

Serco Limited

Annual Report and Financial Statements
for the Year Ended 31 December 2012



A company registered in England and Wales, number 00242246

Serco Limited

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Serco Limited

Company information

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

Auditor Deloitte LLP
London
United Kingdom

Serco Limited

Directors' Report for the Year Ended 31 December 2012

The directors present their Report and the financial statements for the year ended 31 December 2012. As set out in note 1 to the financial statements, the directors consider it appropriate to prepare the accounts on the going concern basis.

The Company meets the definition of a qualifying entity under Financial Reporting Standard 100 as issued by the Financial Reporting Council. During the year decision was taken to replace the reporting framework under United Kingdom Generally Accepted Accounting Practice (UK GAAP) and adopt Financial Reporting Standard (FRS) 101 Reduced Disclosure Framework. As a result the comparative results have been restated to reflect changes in reporting under the new regime.

Principal activity

The principal activity of the Company is to deliver essential services mainly in the public sector by effectively managing people, processes, technology and assets. Serco Limited supports governments, agencies and companies by offering operational, management and consulting expertise in the aerospace, defence, education, health, home affairs, local government, science, technology, transport and commercial sectors.

The Company's work for national and local governments involves us in the most important areas of public service, including transport, defence, science, employment, offender management, IT, BPO and education. Our private sector customers are industry leading organisations in a wide variety of markets.

Serco Limited is a subsidiary of Serco Group plc.

Business review

Turnover has increased by £22.5m or 1.3% (2011 decrease of £57.1m or 3.1%) to £1,784.9m (2011 £1,762.4m). Operating profit, exclusive of investment impairments of £9.7m (2011 £35.0m) and net profit on disposal of operations of £74.0m (2011 £nil) has decreased by £0.3m (2011 decrease of £19.3m restated). Operating profit for the financial year is £132.1m (2011 £33.1m restated) and now represents 7.4% of turnover (2011 1.9% restated). Net assets of the Company have decreased by £16.4m to £582.6m (2011 £16.6m increase restated). After restatement of the 2011 results for the transition to FRS 101 the comparative net assets as restated are £599.0m compared to previously reported of £582.4m. The effect of the restatement is explained in detail in note 2 of the financial statements. A dividend of £100.0m (2011 £30.0m) was paid to the parent company during the year.

In January 2012 Serco announced a new divisional structure. As a result Serco has created a new Global Services segment to bring together all Serco's middle and back office skills and capabilities. Serco has consolidated its frontline Civil Government, Defence, Science & Nuclear, and Local Government & Commercial businesses into a single segment.

The Company has seen a number of acquisitions and disposals of operations which are reflected in the results for the financial year. On 13 April 2012 Serco Limited entered into an agreement to acquire the trade and assets of Anglia Support Partnership (ASP). ASP provides support services to the Cambridge and Peterborough NHS Foundation Trust, together with a further five partnering NHS organisations. The trade and assets of two fellow group companies were also acquired during the year, Serco Public Services Limited on 31 October 2012 and Serco Listening Company Limited (formerly The Listening Company Limited) was acquired on 31 December 2012. Consideration paid for these acquisitions, net of cash acquired, was £81.4m.

Serco Limited also disposed of a number of operations during the financial year. On 29 June 2012 Serco's Technical Assurance business, which provided consulting and project solutions to the UK civil and nuclear defence markets, was disposed of for consideration of £135.3m. On 21 December 2012 the Company agreed to dispose of its UK data hosting operations for £nil cash consideration. Finally, on 31 December 2012 the Company completed the disposal of its Education Software business for consideration of £5.3m. The net profit on disposal of operations for the financial year was £74.0m.

UK & Europe

The UK & Europe division includes our frontline services in home affairs (encompassing justice-related operations, immigration and border security, and welfare), health, transport and local direct services, and defence & science.

Serco Limited

Directors' Report for the Year Ended 31 December 2012

Our operations in home affairs saw the new HMP Thameside prison at Belmarsh West in London, become operational in 2012. As one of the most technologically advanced prisons in the world, it has, for example, advanced CCTV digital recording and monitoring, the latest drug and contrabands intervention equipment, biometric key vending for staff, and in-cell IT for prisoner education and administration. In the probation services market, which is expected to see substantial future development with the introduction of competition to improve services and efficiencies, Serco has been awarded the first UK contract. In partnership with the London Probation Trust, Serco is operating Community Payback which requires offenders to undertake unpaid work for the community.

For the UK Border Agency (UKBA), Serco commenced the delivery of the COMPASS project, providing accommodation, transport and associated services for asylum applicants in the northwest of England and in Scotland and Northern Ireland. Full Permit to Operate in both regions was awarded at the end of 2012 and Serco is now managing over 6,000 service users across 2,800 properties.

In the welfare to work market, our Work Programme performance continues to rank Serco as one of the leading performers in securing successful job outcomes from the referrals made to our services. Reflecting our approach and performance in this market, Serco's consortium was awarded a contract to deliver the National Citizen Service across six regions in the UK. Expanding our experience of working in partnership with the voluntary sector, Serco in association with National Youth Agency, UK Youth, Catch 22 and vInspired will offer 16 and 17-year olds from different backgrounds a six-week programme to develop life skills through community activities working with charitable organisations and business leaders.

A number of significant new health contracts began during 2012. For the NHS in Suffolk, Serco commenced operations in October to provide a wide range of community health services. In integrated facilities management (FM) services for the health market, Serco began a new contract for the East Kent Hospitals University NHS Foundation Trust, delivering services to three acute hospitals, two community hospitals and several small clinics in the area. Elsewhere, our GSTS pathology joint venture is delivering the necessary efficiency improvements as it modernises services.

Our London transport contracts - comprising the Docklands Light Railway (DLR), the Barclays Cycle Hire scheme and traffic management operations - have all achieved excellent operational performance during the year. Serco continues to support growth in regular journeys as well as annual events such as the London marathon, and successfully executed the significant additional workload involved in the Diamond Jubilee and the 2012 Olympic Games. The DLR in particular was a key part of the London 2012 Games transport network, with the Stratford International Extension, opened last summer, adding four new stations and connecting five Games venues. Since the year-end our DLR contract has been extended to September 2014. In July, Barclays Cycle Hire rentals exceeded one million for the first time in any month.

In July, Serco began operating a new contract for lifeline freight and passenger ferry services to the Northern Isles in Scotland, building on our experience of managing and transforming other critical local transport services such as Northern Rail and Scatsta Airport on the Shetland Islands. Serco also has extensive operations in the international marine market including services for the Royal Navy through which it operates more ships under the UK flag than any other company.

In direct services for local authorities, a number of contracts were awarded during the year. In April, Serco began providing refuse and recycling services for 127,000 households in the London Borough of Wandsworth, helping the council to meet Government recycling targets and reduce costs such as landfill taxes. The contract is valued at £44m over eight years. Serco has been appointed to operate a new joint environmental services contract for Wycombe and Chiltern District Councils. The integrated services include household waste, recycling collections and street cleansing, with the joint contract targeting operational efficiencies whilst increasing recycling rates across both districts. The initial seven-year contract is valued at approximately £55m. Serco has also successfully rebid its waste and recycling services contract and its landscapes and grounds maintenance services contract for Canterbury City Council.

Our defence operations saw Serco begin to operate a new contract for the MOD in April 2012 to provide training and support to the British Army prior to deployment on operations overseas. Known as the Contemporary Operating Environment Force (COEFOR), and awarded by Army Headquarters, critical pre-deployment training includes language, cultural and operational environment skills, and the creation of realistic training conditions to prepare UK military forces for operations in Afghanistan and other theatres of operation around the world. The contract runs to December 2014, including an option year, and has a total value of approximately £55m.

Serco Limited

Directors' Report for the Year Ended 31 December 2012

Our defence multi-activity contracts at RAF Northolt and RAF Brize Norton were expanded in the year. Additional services include IT, vehicle maintenance, expanded aircraft handling and the maintenance of two aircraft operating out of the Middle East using Sponsored Reserves. We successfully rebid our multi-activity contract at RAF Cranwell, home to the Royal Air Force College which selects and trains all new officers and aircrew and where we support 3,000 simulator hours and 5,500 flying hours per year. The combined total value of the expansions and rebid, which have two to three-year terms, is approximately £30m. A new contract for RAF Valley, supporting their crucial role in training fast jet pilots for both the RAF and the Royal Navy, also became operational in the year.

For Defence Business Services (DBS), Serco was awarded a contract to provide an executive leadership team. DBS provides corporate services for the MOD such as civilian human resources, finance, information and security vetting. Serco is working with DBS staff to transform the organisation into a lean and effective shared services centre, building on private sector best practice. The contract is valued at around £36m over its initial four-year duration.

Serco Global Service (SGS)

In 2012, Serco created a new global BPO division, bringing together all of Serco's middle and back office skills and capabilities across customer contact, transaction and financial processing, and related consulting and technology services. The new Global Services division improves the services we provide to customers and addresses a wider range of opportunities in both the private and public sectors. This is a developing area of the business and there have been significant contract wins for this division during the year, most of which will begin to contribute revenues during 2013.

