(107.43)

\*Restatement of earnings per share reflects adjustments associated with the rights issue

### Earnings per share

Continuing EPS	Earnings 2015	Per share amount 2015	Earnings 2014 (restated*)	Per share amount 2014 (restated*)
	£m	Pence	£m	Pence
Earnings for the purpose of basic EPS	(86.6)	(8.78)	(990.0)	(151.12)
Effect of dilutive potential ordinary shares	-	-	-	-
Diluted EPS	(86.6)	(8.78)	(990.0)	(151.12)

### Basic EPS Excluding Exceptional Items

Earnings for the purpose of basic EPS	(86.6)	(8.78)	(990.0)	(151.12)
Add back exceptional operating items	142.7	14.47	325.7	49.72
Add back tax on exceptional items	(0.4)	(0.04)	(8.2)	(1.25)
Earnings excluding exceptional operating items for the purpose of basic EPS	55.7	5.65	(672.5)	(102.66)

\*Restatement of earnings per share reflects adjustments associated with the rights issue

## Notes to the Consolidated Financial Statements

## 11. Earnings per Share (continued)

## Earnings per share

Discontinued EPS	Earnings 2015	Per share amount 2015	Earnings 2014 (restated*)	Per share amount 2014 (restated*)
	£m	Pence	£m	Pence
Earnings for the purpose of basic EPS	(66.0)	(6.69)	(357.3)	(54.54)
Effect of dilutive potential ordinary shares	-	-	-	-
Diluted EPS	(66.0)	(6.69)	(357.3)	(54.54)

## Basic EPS Excluding Exceptional Items

Earnings for the purpose of basic EPS	(66.0)	(6.69)	(357.3)	(54.54)
Add back exceptional operating items	77.6	7.87	335.8	51.26
Add back tax on exceptional items	(2.7)	(0.27)	(9.8)	(1.5)
Earnings excluding exceptional operating items for the purpose of basic EPS	8.9	0.90	(31.3)	(4.78)

\*Restatement of earnings per share reflects adjustments associated with the rights issue

## 12. Goodwill

	Cost £m	Accumulated impairment losses £m	Carrying amount £m
At 1 January 2014	1,270.8	-	1,270.8
Additions	4.4	-	4.4
Disposals	(3.4)	-	(3.4)
Exchange differences	20.2	(5.4)	14.8
Impairment (exceptional)	-	(466.0)	(466.0)
Transfer to held for sale	(618.8)	339.7	(279.1)
At 1 January 2015	673.2	(131.7)	541.5
Exchange differences	17.6	(7.8)	9.8
Impairment (exceptional)	-	(87.5)	(87.5)
Transfer from held for sale	108.3	(62.2)	46.1
<b>At 31 December 2015</b>	<b>799.1</b>	<b>(289.2)</b>	<b>509.9</b>

Further details of the exceptional impairment can be seen in note 6.

**12. Goodwill (continued)**

Movements in the balance since the prior year end can be seen as follows:

	Goodwill balance 31 December 2014 £m	Additions 2015 £m	Disposals 2015 £m	Exchange differences 2015 £m	Impairment 2015 £m	Transfer from held for sale 2015 £m	<b>Goodwill balance 2015 £m</b>	Headroom on impairment analysis 2015 £m	Headroom on impairment analysis 2014 £m
UK Central Government									
Justice & Immigration	49.6	-	-	-	-	-	<b>49.6</b>	<b>59.3</b>	147.0
Local & Regional Government									
UK Health	60.6	-	-	-	-	-	<b>60.6</b>	<b>2.3</b>	-
Direct Services & Europe	18.5	-	-	(0.9)	-	46.1	<b>63.7</b>	<b>83.5</b>	-
Americas	303.6	-	-	15.9	(87.5)	-	<b>232.0</b>	-	-
AsPac	100.4	-	-	(5.7)	-	-	<b>94.7</b>	<b>161.6</b>	314.8
Middle East	8.8	-	-	0.5	-	-	<b>9.3</b>	<b>134.2</b>	136.5
	<b>541.5</b>	-	-	<b>9.8</b>	<b>(87.5)</b>	<b>46.1</b>	<b>509.9</b>	<b>440.9</b>	<b>598.3</b>