The Peterborough City Council strategic partnership, which had an initial value of £100m over 10 years, saw the transfer of the in-house shared service centre to Serco in late 2011. Serco is already successfully growing this contract with further services such as procurement being brought into scope as part of the Council's transformation. The Hertfordshire County Council operations which commenced in April 2011 have also widened their scope, with staff numbers more than doubling and new operations such as the Adult Social Care Access Service now being provided. Additionally, Serco's property and IT joint venture with Glasgow City Council, known as ACCESS, has seen Information, Communications and Technology (ICT) support for the authority's schools added to its responsibilities.

In the public sector, Serco acquired the trade and assets of The Anglia Support Partnership (ASP) in April 2012. This is Serco's first shared services proposition in the emerging market for middle and back office support to the UK health sector. Current support services include operational and specialist IT, finance operations, employment services, contracts management, procurement, primary care support services, occupational health, risk management, catering and estates and property. The framework agreement also permits the call-off of additional services and other NHS organisations to access services.

In July 2012 Serco began operating a new ten-year contract for Shop Direct Group, the UK's leading online and home shopping retailer, valued in total at approximately £430m. Initially this contract operated within Serco Listening Company Limited which was acquired by Serco Limited during the year. Serco has taken over responsibility for providing all customer contact services across Shop Direct's brands. The partnership will work together to significantly enhance service levels and efficiency through investment in the latest technology, such as web chat and mobile digital services, which are designed to integrate seamlessly online and mobile customer contact management.

In November 2012 Serco began a new outsourcing partnership to provide customer contact and support services for AEGON, the leading life and pensions company, marking Serco's entry into this important segment of the financial services market. The initial ten-year contract is valued in total at around £170m. Delivering a wide range of services for AEGON's UK-based protection business, Serco is managing all aspects of the customer journey from initial underwriting through to claims processing as well as servicing a small number of closed book policies. Serco is responsible for the administration of approximately 500,000 current and closed book policies in total.

Many other new private sector BPO operations began during 2012. In retail, a £55m ten-year contract with Freemans Grattan Holdings, also acquired from Serco Listening Company Limited, sees Serco delivering all aspects of customer contact services including customer enquiries, inbound and outbound sales, credit applications, payments, order processing, white mail and e-mail handling. Serco also secured new relationships with two of the UK's most prestigious retailers to provide services including order line and customer management, while for a leading European media company Serco is providing frontline customer contact, back office and specialist support from an expanded service centre in Teltow, near Berlin, Germany. These three contracts, which have three to five-year terms have a total combined value of approximately £50m.

Serco Limited

Directors' Report for the Year Ended 31 December 2012

Serco was awarded a new contract to provide multi-lingual customer contact services for leading European airline easyJet. Serco has responsibility for the operation, administration and management of easyJet's multi-channel customer contact, delivered through a blend of near-shore and off-shore provision from Poland and India. This initial three-year contract has a total value of approximately £18m. Serco also began a wide range of customer sales services for British Gas in the UK, delivering customer acquisition activities for energy, domestic appliance and drain care services in a new three-year contract valued in total at approximately £16m.

Principal risks and uncertainties

The Company has receivable balances from long-term contracts with third party customers. The directors do not consider that the Company is exposed to significant credit risk due to the nature and size of the contracts and there being no reliance on an individual customer.

The Company has no significant external borrowings and so the directors do not consider that the Company is exposed to interest risk or liquidity risk.

Risk management is fundamental to how the business is managed. Financial risk management for the Serco Group is undertaken by Serco Group plc. The Group risk register is updated at least quarterly, reviewed six-monthly by the Risk Oversight Group and discussed at quarterly board meetings. Risk management policies, systems and processes form part of the Serco Management System (SMS).

Principal risks and uncertainties relating to the Company are as follows:

Risk - Significant change in political environment (e.g. Government policies, expenditure levels and budgetary constraints)

As a major proportion of Serco's customers are governments and governmental agencies, a substantial part of the business is dependent on government policies, budget priorities and regulatory or political constraints. As such, these businesses are susceptible to changes in government, government policy, budget allocations and the political environment. Any reduction in such government expenditure and funding could result in a suspension, cancellation, termination or non-renewal of contracts. Revenues may also be adversely affected by changes to the UK government's policy in respect of outsourcing.

Impact

- Reduction in market opportunities
- Changes to terms of existing or new contracts
- Failure to meet growth or profit expectations

Mitigation

- Business strategy
- Diverse business across geographies and markets
- External Affairs monitor political landscape and government activities
- Dedicated teams regularly monitor the political landscape and government activities, reporting on government policy changes and the political environments where Serco operates, as well as development in expertise and capabilities in new markets and geographies

Risk - Failure to win a strategic or significant bid or rebid

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

Impact

- Failure to meet growth or profit expectations
- Significant financial loss or cost overrun
- Negative reputational impact potentially resulting in loss of existing or new business
- Impact on strategic objectives

Mitigation

- Business Lifecycle Governance process embedded in SMS
- Governance structure managed through Investment and Ethics Committee, Programme and Project Boards, and Divisional and Contract Boards
- Business strategy and targets managed through internal boards
- Regular review and monitoring of risk registers
- Gate review and formal sign-off process
- Robust bidding and contract review process including financial, technical and commercial reviews

Serco Limited

Directors' Report for the Year Ended 31 December 2012

Risk - Any harm to the Company's reputation could adversely impact business

The Company is dependent on maintaining its reputation in each jurisdiction in which it operates in order to maintain and grow its business. It is exposed to the risk that litigation, misconduct, operational failures and negative publicity could harm its reputation.

Impact

- Failure to meet growth or profit expectations
- Significant financial loss or cost overrun
- Loss of contract revenue related to operations and service charges
- Inability to attract the human and financial capital necessary to grow and expand into new markets
- Damage to reputation resulting in loss of existing or new business
- Impact on strategic objectives

Mitigation

- Governance structure managed through Investment and Ethics Committee, Programme and Project Boards, and Divisional and Contract Boards
- Effective structure to identify risk, issues and appropriate controls allowing effective management and oversight
- Customer engagement and employee engagement strategies
- Relationship management and communication

Risk - Failure of significant programmes, including operating within agreed fixed costs

Serco has a number of complex programmes which it is contracted to deliver for the customer. These are often let on a fixed price basis irrespective of the actual costs incurred, and therefore if costs exceed the contract ceiling the Company may not be able to obtain full reimbursement. Further, some projects require delivery in accordance with specified milestones on agreed dates. Significant adverse financial consequences can be imposed where milestones are not met or a project is not delivered on time. The length and complexity of such projects mean that management estimates can be particularly difficult to make and could turn out to be inaccurate.

Impact

- Failure to meet growth or profit expectations
- Significant financial loss or cost overrun
- Loss of contract revenue related to operations and service charges
- Damage to client relations and wider reputation resulting in loss of existing or new business
- Impact on strategic objectives

Mitigation

- Robust bidding and contract review process including financial, technical and commercial reviews
- Governance structure managed through Investment and Ethics Committee, Programme and Project Boards, and Divisional and Contract Boards
- Robust cost accounting
- Business strategy and targets
- Regular review and monitoring of Risk Registers
- Gate review and formal sign-off process
- Quality management systems

Risk - Additional funding requirements for pension schemes

Serco operates defined benefit pension schemes for qualifying employees. The nature of a defined benefit scheme means that the funding levels of the schemes are subject to factors outside Serco's control, including the introduction of new legislation, which could create or impact a deficit in the scheme at future actuarial valuations. If the deficit in the scheme increases at future actuarial valuations, Serco may be required to make additional cash contributions to the schemes in the future, preventing the use of cash for other purposes, which could have a material impact on Serco's business, financial condition and results of operations over the long term.

Impact

- Inability to meet profit expectations
- Reduction of cash availability

Mitigation

- Obtain actuarial assessment of scheme liabilities
- Appropriate investment management and independent measurement of asset returns
- Ensure robust monitoring via HR policy, systems and governance structure including review by the Audit and Remunerations Committees and the Board of Pension Trustees

Serco Limited

Directors' Report for the Year Ended 31 December 2012

Risk - Major accident or incident

It is possible that a major catastrophic event could occur at one of the projects in relation to which Serco has provided professional design, construction, engineering or support services. Such a catastrophic event could result in the personal injury or death of one or more employees of the Company or members of the public, significant environmental harm and/or extensive damage to third party property. If this event is perceived to be caused by the negligence of Serco it could result in payment of extensive damages and significant adverse publicity and reputational harm. Such adverse publicity and reputational harm could lead to loss of business.

Impact

- Death or serious injury to employees or third parties
- Major environmental damage
- Financial impact (e.g. damages, compensation)
- Loss of business
- Contract and business external accreditations withdrawn
- Significant media attention and future scrutiny
- Criminal and civil action

Mitigation

- Robust management systems subject to external and regulatory scrutiny and oversight
- System certification and regulatory approval
- Formal oversight through GRMSC, Health, Safety and Environmental Oversight Group, Divisional and Internal Boards
- Crisis management and business continuity plans in place
- Insurance
- Staff induction and training
- Effective Quality Management Systems embedded in the business
- Formal assurance structure operating within defined competencies

Risk - Major information security loss or breach

Serco must comply with restrictions on the handling of sensitive information (including personal and customer) and provide for secure transmission of such information. This is a heightened risk particularly with respect to government contracts due to the sensitive and confidential nature of government data. Despite controls to ensure the confidentiality of such information, Serco may breach restrictions or be subject to cyber attacks that may attempt to penetrate its network security and misappropriate confidential information.

Impact

- Loss of service to our customers
- Damage to reputation resulting in loss of existing or new business (disqualification from future tenders, contract termination, etc.)
- Impact on strategic objectives
- Costly to rectify and potential for dilution of shareholder returns
- Criminal and civil action
- Contract and business external accreditations withdrawn
- Significant media attention and future scrutiny

Mitigation

- Security and information systems policies, systems and embedded governance structure
- Think Privacy campaign to raise staff awareness, provide training, promote incident reporting and strengthen control processes
- Cyber Security Contract Risk Assessments
- Cyber Resilience of Enterprise Applications
- User Management, Multifactor Authentication, User Awareness
- Regular risk reviews
- ISO 27000 certification

Serco Limited

Directors' Report for the Year Ended 31 December 2012

Risk- Major IT Failure or prolonged loss of critical IT systems

The IT Strategy is focused on standardising common processes, establishing common business systems and enabling ways of working by providing and embedding tools that support what we do. Within this the Company has defined enterprise applications. These are key information technology-based business systems within Serco. They include SAP for Finance, Procurement and Human Resources, Payroll, Risk Management, Safety Assurance, email, intranet and Nimbus Control for Process Excellence systems. Failings in the systems have the potential to seriously impact the management of the business.

Impact

- Damage to reputation resulting in loss of existing or new business
- Impact on strategic objectives
- Inability to meet contract requirements or perform core business processes
- Costly to rectify and potential for dilution of shareholder returns
- Significant media attention and future scrutiny

Mitigation

- Information policies and systems and embedded governance structure
- Data recovery capability designed into systems and periodically tested
- Design out single points of failure
- Server and system performance monitoring and reporting
- Capacity management
- Data back-up and business continuity plans in place

Risk - Significant incident of bribery or corrupt practice

Serco operates in international markets, which brings with it inherent risks including bribery and corruption, particularly in certain developing nations. Serco operates in a number of countries which are recognised as having a higher bribery and corruption risk. Increasing legislation significantly increases the consequences of bribes and other corrupt practices.

Impact

- Legal action and fines against the Company
- Debarment from tender lists
- Damage to reputation resulting in loss of existing or new business
- Significant media attention and future scrutiny

Mitigation

- Policies and systems embedded in SMS
- Code of conduct
- Ethics Committee
- Speak Up process
- Ethics and compliance programme and training
- Risk assessment
- Third party contracts

Risk - Failure to build depth & capability of leaders 'Fit for Future'

The success of the Company depends on the efforts, abilities, experience and expertise of the senior management teams and on recruiting, retaining, motivating, effectively communicating with and developing highly skilled and competent people at all levels of the organisation.

Impact

- Risk of not achieving level of planned growth
- Increased cost in recruitment activity and time taken to fill roles
- Instability and loss of business continuity
- Dilution of brand and values
- Reduced employee engagement through loss of compelling leadership
- Strengthen competitors (loss of leaders to them)

Mitigation

- People policies and systems, strategy and targets supported by Governance structure including Remunerations Committee
- Succession planning and Leadership model
- Annual external (independent) remuneration review
- Job structure and grading system
- Talent database and leadership development programme
- Employment engagement strategy, including annual staff survey

Serco Limited

Directors' Report for the Year Ended 31 December 2012

Directors of the Company

The directors who held office during the year and to the date of this report were as follows

G Leach

A Crawshaw

J Stafford

R Judge (appointed 16 May 2012)

T Lawlor (appointed 16 May 2012)

N Brown (resigned 16 May 2012)

A White (resigned 16 May 2012)

D Gibson (resigned 16 May 2012)

T Riall (resigned 8 March 2013)

Creditor payment policy

The Company requires its business units to negotiate and agree the terms and conditions for payment for the supply of capital and revenue items. Suppliers are made aware of the terms and the way in which disputes are to be settled. Payment is then made in accordance with those terms. The Company's average creditor payment terms in 2012 were 29 days (2011: 26 days) based on the average daily amount invoiced by suppliers during the year.

Donations

During the year the Company made charitable donations of £0.4m (2011: £0.2m) to local and national charities. The Company did not make any political donations during the current or preceding financial year.

Disabled employees

Full and fair consideration is given to applications for employment made by the disabled, having regard to their aptitude and ability. Appropriate training is arranged, including retraining of employees who have become disabled.

Employee involvement

Managers are tasked with developing employees' awareness of factors affecting business and matters concerning them as employees and noting employees' views so that they can be taken into account when making decisions that may affect them or the business. Regular meetings are held with employee representatives where trade union or staff associations are recognised or where works councils are constituted.

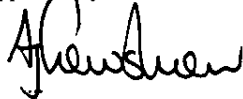
Disclosure of information to the auditor

Each director has taken steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditor is aware of that information. The directors confirm that there is no relevant information that they know of and of which they know the auditor is unaware. This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

Auditor

Elective resolutions to dispense with holding annual general meetings, the laying of accounts before the Company in general meeting and the reappointment of the auditor annually are currently in force. Deloitte LLP has expressed its willingness to continue in office and will therefore be deemed to be reappointed.

Approved by the Board on 28 June 2013 and signed on its behalf by



A Crawshaw
Director

Serco Limited

Directors' Responsibilities Statement

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the directors are required to

- select suitable accounting policies and apply them consistently,
- make judgments and accounting estimates that are reasonable and prudent,
- state whether Financial Reporting Standard 101 Reduced Disclosure Framework has been followed, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Serco Limited

Independent Auditor's Report to the Members of Serco Limited

We have audited the financial statements of Serco Limited for the year ended 31 December 2012 comprising the Profit and Loss Account, Statement of Comprehensive Income, Balance Sheet, Statement of Changes in Equity and related notes 1 to 30 set out on pages 12 to 46. The financial reporting framework that has been applied in their preparation is applicable law and Financial Reporting Standard 101 Reduced Disclosure Framework.

This report is made solely to the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body for our audit work, for this report or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement (set out on page 10), the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors to the financial statements.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Directors' Report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies, we consider the implications for our report.

Opinion on the financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2012 and of its profit for the year then ended;
- have been properly prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

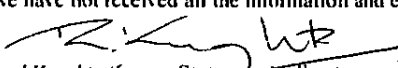
Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.


Richard Knights (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom

Date 28/6/2013

Serco Limited

Profit and Loss Account for the Year Ended 31 December 2012

| | | 2012 | 2011 | 2011 |
|---|------|------------------|------------------|-------------------------------|
| | Note | £ m | Restated £ m | Originally reported £ m |
| Turnover | 3 | 1,784 9 | 1,762 4 | 1,762 4 |
| Cost of sales | | <u>(1,561 3)</u> | <u>(1,568 1)</u> | <u>(1,568 1)</u> |
| Gross profit | | <u>223 6</u> | <u>194 3</u> | <u>194 3</u> |
| Other administrative expenses | | (135 0) | (108 7) | (108 8) |
| Amortisation of intangible fixed assets | 13 | (20 0) | (17 5) | (36 9) |
| Amounts written off fixed asset investments | 16 | (9 7) | (35 0) | (35 0) |
| Acquisition-related transaction costs | | (0 8) | - | - |
| Net profit on disposal of operations | 5 | <u>74 0</u> | <u>-</u> | <u>-</u> |
| Administrative expenses | | <u>(91 5)</u> | <u>(161 2)</u> | <u>(180 7)</u> |
| Operating profit | | 132 1 | 33 1 | 13 6 |
| Investment income | 8 | 17 4 | 35 0 | 35 0 |
| Interest receivable and similar income | 9 | 10 6 | 10 7 | 10 7 |
| Interest payable and similar charges | 10 | <u>(13 3)</u> | <u>(11 8)</u> | <u>(11 8)</u> |
| Profit for the financial year before tax | | 146 8 | 67 0 | 47 5 |
| Tax on profit on ordinary activities | 11 | <u>(12 3)</u> | <u>(21 4)</u> | <u>(21 4)</u> |
| Profit for the financial year | | <u>134 5</u> | <u>45 6</u> | <u>26 1</u> |

The restatement relates to the transition to FRS 101 Reduced Disclosure Framework, see note 2 for details