Included above is the detail of the headroom on the CGUs existing at the year end. For the Americas CGU impaired in the year, no headroom exists and therefore any reduction in forecasts or unfavourable movements in key assumptions would lead to an additional impairment. Headroom shown in respect of the other CGUs reflects where future discounted cash flows are greater than the underlying assets and includes all relevant cash flows including where provisions have been made for future costs and losses. The increase in the Direct Services & Europe headroom partly reflects the impact of the decision that the Environmental and Leisure businesses no longer be sold, reflecting the fact that the expected proceeds on disposal were less than the expected future cash flows.

The key assumptions applied in the impairment review are set out below:

	<b>Discount rate 2015 %</b>	Discount rate 2014* %	<b>Terminal growth rates 2015 %</b>	Terminal growth rates 2014 %
UK Central Government				
Justice & Immigration	<b>10.3</b>	9.2	<b>2.0</b>	1.9
Local & Regional Government				
UK Health	<b>10.1</b>	9.7	<b>2.0</b>	1.9
Direct Services & Europe	<b>10.1</b>	9.7	<b>2.0</b>	1.9
Americas	<b>10.3</b>	11.3	<b>2.4</b>	2.0
AsPac	<b>10.7</b>	12.4	<b>2.4</b>	2.3
Middle East	<b>9.7</b>	9.0	<b>2.1</b>	2.2

\*The Americas discount rate for 2014 of 11.3% has been amended from 13.3% to correct a typographical error.



## 12. Goodwill (continued)

### Discount Rate

Pre-tax discount rates, derived from the Group's post-tax weighted average cost of capital have been used in discounting the projected cash flows. These rates are reviewed annually with external advisers and are adjusted for risks specific to the market in which the CGU operates.

### Short Term Growth Rates

The annual impairment test is performed immediately prior to the year end, based initially on five year cash flow forecasts approved by senior management. Short term revenue growth rates used in each CGU five year plan are based on internal data regarding our current contracted position, the pipeline of opportunities and forecast growth for the relevant market.

Short-term profitability and cash conversion is based on our historic experiences and a level of judgement is applied to expected changes in both. Where businesses have been poor performers in recent history, turnaround has only been assumed where a detailed and achievable plan is in place and all forecasts include cash flows relating to contracts where onerous contract provisions have been made.

### Terminal Growth Rates

The calculations include a terminal value based on the projections for the fifth year of the short-term plan, with a growth rate assumption applied which extrapolates the business into perpetuity. The terminal growth rates are based on long-term inflation rates of the geographic market in which the CGUs operate and therefore do not exceed the average long-term growth rates forecast for the individual markets. These are provided by external sources.

### Sensitivity Analysis

Sensitivity analysis has been performed for each key assumption and the only CGUs impacted by a reasonably possible change in a key assumption are the Americas and Health. A 2% movement in discount rates and a 1% movement in terminal growth rates are considered to be reasonably possible.

The impact of changes in key assumptions on CGUs with marginal headroom is as follows:

- Health: The CGU represents the UK healthcare market segment. A 2% increase in the discount rate gives rise to an impairment of £8m and a 1% decline in the terminal growth rate by itself leads to an impairment of £7m. If there is both a 2% increase in the discount rate and a 1% decline in the terminal growth rates an impairment charge of £22m would occur.
- Americas: If the terminal growth rate were to fall by 1%, the impairment charge would increase by £114m, whereas a 2% increase in the discount rate results in an additional impairment charge of £92m. If both assumptions moved adversely by these rates, the impairment charge would increase by £161m.

### 13. Analysis of Net Debt

	At 1 January 2015 £m	Cash flow £m	Reclassified as held for sale £m	Acquisitions* £m	Disposals £m	Exchange differences £m	Non cash movements £m	At 31 December 2015 £m
Cash and cash equivalents	180.1	<b>128.8</b>	<b>17.2</b>	-	<b>(0.4)</b>	<b>(2.1)</b>	-	<b>323.6</b>
Loan receivables	1.0	<b>(0.6)</b>	-	-	-	-	<b>19.5</b>	<b>19.9</b>
Non recourse loans	-	-	-	-	-	-	-	-
Other loans	(797.3)	<b>449.0</b>	<b>(0.8)</b>	-	-	<b>(30.8)</b>	<b>(2.0)</b>	<b>(381.9)</b>
Obligations under finance leases	(26.5)	<b>9.3</b>	<b>(26.7)</b>	-	-	-	<b>0.1</b>	<b>(43.8)</b>
	<b>(642.7)</b>	<b>586.5</b>	<b>(10.3)</b>	-	<b>(0.4)</b>	<b>(32.9)</b>	<b>17.6</b>	<b>(82.2)</b>

	At 1 January 2014 £m	Cash flow £m	Reclassified as held for sale £m	Acquisitions* £m	Disposals £m	Exchange differences £m	Non cash movements £m	At 31 Decemb er 2014 £m
Cash and cash equivalents	125.1	74.1	(22.4)	2.1	(1.0)	2.2	-	180.1
Loan receivables	5.8	(0.2)	-	-	-	-	(4.6)	1.0
Non recourse loans	(20.3)	(3.7)	24.0	-	-	-	-	-
Other loans	(788.0)	18.8	0.8	-	-	(32.5)	3.6	(797.3)
Obligations under finance leases	(68.0)	18.2	37.1	-	-	(0.1)	(13.7)	(26.5)
	<b>(745.4)</b>	<b>107.2</b>	<b>39.5</b>	<b>2.1</b>	<b>(1.0)</b>	<b>(30.4)</b>	<b>(14.7)</b>	<b>(642.7)</b>

\*Acquisitions represent the net cash/(debt) acquired on acquisition.

## 14. Provisions

	Employee related £m	Property £m	Contract £m	Other £m	Total £m
At 1 January 2014	15.7	5.3	25.9	14.2	61.1
Reclassified from trade and other receivables	-	-	(3.9)	-	(3.9)
Recognised on acquisition of subsidiary	0.2	0.1	-	-	0.3
Charged to income statement - exceptional	8.8	2.2	19.4	57.7	88.1
Charged to income statement - other	19.8	15.1	456.7	41.5	533.1
Released to income statement	(0.2)	(0.1)	(3.5)	(4.2)	(8.0)
Utilised during the year	(7.7)	(1.7)	(36.3)	(5.1)	(50.8)
Transferred to trade payables	-	-	-	(8.2)	(8.2)
Assets held for sale	(1.7)	-	(21.5)	(6.8)	(30.0)
Unwinding of discount	-	0.1	-	-	0.1
Exchange differences	0.2	0.5	(6.4)	1.8	(3.9)
<b>At 1 January 2015</b>	<b>35.1</b>	<b>21.5</b>	<b>430.4</b>	<b>90.9</b>	<b>577.9</b>
Reclassified from trade and other payables	-	-	-	15.9	15.9
Charged to income statement - exceptional	5.1	-	-	30.7	35.8
Charged to income statement - other	16.6	3.1	89.1	14.0	122.8
Released to income statement - exceptional	(1.4)	-	(2.8)	(0.8)	(5.0)
Released to income statement	(1.0)	(0.5)	(90.2)	(13.5)	(105.2)
Utilised during the year	(10.7)	(6.0)	(116.8)	(16.6)	(150.1)
Reclassification	-	(0.3)	0.3	-	-
Assets held for sale	(8.0)	-	(4.9)	2.6	(10.3)
Unwinding of discount	-	0.1	5.5	-	5.6
Exchange differences	0.7	0.4	(8.5)	1.7	(5.7)
<b>At 31 December 2015</b>	<b>36.4</b>	<b>18.3</b>	<b>302.1</b>	<b>124.9</b>	<b>481.7</b>
<b>Analysed as:</b>					
<b>Current</b>	<b>14.2</b>	<b>5.7</b>	<b>90.5</b>	<b>58.2</b>	<b>168.6</b>
<b>Non current</b>	<b>22.2</b>	<b>12.6</b>	<b>211.6</b>	<b>66.7</b>	<b>313.1</b>

Total provisions held by the Group at 31 December 2015 amount to £506.2m (2014: £607.9m) and include £481.7m (2014: £577.9m) shown above and £24.5m (2014: £30.0m) included within amounts held for sale on the balance sheet.