Serco Limited

Statement of Comprehensive Income for the Year Ended 31 December 2012

| | | 2012 | 2011 | 2011 |
|---|------|-------------|-----------------|-------------------------------|
| | Note | £ m | Restated £ m | Originally reported £ m |
| Profit for the financial year | | 134.5 | 45.6 | 26.1 |
| Other comprehensive income for the financial year: | | | | |
| Net exchange (losses)/gains on translation of foreign operations | | (1.2) | 0.1 | - |
| Amortisation of cash flow hedging reserve | | (0.1) | 0.1 | 0.1 |
| Net fair value (losses)/gains on cash flow hedges | | (0.6) | 0.3 | 0.3 |
| Net actuarial (losses)/gains on defined benefit pension schemes | 23 | (98.5) | 63.4 | 67.3 |
| Tax charge on actuarial gains/(losses) on defined benefit pension schemes | | 20.5 | (18.3) | (18.3) |
| Actuarial gains on reimbursable rights | 23 | 23.9 | 8.4 | 8.4 |
| Tax charge/(credit) on hedging and translation reserve | | 0.2 | (0.1) | (0.1) |
| Total comprehensive income for the financial year | | <u>78.7</u> | <u>99.5</u> | <u>83.8</u> |

The restatement relates to the transition to FRS 101 Reduced Disclosure Framework, see note 2 for details

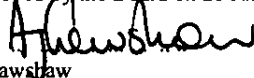
Serco Limited

(Registration number: 00242246) Balance Sheet as at 31 December 2012

| | Note | 2012 £ m | 2011 Restated £ m | 2011 Originally reported £ m |
|---|------|----------------|-------------------------|---------------------------------------|
| Fixed assets | | | | |
| Goodwill | 13 | 367.4 | 318.5 | 302.1 |
| Other intangible fixed assets | 13 | 103.5 | 76.8 | 73.8 |
| Tangible fixed assets | 17 | 81.1 | 81.5 | 81.5 |
| Investments | 16 | 9.0 | 18.7 | 18.7 |
| Derivative financial instruments | 29 | - | 0.3 | 0.3 |
| | | <u>561.0</u> | <u>495.8</u> | <u>476.4</u> |
| Current assets | | | | |
| Stocks | 18 | 24.4 | 23.1 | 23.1 |
| Debtors amounts falling due within one year | 19 | 580.8 | 434.2 | 434.2 |
| Debtors amounts falling due after more than one year | 19 | 50.2 | 53.2 | 70.3 |
| Derivative financial instruments | 29 | 0.3 | 0.6 | 0.6 |
| Cash at bank and in hand | | <u>84.7</u> | <u>27.3</u> | <u>27.3</u> |
| | | <u>740.4</u> | <u>538.4</u> | <u>555.5</u> |
| Creditors amounts falling due within one year | | | | |
| Creditors amounts due within one year | 20 | (471.8) | (400.7) | (401.0) |
| Derivative financial instruments | 29 | <u>(0.2)</u> | <u>(0.3)</u> | <u>(0.3)</u> |
| Creditors amounts falling due within one year | | <u>(472.0)</u> | <u>(401.0)</u> | <u>(401.3)</u> |
| Net current assets | | <u>268.4</u> | <u>137.4</u> | <u>154.2</u> |
| Total assets less current liabilities | | <u>829.4</u> | <u>633.2</u> | <u>630.6</u> |
| Creditors amounts falling due after more than one year | | | | |
| Creditors amounts falling due after more than one year | 21 | (281.3) | (133.3) | (124.7) |
| Provisions for liabilities | 22 | <u>(17.5)</u> | <u>(4.2)</u> | <u>(3.9)</u> |
| Net assets excluding pension asset/(liability) | | <u>530.6</u> | <u>495.7</u> | <u>502.0</u> |
| Defined benefit pension liability | 23 | (17.7) | (19.0) | (14.2) |
| Defined benefit pension asset | 23 | <u>69.7</u> | <u>122.3</u> | <u>94.6</u> |
| Net assets | | <u>582.6</u> | <u>599.0</u> | <u>582.4</u> |
| Capital and reserves | | | | |
| Called up share capital | 24 | 0.2 | 0.2 | 0.2 |
| Share premium | | 457.3 | 457.3 | 457.3 |
| Share-based payments | | 38.0 | 33.1 | 32.7 |
| Hedging and translation reserve | | - | 0.5 | 0.5 |
| Profit and loss account | | 221.6 | 188.3 | 168.2 |
| Retirement benefit obligations reserve | | <u>(134.5)</u> | <u>(80.4)</u> | <u>(76.5)</u> |
| Shareholders' funds | 25 | <u>582.6</u> | <u>599.0</u> | <u>582.4</u> |

The restatement relates to the transition to FRS 101 Reduced Disclosure Framework, see note 2 for details

Approved by the Board on 28 June 2013 and signed on its behalf by


A Crawshaw

Serco Limited

Statement of Changes in Equity for the Year Ended 31 December 2012

| | Share capital £ m | Share premium £ m | Share-based payment reserve £ m | Hedging and translation reserve £ m | Retirement benefit obligations reserve £ m | Profit and loss account £ m | Total equity £ m |
|--|----------------------|----------------------|------------------------------------|--|---|--------------------------------|---------------------|
| At 1 January 2011 originally reported | 0.2 | 457.3 | 27.6 | 0.2 | (133.9) | 172.1 | 523.5 |
| Prior year adjustment due to transition to FRS 101 | - | - | - | - | - | 0.5 | 0.5 |
| At 1 January 2011 as restated | 0.2 | 457.3 | 27.6 | 0.2 | (133.9) | 172.6 | 524.0 |
| Total comprehensive income for the financial year | - | - | - | 0.3 | 53.5 | 45.7 | 99.5 |
| Equity dividend paid | - | - | - | - | - | (30.0) | (30.0) |
| Credit in relation to share-based payments | - | - | 5.1 | - | - | - | 5.1 |
| Tax credit in relation to share-based payments | - | - | 0.4 | - | - | - | 0.4 |
| At 1 January 2012 restated | 0.2 | 457.3 | 33.1 | 0.5 | (80.4) | 188.3 | 599.0 |
| Total comprehensive income for the financial year | - | - | - | (0.5) | (54.1) | 133.3 | 78.7 |
| Equity dividend paid | - | - | - | - | - | (100.0) | (100.0) |
| Credit in relation to share-based payments | - | - | 4.8 | - | - | - | 4.8 |
| Tax credit in relation to share-based payments | - | - | 0.1 | - | - | - | 0.1 |
| At 31 December 2012 | 0.2 | 457.3 | 38.0 | - | (134.5) | 221.6 | 582.6 |

The restatement relates to the transition to FRS 101 Reduced Disclosure Framework, see note 2 for details

Serco Limited

Notes to the Financial Statements for the Year Ended 31 December 2012

1 General Information

Serco Limited is a Company incorporated in the United Kingdom under the Companies Act. The address of the registered office is given on page 1. The nature of the Company's operations and its principal activities are set out in the Directors' Report on pages 2 to 9.

2 Accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied throughout the current and preceding years, unless otherwise stated.

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Directors' Report on pages 2 to 9.

Basis of preparation

The Company meets the definition of a qualifying entity under FRS 100 (Financial Reporting Standard 100) issued by the Financial Reporting Council. Accordingly, in the year ended 31 December 2012 the Company has undergone transition from reporting under UK GAAP to FRS 101 as issued by the Financial Reporting Council. The financial statements have therefore been prepared in accordance with FRS 101 (Financial Reporting Standard 101) 'Reduced Disclosure Framework' as issued by the Financial Reporting Council.

The key changes in accounting treatments applied in these financial statements relate to the following (see note 26 for the financial impact of the restatement on the December 2011 reserves):

- Under FRS 101 goodwill is not required to be amortised so amortisation has not been applied to capitalised goodwill from 1 January 2011, the result has been an increase to operating profit and the net book value of goodwill carried forward at 31 December 2011 as restated of £22.1m, and
- Under FRS 101 customer relationships acquired on acquisition of subsidiaries and operations are capitalised and amortised. Previous treatment under UK GAAP did not permit this treatment so the additional assets acquired were recognised as part of goodwill. The impact on the 2011 restated results shows previously reported goodwill of £5.7m being capitalised as other intangible fixed assets and amortised over the remaining life of the customer relationship asset. This has resulted in a £2.7m amortisation charge for the year ended 31 December 2011, and
- Under FRS 101 the deferred tax disclosure relating to retirement benefit assets or obligations differs. Any previously recognised deferred tax assets or liabilities that related to retirement benefit movements which were netted off against the retirement benefit asset or obligations have been reclassified within the deferred tax asset/(liability). The financial impact of this is to reclassify £26.8m of deferred tax liabilities within the 2011 restated results, and
- Under FRS 101 the recognition policy in respect of IFRIC 14 adjustments on defined benefit pension obligations differs, resulting in an increase in the retirement benefit obligation for the year ended 31 December 2011 of £3.9m, and
- Under FRS 101 provisions in respect of employee obligations are permitted which has resulted in £0.3m of provisions previously recognised as accruals now being reclassified as provisions.

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to share-based payments, financial instruments, capital management, presentation of comparative information in respect of certain assets, presentation of a cash flow statement, standards not yet effective, impairment of assets and related party transactions.

The financial statements have been prepared on the historical cost basis and on the going concern basis, except for the revaluation of certain financial instruments. Historical cost is generally based on the fair value of the consideration given in exchange for the assets.

Exemption from preparing group accounts

The financial statements contain information about Serco Limited as an individual company and do not contain consolidated financial information as the parent of a group.

The Company is exempt under section 400 of the Companies Act 2006 from the requirement to prepare consolidated financial statements as it and its subsidiary undertakings are included by full consolidation in the consolidated financial statements of its ultimate parent, Serco Group plc, a company incorporated in the United Kingdom and registered in England and Wales.

Serco Limited

Notes to the Financial Statements for the Year Ended 31 December 2012

Related parties

The Company is exempt under the terms of FRS 101 from disclosing related party transactions with entities that are 100% owned by Serco Group plc

Going concern

The financial statements have been prepared on the going concern basis

The directors have acknowledged the latest guidance on going concern and financial reporting published by the Financial Reporting Council in October 2009. Whilst the current economic environment continues to be uncertain, with the broad base of the Company's contract portfolio and 90% of the Company's customers being government bodies, the Company is well placed to manage its business risks successfully, including those arising from the failure of customers to meet contractual obligations.

The Company's revenues are largely derived from long-term contracts with governments which historically have been largely unaffected by changes in the general economy. The Company also has secure and highly visible future revenue streams as income is based on long-term contracts. Based on detailed projections management believes that the Company has adequate resources to continue in operational existence for the foreseeable future, and as a result these accounts have been drawn up on the going concern basis.

Exemption from preparing a cash flow statement

The Company is exempt from preparing a cash flow statement as 90% or more of the voting rights are held within the group, and the Company's results are included within the consolidated financial statements of Serco Group plc, which are publicly available.

Turnover

Turnover is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts, VAT and other sales-related taxes. Sales of goods are recognised when goods are delivered and title has passed and sales of services when the service has been delivered.

Turnover is deferred when the Company has received consideration under the terms of a contract in advance of performing a related service or delivering the associated goods. Deferred income is recognised when the Company has fulfilled the relevant contractual commitment.

Interest income is accrued on a time basis. Dividend income from investments is recognised when the shareholders' right to receive payment has been established.

Goodwill

Goodwill arising on the acquisition of businesses is capitalised on the balance sheet in accordance with FRS 101. Goodwill represents the excess of consideration paid over the fair value of assets acquired. Goodwill is reviewed for impairment at least annually. Any impairment is recognised immediately in the profit and loss account and is not subsequently reversed.

On disposal the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Goodwill arising on acquisitions before the date of transition to FRS 101 has been retained at the previous UK GAAP amounts subject to being tested for impairment at that date. Goodwill written off to reserves under UK GAAP prior to 1998 has not been reinstated and is not included in determining any subsequent profit or loss on disposal.

Serco Limited

Notes to the Financial Statements for the Year Ended 31 December 2012

Other intangible fixed assets

Customer relationships represent the value of contracts acquired on the acquisition of operations and are amortised over the average length of the related contracts

Development expenditure is capitalised as an intangible asset only if all of the following conditions are met

- an asset is created that can be identified and which the Company intends to use or sell,
- the finalisation of the asset is technically feasible and the Company has adequate resources to complete its development for use or sale,
- it is probable that the asset created will generate future economic benefits, and
- the development cost of the asset can be measured reliably

Purchased software and development expenditure is amortised over the period over which the Company is expected to benefit. This period is between three to eight years, or the length of the contract if longer. Provision is also made for any impairment. All other development expenditure is written off as incurred.

Pension related intangibles represent assets arising in relation to the Company's right to manage and operate contracts where there is a defined benefit pension scheme and it is not virtually certain that contributions will be received from the customer but where the Company's obligation to contribute to the scheme ends when the contract ends. The intangible assets represent the Company's share of the scheme net liabilities on the date that the contracts commence and are amortised on a straight line basis over the contract life.

Trademarks, licences and customer-related intangible assets have a finite useful life and are carried at cost less accumulated amortisation and any accumulated impairment losses.

Tangible fixed assets

Tangible fixed assets are stated at cost, net of depreciation and any provision for impairment.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the profit and loss account.

Depreciation

Depreciation is charged so as to write off the cost of assets over their estimated useful lives, as follows

| Asset class | Depreciation method and rate |
|---------------------------------------|---|
| Freehold buildings | 2.5% |
| Short leasehold building improvements | The higher of 10% or rate produced by lease term |
| Machinery | 15% - 20% |
| Motor vehicles | 18% - 50% |
| Furniture | 10% |
| Office equipment | 20% - 33% |
| Leased equipment | The higher of the rate produced by either the lease term or useful life |

Fixed asset investments

Fixed asset investments are stated at historical cost less provision for impairment.

Stocks, work in progress and long-term contracts

Stocks are stated at the lower of cost and net realisable value and comprise service spares and long-term project-based contract balances. Cost comprises direct materials and, where applicable, direct labour costs that have been incurred in bringing the stocks to their present location and condition.

Amounts recoverable on long-term contracts, which are included in debtors, represent costs incurred on specific contracts, net of amounts transferred to cost of sales in respect of work recorded as turnover by reference to the stage of completion of the work carried out to date and provision for anticipated future losses on contracts. No profit is recognised until the contract has advanced to a stage where the total profit can be assessed with reasonable certainty. Advance payments are included in creditors to the extent that they exceed the related work in progress.

Serco Limited

Notes to the Financial Statements for the Year Ended 31 December 2012

Pre-contract costs

All bid costs are expensed through the profit and loss account up to the point where contract award (or full recovery of costs) is virtually certain. Bid costs incurred after this point are then capitalised within trade and other receivables. On contract award these bid costs are amortised through the profit and loss account over the contract period by reference to the stage of completion of the contract activity at the balance sheet date. Bid costs are only capitalised to the extent that it is expected that the related contract will generate sufficient future economic benefits to at least offset the amortisation charge.

Phase-in costs directly related to phase-in programmes of contracts are treated as an integral part of contract costs and are recognised on a straight line basis over the contract except where they are specifically reimbursed as part of the terms of the contract when they are recognised as turnover.

Provisions

Provisions are recognised when the Company has a present obligation as a result of a past event and it is probable that the Company will be required to settle that obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date.

Current tax

Current tax expense is based on taxable profit for the year. Taxable profit differs from net profit as reported in the profit and loss account because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax

Deferred tax is provided, using the liability method, on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for accounting purposes.

Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profits will be available against which these items can be utilised.

Deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition of an asset and liability in a transaction other than a business combination and, at the time of the transaction, affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and joint ventures, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be utilised.

Deferred tax is measured at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based upon tax rates and legislation that have been enacted or substantively enacted at the balance sheet date. Deferred tax is charged or credited in the profit and loss account, except where it relates to items charged or credited directly to equity, in which case the deferred tax is also recognised in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same tax authority where the Company intends to settle its current tax assets and liabilities on a net basis.

Foreign currency transactions and balances

Transactions in currencies other than Sterling are recorded at the rates of exchange on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary assets and liabilities carried at fair value that are denominated in foreign currencies are translated at the rate prevailing on the date when the fair value was determined. Gains and losses arising on retranslation are included in the net profit or loss for the period, except for exchange differences arising on non-monetary assets and liabilities where the changes in fair value are recognised directly in the statement of comprehensive income.

Serco Limited

Notes to the Financial Statements for the Year Ended 31 December 2012

Leases

Rentals payable under operating leases are charged on a straight line basis over the term of the relevant lease, even if the payments are not made on such a basis

Assets held under finance leases are recognised as assets of the Company at fair value or, if lower, at the present value of the minimum lease payments determined at the inception of the lease. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income unless they are directly attributable to a qualifying asset, in which case they are capitalised in accordance with the Company's general policy on borrowing costs.

Share-based payments

The ultimate parent, Serco Group plc, issues equity-settled share-based payments to certain employees and operates an HMRC approved Save As You Earn (SAYE) share option scheme open to eligible employees which allows the purchase of shares at a discount. These are measured at fair value at the date of grant. The fair value is expensed on a straight line basis over the vesting period, based on the Company's estimate of shares that will eventually vest. SAYE options are treated as cancelled when employees cease to contribute to the scheme, resulting in an acceleration of the remainder of the related expense.

Where the fair value of share options requires the use of a valuation model, fair value is measured by use of the Binomial Lattice or Monte Carlo Simulation models depending on the type of scheme. Further details can be found in note 37 of the Serco Group plc financial statements. The expected life used in the models has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioral considerations. Where relevant, the value of the option has also been adjusted to take account of market conditions applicable to the option.

Financial instruments

Derivatives are accounted for initially and measured at fair value on the date that a derivative contract is entered into and subsequently measured at fair value. The gain or loss on remeasurement is taken to the profit and loss account, except where the derivative is designated as a cash flow hedging instrument. The accounting treatment of derivatives classified as 'hedges' depends on their designation, which occurs on the date that a derivative contract is committed to. The Company designates derivatives as

- a hedge of the fair value of an asset or liability ('fair value hedge'), or
- a hedge of the income/cost of a highly probable forecast transaction or commitment ('cash flow hedge')

Gains and losses on fair value hedges are recorded in the profit and loss account with the gain or loss on the hedged item attributable to the hedged risk.