Contract provisions relate to onerous contracts which will be utilised over the life of each individual contract, up to a maximum of 8 ¼ years from the balance sheet date. The present value of the estimated future cash outflows required to settle the contract obligations as they fall due over the respective contracts has been used in determining the provision. The individual provisions are discounted where the impact is assessed to be material.

A full analysis is performed at least annually of the future profitability of all contracts with marginal performances and of the balance sheet items directly linked to these contracts.

Due to the significant size of the balance and the inherent level of uncertainty over the amount and timing of the related cash flows upon which onerous contract provisions are based, if the expected operational performance varies from the best estimates made at the year end, a material change in estimate may be required. The key drivers behind operational performance is the level of activity required to be serviced, which is often directed by the actions of the UK Government, and the efficiency of Group employees and resources.

#### 14. Provisions (continued)

Employee related provisions are for long-term service awards and terminal gratuities liabilities which have been accrued and are based on contractual entitlement, together with an estimate of the probabilities that employees will stay until retirement and receive all relevant amounts. There are also amounts included in relation to restructuring. The provisions will be utilised over various periods driven by local legal or regulatory requirements, the timing of which is not certain.

Property provisions relate to leased properties which are either underutilised or vacant and where the unavoidable costs associated with the lease exceed the economic benefits expected to be generated in the future. The provision has been calculated based on the discounted cash outflows required to settle the lease obligations as they fall due, with the longest running lease ending in April 2039.

Other provisions are held for indemnities given on disposed businesses, legal and other costs that the Group expects to incur over an extended period. These costs are based on past experience of similar items and other known factors and represent management's best estimate of the likely outcome and will be utilised with reference to the specific facts and circumstances, with the majority expecting to be settled by 31 December 2021.

#### 15. Contingent Liabilities

The Company has guaranteed overdrafts, finance leases, and bonding facilities of its joint ventures up to a maximum value of £21.1m (2014: £26.2m). The actual commitment outstanding at 31 December 2015 was £20.8m (2014: £21.4m).

The Company and its subsidiaries have provided certain guarantees and indemnities in respect of performance and other bonds, issued by its banks on its behalf in the ordinary course of business. The total commitment outstanding as at 31 December 2015 was £211.8m (2014: £192.1m).

The Group is aware of other claims and potential claims which involve or may involve legal proceedings against the Group. The Directors are of the opinion, having regard to legal advice received and the Group's insurance arrangements, that it is unlikely that these matters will, in aggregate, have a material effect on the Group's financial position.

On 31 May 2011 we filed a claim with the Authority for Advance Rulings (AAR) to seek confirmation that Serco was not obliged to withhold Indian income tax from the purchase price on the acquisition of Intelenet. The AAR declined to rule on the matter, so Serco filed a claim with the High Court to decide or direct the AAR to rule on the matter. The High Court has issued a judgement in favour of Serco, that is, there was no requirement to withhold income tax. Further litigation to a higher court is a possibility. Should the matter be decided against Serco, it would be liable for unprovided tax of £27m together with accrued interest to 31 December 2015 of £14m. Having taken appropriate professional advice, Management considers it likely that Serco will ultimately be successful in this matter.

As we have disclosed before, we are under investigation by the Serious Fraud Office. In November 2013, the UK's Serious Fraud Office announced that it had opened an investigation, which remains ongoing, into our Group's Electronic Monitoring Contract. We are cooperating fully with the Serious Fraud Office's investigation but it is not possible to predict the outcome. However, disclosed in the Principle Risks and Uncertainties in the Group's Annual Report and Accounts is a description of the range of possible outcomes in the event that the Serious Fraud Office decides to prosecute the individuals and /or the Serco entities involved.

## 16. Financial Risk Management

### Fair Value of Financial Instruments

#### *i) Hierarchy of fair value*

The classification of the fair value measurement falls into three levels, based on the degree to which the fair value is observable. The levels are as follows:

Level 1: inputs derived from unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2: inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

Level 3: inputs are unobservable inputs for the asset or liability.