Gains or losses on cash flow hedges that are regarded as highly effective are recognised in equity. Where the forecast transaction results in a financial asset or liability, only gains or losses previously recognised in equity are reclassified to profit or loss in the same period as the asset or liability affects profit or loss. Where the forecast transaction or commitment results in a non-financial asset or liability, any gains or losses previously deferred in equity are included in the cost of the related asset or liability if the forecast transaction or commitment results in future income or expenditure. Gains and losses deferred in equity are transferred to the profit and loss account in the same period as the underlying income or expenditure. The ineffective portion of the gain or loss on the hedging instrument is recognised in the profit and loss account.

For the ineffective portion of hedges or transactions that are not designated for hedge accounting any change in assets or liabilities is recognised immediately in the profit and loss account. Where a hedge no longer meets the effectiveness criteria, any gains or losses deferred in equity are only transferred to the profit and loss account when the committed or forecast transaction is recognised in the profit and loss account. However, where cash flow hedge accounting has been applied for a forecast or committed transaction that is no longer expected to occur, then the cumulative gain or loss that has been recorded in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the profit and loss account.

Serco Limited

Notes to the Financial Statements for the Year Ended 31 December 2012

Retirement benefit costs

For defined benefit pension schemes, the cost of providing benefits is determined using the projected unit credit actuarial cost method, with actuarial valuations being carried out at each balance sheet date. Actuarial gains and losses are recognised in full in the period in which they occur. They are recognised outside the profit and loss account and are presented in the statement of comprehensive income.

The current service cost represents the increase in the present value of the scheme liabilities expected to arise from employee service in the current period.

Past service cost is recognised immediately to the extent that the benefits are already vested, and is amortised on a straight line basis over the average period until the benefit vests. Gains and losses on curtailments or settlements are recognised in the period in which the curtailment or settlement occurs.

The retirement benefit obligation recognised in the balance sheet represents the present value of the defined benefit obligation as adjusted for unrecognised past service costs, and as reduced by the fair value of scheme assets. Any asset resulting from this calculation is limited to past service cost, plus the present value of available refunds and reductions in future contributions to the scheme.

Defined benefit obligations arising from contractual obligations

Where the Company takes on a contract and assumes the obligation to contribute variable amounts to the defined benefit pension scheme throughout the period of the contract and it is not virtually certain that the contributions will be recovered from the customer, the Company's share of the defined benefit obligation less its share of the pension scheme assets that it will fund over the period of the contract is recognised as a liability at the start of the contract with a corresponding amount being recognised as an intangible asset. The intangible asset, which reflects the Group's right to manage and operate the contract, is amortised over the contract period. The Group's share of the scheme assets and liabilities is calculated by reducing the scheme assets and liabilities by a franchise adjustment. The franchise adjustment represents the amount of scheme deficits that will be funded outside the contract period. Subsequent actuarial gains and losses in relation to the Group's share of pension obligations are recognised outside the income statement and are presented in the statement of comprehensive income.

Multi-employer pension schemes

Multi-employer pension schemes are classified as either defined contribution pension schemes or defined benefit pension schemes, depending on the terms of the scheme. The Company accounts for these schemes as if they were defined contribution schemes.

Pension costs: defined contribution schemes

Contributions for the year in respect of defined contribution schemes are charged to the profit and loss account as they fall due. Differences between charges accruing during the year and cash payments are included as either accruals or prepayments in the balance sheet.

Business combinations

Acquisitions of businesses and operations are accounted for using the acquisition method as permitted by IFRS 3 (2008) Business Combinations. Where there are acquisitions of operations from a business under common control and there is no specific accounting guidance, management have applied the principles of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors and selected to apply IFRS 3 to such circumstances on the basis it is consistent with the accounting treatment applied for other business combinations.

The consideration for each acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given and liabilities incurred or assumed, in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred. Where applicable, the consideration for the acquisition includes any asset or liability resulting from a contingent consideration arrangement, measured at its acquisition date fair value. Subsequent changes in fair values are adjusted against the cost of acquisition where they qualify as measurement period adjustments (which is subject to a maximum of one year). All other subsequent changes in the fair value of contingent consideration classified as an asset or liability are accounted for in accordance with the relevant accounting standards. Changes in the fair value of contingent consideration classified as equity are not recognised.

Goodwill arising on acquisition is recognised as an asset at the date that control is acquired. Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interest and the fair value of any previously held equity interest in the acquired entity, over the net of the acquisition date amounts of the identifiable assets and liabilities acquired.

Serco Limited

Notes to the Financial Statements for the Year Ended 31 December 2012

3 Turnover

The Company manages its business on an operating segment basis and these segments are the basis on which the Company reports its segment information. Details of the different products and services provided by each operating segment are included in the Directors' Report. The Company's reportable operating segments are:

UK & Europe - UK and Europe frontline services in areas including home affairs, defence, health, transportation and local government direct services, and

Global Services - Global BPO middle and back office services

From 1 April 2012, the Company has reapportioned its business into two segments, resulting in the restatement of the 2011 information.

An analysis of turnover by class of business as restated for the new operational structure is given below:

| | 2012 £ m | 2011 Restated £ m |
|----------------------|----------------|-------------------------|
| UK & Europe | 1,511.0 | 1,513.2 |
| Serco Global Service | 273.9 | 249.2 |
| | <u>1,784.9</u> | <u>1,762.4</u> |

An analysis of turnover by geographical location is given below:

| | 2012 £ m | 2011 £ m |
|----------------|----------------|----------------|
| United Kingdom | 1,681.7 | 1,670.2 |
| Other | 103.2 | 92.2 |
| | <u>1,784.9</u> | <u>1,762.4</u> |

Turnover is shown by geographical origin. Turnover analysed by geographical destination is not materially different.

4 Operating profit

Operating profit is stated after charging:

| | 2012 £ m | 2011 Restated £ m | 2011 Originally reported £ m |
|---|-------------|-------------------------|---------------------------------------|
| Amortisation of goodwill | - | - | 22.1 |
| Amortisation of other intangible assets (note 13) | 20.0 | 17.5 | 14.8 |
| Amounts written off fixed asset investments | 9.7 | 35.0 | 35.0 |
| Research and development costs | 5.5 | 7.6 | 7.6 |
| Acquisition-related transaction costs | 0.8 | - | - |
| Operating lease expense - property | 34.0 | 26.5 | 26.5 |
| Operating lease expense - plant and machinery | 1.3 | 11.6 | 11.6 |
| Depreciation of tangible fixed assets - owned (note 17) | 11.6 | 11.9 | 11.9 |
| Depreciation of tangible fixed assets - leased (note 17) | 7.4 | 4.8 | 4.8 |
| Fees paid to the Company's auditor for the audit of the Company's annual accounts | 0.1 | 0.1 | 0.1 |
| Other non-audit fees - tax services | 0.1 | 0.1 | 0.1 |
| Other non-audit fees - other services | <u>0.1</u> | <u>0.1</u> | <u>0.1</u> |

Serco Limited

Notes to the Financial Statements for the Year Ended 31 December 2012

5 Net profit on disposal of operations

During the year the Company disposed of several operations, the net profit on disposal was as follows

| | 2012 £ m | 2011 £ m |
|--|-------------|-------------|
| Net profit on disposal of operations (note 15) | <u>74.0</u> | <u>-</u> |

6 Staff costs

The average number of persons employed by the Company (including directors) during the year was 29,987 (2011 24,250)

The aggregate payroll costs (including directors' remuneration) were as follows

| | 2012 £ m | 2011 £ m |
|-----------------------|--------------|--------------|
| Wages and salaries | 719.6 | 670.8 |
| Social security costs | 67.3 | 64.5 |
| Staff pensions | 46.3 | 47.2 |
| Share-based payment | <u>4.9</u> | <u>5.1</u> |
| | <u>838.1</u> | <u>787.6</u> |

7 Directors' remuneration

The directors' remuneration for the year was as follows

| | 2012 £ m | 2011 £ m |
|----------------------|-------------|-------------|
| Aggregate emoluments | <u>3.4</u> | <u>2.7</u> |

During the year seven directors (2011 eight) received or were entitled to receive shares under long-term incentive schemes. Three directors (2011 five) exercised options, six directors (2011 four) were accruing benefits under defined benefit pension schemes. One director (2011 one) was a member of a defined contribution scheme.

In respect of the highest paid director

| | 2012 £ m | 2011 £ m |
|---|-------------|-------------|
| Remuneration | 0.7 | 0.5 |
| Company contributions to money purchase pension schemes | <u>0.2</u> | <u>0.1</u> |

During the year the highest paid director exercised share options and also received or was entitled to receive shares under a long-term incentive scheme.