Based on the above, the derivative financial instruments held by the Group at 31 December 2015 and the comparison fair values for loans and finance leases, are all considered to fall into Level 2. Market prices are sourced from Bloomberg and third party valuations. The valuation models incorporate various inputs including foreign exchange spot and forward rates and interest rate curves. There have been no transfers between levels in the year.



## 16. Financial Risk Management (continued)

The Group held the following financial instruments which fall within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* at 31 December:

	Carrying amount (measurement basis)		Comparison fair value 2015	Carrying amount (measurement basis)		Comparison fair value Level 2 2014
	Amortised cost 2015	Fair value - Level 2 2015		Amortised cost 2014	Fair value - Level 2 2014	
	£m	£m	£m	£m	£m	£m
<b>Financial assets</b>						
<b>Financial assets - current</b>						
Cash and bank balances	323.6	-	323.6	180.1	-	180.1
Derivatives designated as FVTPL						
Forward foreign exchange contracts	-	6.6		-	5.6	
Derivative instruments in designated hedge accounting relationships						
Cross currency swaps	-	2.6		-	0.1	
Forward foreign exchange contracts	-	0.2		-	0.2	
Loans and receivables						
Trade receivables	173.6	-	173.6	146.8	-	146.8
Loan receivables	0.4	-	0.4	1.0	-	1.0
Security deposits	0.2	-	0.2	0.2	-	0.2
Amounts owed by joint ventures	0.8	-	0.8	0.1	-	0.1
<b>Financial assets – non-current</b>						
Derivative instruments in designated hedge accounting relationships						
Cross currency swap	-	7.8		-	7.0	
Loans and receivables						
Loan receivables	19.5	-	19.5	-	-	-
Other investments	3.4	-	3.4	3.9	-	3.9
Amounts owed by joint ventures	7.2	-	7.2	9.0	-	9.0
<b>Financial liabilities - current</b>						
Derivatives designated as FVTPL						
Forward foreign exchange contracts	-	(2.4)		-	(17.3)	
Derivative instruments in designated hedge accounting relationships						
Cross Currency Swaps	-	-		-	(0.3)	
Forward foreign exchange contracts	-	-		-	(0.1)	
Financial liabilities at amortised cost						
Trade payables	(93.6)	-	(93.6)	(99.8)	-	(99.8)
Loans	(132.2)	-	(132.2)	(43.9)	-	(43.9)
Obligations under finance leases	(15.8)	-	(15.8)	(9.6)	-	(9.6)
<b>Financial liabilities – non-current</b>						
Financial liabilities at amortised cost						
Loans	(249.7)	-	(246.8)	(753.4)	-	(762.9)
Obligations under finance leases	(28.0)	-	(28.0)	(16.9)	-	(16.9)