8 Income from investments

| | 2012 £ m | 2011 £ m |
|---|-------------|-------------|
| Dividends from shares in group undertakings | 17.0 | 35.0 |
| Other investment income | <u>0.4</u> | <u>-</u> |
| | <u>17.4</u> | <u>35.0</u> |

Serco Limited

Notes to the Financial Statements for the Year Ended 31 December 2012

9 Interest receivable and similar income

| | 2012 £ m | 2011 £ m |
|---|-------------|-------------|
| Bank interest receivable | 0.2 | 0.2 |
| Interest receivable from group companies | 1.4 | 1.3 |
| Net interest receivable on retirement benefit obligations | 8.7 | 8.8 |
| Other interest receivable | 0.3 | 0.4 |
| | <u>10.6</u> | <u>10.7</u> |

10 Interest payable and similar charges

| | 2012 £ m | 2011 £ m |
|--------------------------------------|-------------|-------------|
| Bank loans and overdrafts | 0.1 | 0.1 |
| Other interest payable | 2.2 | 2.1 |
| Interest payable to group companies | 8.8 | 8.4 |
| Borrowing costs | 0.1 | - |
| Amounts payable under finance leases | 2.1 | 1.2 |
| | <u>13.3</u> | <u>11.8</u> |

11 Taxation

Tax on profit on ordinary activities

| | 2012 £ m | 2011 Restated £ m | 2011 Originally reported £ m |
|--|-------------|-------------------------|---------------------------------------|
| Current tax | | | |
| UK corporation tax | (0.5) | 19.2 | 19.2 |
| UK corporation tax adjustment to prior periods | (0.7) | 1.6 | 1.6 |
| Group relief payable | 6.9 | 1.1 | 1.1 |
| Double taxation relief | - | (1.1) | (1.1) |
| | <u>5.7</u> | <u>20.8</u> | <u>20.8</u> |
| Foreign tax | <u>0.5</u> | <u>1.1</u> | <u>1.1</u> |
| Total current tax | <u>6.2</u> | <u>21.9</u> | <u>21.9</u> |
| Deferred tax | | | |
| Origination and reversal of timing differences | 5.4 | (0.9) | (0.7) |
| Adjustment relating to prior years | <u>0.7</u> | <u>0.4</u> | <u>0.2</u> |
| Total deferred taxation | <u>6.1</u> | <u>(0.5)</u> | <u>(0.5)</u> |
| Total tax on profit on ordinary activities | <u>12.3</u> | <u>21.4</u> | <u>21.4</u> |

Serco Limited

Notes to the Financial Statements for the Year Ended 31 December 2012

Factors affecting current tax charge for the year

The tax on profit before tax for the year is lower than the standard rate of corporation tax (2011 higher than the standard rate of corporation tax) of 24.5% (2011 26.5%)

The differences are reconciled below

| | 2012 £ m | 2011 Restated £ m |
|---|--------------|-------------------------|
| Profit on ordinary activities before tax | <u>146.8</u> | <u>67.0</u> |
| Corporation tax at 24.5% (2011 26.5%) | 36.0 | 17.8 |
| Group relief with no consideration | (3.4) | - |
| Tax incentives and tax exempt income | (25.9) | (9.9) |
| Expenses not deductible for tax purposes | 2.9 | 9.7 |
| Irrecoverable overseas tax | 0.5 | 0.1 |
| Adjustment in respect of prior periods | - | 2.0 |
| Impact of changes in statutory tax rates | <u>2.2</u> | <u>1.7</u> |
| Total tax charge on profit on ordinary activities | <u>12.3</u> | <u>21.4</u> |

| | 2011 Originally reported £ m |
|--|---------------------------------------|
| Profit on ordinary activities before tax | <u>47.5</u> |
| Corporation tax at 26.5% | 12.6 |
| Capital allowances in excess of depreciation | (0.9) |
| Other short-term timing differences | 3.0 |
| Tax incentives and tax exempt income | (9.9) |
| Expenses not deductible for tax purposes | 15.1 |
| Irrecoverable overseas tax | 0.1 |
| Adjustment in respect of prior periods | 1.6 |
| Impact of changes in statutory tax rates | <u>0.3</u> |
| Total current tax charge | <u>21.9</u> |

The current year tax charge is lower than the standard rate of 24.5% due to tax incentives and tax exempt income arising in the period of £25.9m. These relate primarily to the following:

- The gain of £87.8m arising on the disposal of the Serco subsidiary Energy, Safety and Risk Consultants (UK) Limited is not chargeable to UK corporation tax,
- The Company received a dividend of £17.0m from a wholly owned UK subsidiary company, which is not subject to tax, and
- The Company had research and development expenditure of £5.5m on which it has claimed statutory tax credits of £0.4m

12 Equity dividends

| | 2012 £ m | 2011 £ m |
|--|--------------|-------------|
| Equity dividend of £467.85 (2011 £140.35) per ordinary share | <u>100.0</u> | <u>30.0</u> |

Serco Limited

Notes to the Financial Statements for the Year Ended 31 December 2012

13 Goodwill and other intangible fixed assets

| | Goodwill £ m | Licences, software and development expenditure £ m | Pension related £ m | Total 2012 £ m |
|-------------------------------------|-----------------|--|------------------------|----------------------|
| Cost | | | | |
| At 1 January 2012 restated | 438.4 | 145.9 | 4.4 | 588.7 |
| Arising on acquisition | 84.4 | 12.1 | - | 96.5 |
| Eliminated on disposal | (72.8) | (11.5) | - | (84.3) |
| Additions | - | 36.6 | - | 36.6 |
| Disposals | - | (0.5) | - | (0.5) |
| Exchange difference | - | (0.1) | - | (0.1) |
| Pension scheme franchise adjustment | - | - | 1.8 | 1.8 |
| At 31 December 2012 | 450.0 | 182.5 | 6.2 | 638.7 |
| Accumulated amortisation | | | | |
| At 1 January 2012 restated | 119.9 | 70.0 | 3.5 | 193.4 |
| Arising on acquisition | 0.2 | 0.2 | - | 0.4 |
| Eliminated on disposal | (39.2) | (8.0) | - | (47.2) |
| Charge for the year | - | 19.3 | 0.7 | 20.0 |
| Disposals | - | (0.5) | - | (0.5) |
| Write down | 1.7 | - | - | 1.7 |
| At 31 December 2012 | 82.6 | 81.0 | 4.2 | 167.8 |
| Net book value | | | | |
| At 31 December 2012 | 367.4 | 101.5 | 2.0 | 470.9 |
| At 31 December 2011 restated | 318.5 | 75.9 | 0.9 | 395.3 |

| | Goodwill £ m | Licences, software and development expenditure £ m | Pension related £ m | Total 2011 £ m |
|---|-----------------|--|------------------------|----------------------|
| Cost | | | | |
| At 1 January 2011 restated | 438.4 | 118.2 | 4.4 | 561.0 |
| Additions | - | 28.3 | - | 28.3 |
| Disposals | - | (0.5) | - | (0.5) |
| At 31 December 2011 restated | 438.4 | 146.0 | 4.4 | 588.8 |
| Accumulated amortisation | | | | |
| At 1 January 2011 | 119.9 | 53.7 | 2.9 | 176.5 |
| Charge for the year | - | 16.9 | 0.6 | 17.5 |
| Disposals | - | (0.5) | - | (0.5) |
| At 31 December 2011 restated | 119.9 | 70.1 | 3.5 | 193.5 |
| Net book value | | | | |
| At 31 December 2011 restated | 318.5 | 75.9 | 0.9 | 395.3 |
| At 31 December 2010 originally reported | 324.2 | 58.8 | 1.5 | 384.5 |

Serco Limited

Notes to the Financial Statements for the Year Ended 31 December 2012

14 Acquisitions

During the year the Company completed the following acquisitions of trade and assets

Anglia Support Partnership

On 13 April 2012, Serco Limited entered in to an agreement to acquire the trade and assets of Anglia Support Partnership (ASP). ASP provides support services to the Cambridge and Peterborough NHS Foundation Trust, together with a further five partnering NHS organisations. The initial cash cost of the business combination was £5.2m. In addition, £3.5m of deferred consideration was paid on 30 September 2012. Up to a further £7.2m of deferred consideration is payable from 2013 to 2020, contingent on the performance of the acquired business. The fair value of this deferred contingent consideration is £3.3m. The provisional fair value of net assets acquired totaled £4.0m.

£0.8m of acquisition-related costs in respect of this acquisition has been expensed to the profit and loss account during the year.

| | Book value £ m | Fair value adjustments £ m | Provisional fair value £ m |
|---|-------------------|----------------------------------|----------------------------------|
| Net assets and liabilities acquired were | | | |
| Intangible fixed assets | 4.0 | - | 4.0 |
| Tangible fixed assets | 1.0 | (0.5) | 0.5 |
| Stocks | 0.2 | - | 0.2 |
| Provisions | - | (0.7) | (0.7) |
| Net assets acquired | <u>5.2</u> | <u>(1.2)</u> | <u>4.0</u> |
| Goodwill | - | 8.0 | 8.0 |
| Total consideration | <u>5.2</u> | <u>6.8</u> | <u>12.0</u> |
| Satisfied by | | | |
| Cash | <u>12.0</u> | - | <u>12.0</u> |
| Cash flow analysis | | | |
| Cash consideration | 12.0 | - | 12.0 |
| Less deferred consideration payable | <u>(3.3)</u> | - | <u>(3.3)</u> |
| Net cash outflow arising on acquisition | <u>8.7</u> | - | <u>8.7</u> |

Serco Limited

Notes to the Financial Statements for the Year Ended 31 December 2012

Serco Public Services Limited

On 31 October 2012 Serco acquired the trade and assets of Serco Public Services Limited (SPSL), a fellow group company. SPSL is a provider of high quality business process outsourcing services to UK local and central government. The cash cost of the business combination was £55.5m. The provisional fair value of net assets acquired totaled £40.0m.

| | 2012 £ m |
|---|-------------|
| Net assets and liabilities acquired were | |
| Goodwill | 23.0 |
| Intangible fixed assets | 7.0 |
| Tangible fixed assets | 0.4 |
| Deferred tax asset | 2.9 |
| Trade and other debtors | 34.4 |
| Trade and other creditors | (18.4) |
| Provisions | (4.4) |
| Net pension liability | (4.9) |
| Net assets acquired | 40.0 |
| Goodwill | 15.5 |
| Total consideration | 55.5 |
| Satisfied by | |
| Cash | 55.5 |
| Cash flow analysis | |
| Cash consideration | 55.5 |
| Net cash outflow arising on acquisition | 55.5 |

A fair value exercise was undertaken prior to the acquisition of Serco Public Services Limited by Serco Limited. There were no material differences identified between the book value and fair value of assets and liabilities acquired beyond those previously recognised when Serco Group acquired SPSL on 11 June 2012.