## 17. Notes to the Consolidated Cash Flow Statement

### Reconciliation of Operating Profit to Net Cash Inflow from Operating Activities

Year ended 31 December	2015 Before Excepti onal Items £m	2015 Exceptional Items £m	2015 Total £m	2014 Before Exceptional Items £m	2014 Exceptional Items £m	2014 Total £m
Operating profit/(loss) for the year – continuing operations	106.2	(109.9)	(3.7)	(626.8)	(325.7)	(952.5)
Operating profit/(loss) for the year – discontinued operations	26.5	(77.6)	(51.1)	(29.0)	(335.8)	(364.8)
<b>Operating profit/(loss) for the year</b>	<b>132.7</b>	<b>(187.5)</b>	<b>(54.8)</b>	<b>(655.8)</b>	<b>(661.5)</b>	<b>(1,317.3)</b>
Adjustments for:						
Share of profits in joint ventures	(37.0)	-	(37.0)	(30.0)	-	(30.0)
Share-based payment expense	9.8	-	9.8	5.4	-	5.4
Exceptional impairment of goodwill	-	153.4	153.4	-	466.0	466.0
Exceptional impairment of property, plant and equipment	-	0.8	0.8	-	18.6	18.6
Exceptional impairment of intangible assets	-	(0.3)	(0.3)	-	6.0	6.0
Impairment and write down of intangible assets - other	11.5	-	11.5	38.6	-	38.6
Impairment of property, plant and equipment - other	2.1	-	2.1	22.1	-	22.1
Depreciation of property, plant and equipment	28.9	-	28.9	41.8	-	41.8
Amortisation of intangible assets	29.0	-	29.0	38.7	-	38.7
Exceptional profit on disposal of subsidiaries and operations	-	(2.8)	(2.8)	-	0.8	0.8
Exceptional impairment of loan receivable	-	-	-	-	4.6	4.6
Loss on disposal of property, plant and equipment	0.1	-	0.1	-	-	-
Loss on disposal of intangible assets	1.5	-	1.5	0.2	-	0.2
Non cash R&D expenditure offset against intangible assets	0.8	-	0.8	-	-	-
Increase/(decrease) in provisions	(116.0)	(9.5)	(125.5)	472.6	85.5	558.1
Increase in deferred consideration in relation to prior year acquisition	-	-	-	4.0	-	4.0
Other non-cash movements	19.1	-	19.1	-	-	-
Impairment of working capital items (non-cash)	-	-	-	148.8	-	148.8
<b>Total non cash items</b>	<b>(13.2)</b>	<b>141.6</b>	<b>128.4</b>	<b>772.2</b>	<b>581.5</b>	<b>1,353.7</b>
<b>Operating cash inflow/(outflow) before movements in working capital</b>	<b>82.5</b>	<b>(45.9)</b>	<b>36.6</b>	<b>86.4</b>	<b>(80.0)</b>	<b>6.4</b>
Decrease/(increase) in inventories	5.6	-	5.6	(1.4)	-	(1.4)
Decrease in receivables	20.6	-	20.6	8.7	18.8	27.5
(Decrease)/increase in payables	(48.8)	(10.7)	(59.5)	9.7	20.8	30.5
<b>Movements in working capital</b>	<b>(22.6)</b>	<b>(10.7)</b>	<b>(33.3)</b>	<b>17.0</b>	<b>39.6</b>	<b>56.6</b>
<b>Cash generated by operations</b>	<b>59.9</b>	<b>(56.6)</b>	<b>3.3</b>	<b>103.4</b>	<b>(40.4)</b>	<b>63.0</b>
Tax (paid)/repaid	(2.7)	-	(2.7)	0.6	-	0.6
Non cash R&D expenditure	(0.7)	-	(0.7)	(0.5)	-	(0.5)
<b>Net cash (outflow)/inflow from operating activities</b>	<b>56.5</b>	<b>(56.6)</b>	<b>(0.1)</b>	<b>103.5</b>	<b>(40.4)</b>	<b>63.1</b>

Additions to fixtures and equipment during the year amounting to £5.2m (2014: £12.5m) were financed by new finance leases.

## 18. Assets Held For Sale

As part of the Strategy Review, certain assets and liabilities have been designated as non-core and are held for sale. As at 31 December 2015 this is limited to the Middle East elements of the offshore private sector BPO operations and the remaining onshore private sector BPO businesses, all of which is expected to be sold in 2016.

Following the agreement to dispose of the offshore private sector BPO operations it was determined that the Environmental Services and Leisure businesses would no longer be disposed for both strategic and financial reasons. As a result, these operations were transferred out of held for sale at 15 December 2015, the point at which this decision was made and publically announced.

	Note	At 31 December 2015 £m	At 31 December 2014 £m
<b>Assets</b>			
Goodwill	12	7.8	279.1
Other intangible assets		0.4	5.0
Property, plant and equipment		0.9	94.5
Deferred tax assets		-	11.0
Other non current assets		0.2	26.8
Inventories		-	2.7
Current tax		4.7	4.2
Cash and cash equivalents		5.2	22.4
Other current assets		20.6	119.0
Assets classified as held for sale		39.8	564.7
The balances included as held for sale are as follows:			
<b>Liabilities</b>			
Other current liabilities		(7.4)	(96.1)
Current tax liabilities		(0.1)	(21.8)
Provisions	14	(24.5)	(30.0)
Obligations under finance leases		(0.5)	(37.1)
Loans		-	(24.8)
Deferred tax liabilities		-	(2.5)
Other non current liabilities		-	(7.6)
Liabilities directly associated with assets classified as held for sale		(32.5)	(219.9)