Serco Limited

Notes to the Financial Statements for the Year Ended 31 December 2012

Serco Listening Company Limited

On 31 December 2012, Serco Limited acquired the trade and assets of Serco Listening Company Limited, a fellow group company. Serco Listening Company Limited is a leading provider of outsourced contract centre services. The cash cost of the business combination was £50.6m. The fair value of net assets acquired was £13.1m.

| | 2012 £ m |
|---|---------------|
| Net assets and liabilities acquired were | |
| Goodwill | 0.2 |
| Intangible fixed assets | 0.9 |
| Tangible fixed assets | 5.3 |
| Deferred tax asset | 1.6 |
| Trade and other debtors | 20.1 |
| Cash and cash equivalents | 36.7 |
| Trade and other creditors | <u>(51.7)</u> |
| Net assets acquired | <u>13.1</u> |
| Goodwill | <u>37.5</u> |
| Total consideration | <u>50.6</u> |
| Satisfied by: | |
| Cash | <u>50.6</u> |
| Cash flow analysis: | |
| Cash consideration | 50.6 |
| Less cash and cash equivalent balances acquired | <u>(36.7)</u> |
| Net cash outflow arising on acquisition | <u>13.9</u> |

A fair value exercise was undertaken prior to the acquisition of Serco Listening Company Limited by Serco Limited. There were no material differences identified between the book value and fair value of assets and liabilities acquired beyond those previously recognised when Serco Group acquired Serco Listening Company Limited on 14 March 2011.

Serco Limited

Notes to the Financial Statements for the Year Ended 31 December 2012

15 Disposals

During the year the Company generated the following net profit on disposal of operations

| | 2012 £ m | 2011 £ m |
|---|-------------|-------------|
| Profit on disposal of Serco Technical Services | 87.8 | - |
| Loss on disposal of UK data hosting operations | (11.5) | - |
| Loss on disposal of education software business | (2.3) | - |
| | <u>74.0</u> | <u>-</u> |
| Net profit on disposal of operations | | |

Serco Technical Services

During the year Serco Ltd disposed of its Technical Assurance business. Initially the trade and assets of Serco Technical Services were transferred in to a subsidiary company, Energy, Safety and Risk Consultants (UK) Limited (ESRC), at their net book value of £44.6m. At the time of the transfer an investment in the subsidiary company was created in Serco Ltd to the same value. Subsequent to the transfer of trade and assets, Serco Ltd then sold 100% of the ordinary share capital of ESRC on 29 June 2012 for consideration of £135.3m. Overall net assets disposed of amounted to £40.1m. The Company realised a profit on disposal of the investment in ESRC of £87.8m after accounting for disposal-related costs.

UK data hosting operations

On 21 December 2012 the Company agreed to dispose of its UK data hosting operations. There was £nil cash consideration and the net assets disposed of amounted to £7.8m, giving a loss of £11.5m, after accounting for disposal-related costs.

Education software business

On 31 December 2012 the Company disposed of its education software business. There was £5.3m of consideration received and net assets disposed of amounted to £14.9m. After accounting for disposal-related costs the loss was £2.3m.

Total disposal-related costs incurred on the above disposals was £3.8m.

| | £ m |
|---|--------------|
| Aggregate net assets and liabilities disposed of | |
| Goodwill | 33.6 |
| Intangible assets | 3.4 |
| Tangible fixed assets | 13.0 |
| Deferred tax assets | 1.5 |
| Trade and other debtors | 29.8 |
| Bank balances and cash | 0.6 |
| Trade and other creditors | (13.0) |
| Deferred tax liabilities | (6.1) |
| Net assets disposed | <u>62.8</u> |
| The profit on disposal is calculated as follows | |
| Cash and cash equivalents received | 140.6 |
| Less: net assets disposed | (62.8) |
| Less: disposal-related costs | (3.8) |
| Total profit on disposal | <u>74.0</u> |
| Cash flow analysis | |
| Cash consideration received | 140.6 |
| Less: cash and cash equivalent balances disposed of | (0.6) |
| Disposal-related costs paid | (4.8) |
| Net cash inflow arising on disposal | <u>135.2</u> |

Serco Limited

Notes to the Financial Statements for the Year Ended 31 December 2012

16 Investments held as fixed assets

| | Subsidiaries £ m | Joint ventures £ m | Total investments £ m |
|--------------------------|---------------------|-----------------------|-----------------------------|
| Cost or valuation | | | |
| At 1 January 2012 | 13.2 | 5.5 | 18.7 |
| Additions | 44.6 | - | 44.6 |
| Disposals | (44.6) | - | (44.6) |
| Impairment | (9.7) | - | (9.7) |
| At 31 December 2012 | 3.5 | 5.5 | 9.0 |

An impairment has been recognised against the investment in Serco Geografix Limited. The company continues to operate however the core contracts underlying the company's revenues and operations are coming to an end.

Details of undertakings

Most of the contracts are held in divisions within the Serco Limited company. However, the companies listed below are, in the opinion of the directors, the principal subsidiary and joint venture undertakings of Serco Limited. The percentage of equity capital directly or indirectly held by Serco Limited is shown below. The companies are incorporated and principally operate in the United Kingdom.

| | | | Proportion of voting rights and shares held | |
|---|---|-----------------|---|------|
| Undertaking | Principal activity | Holding | 2012 | 2011 |
| Subsidiary undertakings | | | | |
| Serco Geografix Limited | Manufacture and leasing of electronic tagging equipment | ordinary shares | 100% | 100% |
| Joint ventures | | | | |
| GSTS Pathology LLP | Pathology services | | 33% | 50% |
| Service Glasgow LLP | Provision of facility management services | | 50% | 50% |
| Agbar Serco Technology Services Limited | IT consultancy | | 50% | 50% |

Serco Limited

Notes to the Financial Statements for the Year Ended 31 December 2012

17 Tangible fixed assets

| | Freehold land and buildings £ m | Short leasehold building improvements £ m | Machinery, motor vehicles, furniture and equipment £ m | Total £ m |
|---------------------------------|---------------------------------------|--|--|--------------|
| Cost | | | | |
| At 1 January 2012 | 2.4 | 23.8 | 135.8 | 162.0 |
| Arising on acquisition | - | 3.8 | 8.6 | 12.4 |
| Eliminated on disposal | - | (4.3) | (22.2) | (26.5) |
| Additions | 0.2 | 0.7 | 29.2 | 30.1 |
| Disposals | - | (0.2) | (21.1) | (21.3) |
| Exchange difference | - | - | (0.1) | (0.1) |
| At 31 December 2012 | <u>2.6</u> | <u>23.8</u> | <u>130.2</u> | <u>156.6</u> |
| Accumulated depreciation | | | | |
| At 1 January 2012 | 1.4 | 12.2 | 66.9 | 80.5 |
| Acquired on acquisition | - | 1.2 | 4.9 | 6.1 |
| Eliminated on disposal | - | (3.2) | (10.3) | (13.5) |
| Charge for the year | 0.1 | 2.4 | 16.5 | 19.0 |
| Disposals | - | (0.2) | (16.3) | (16.5) |
| Exchange difference | - | - | (0.1) | (0.1) |
| At 31 December 2012 | <u>1.5</u> | <u>12.4</u> | <u>61.6</u> | <u>75.5</u> |
| Net book value | | | | |
| At 31 December 2012 | <u>1.1</u> | <u>11.4</u> | <u>68.6</u> | <u>81.1</u> |
| At 31 December 2011 | <u>1.0</u> | <u>11.6</u> | <u>68.9</u> | <u>81.5</u> |

Finance lease assets

Included within the net book value of tangible fixed assets is £36.9m (2011: £36.5m) in respect of assets held under finance leases. Depreciation for the year on these assets was £7.4m (2011: £4.8m).

18 Stocks

| | 2012 £ m | 2011 £ m |
|---|-------------|-------------|
| Service spares | 15.6 | 14.7 |
| Parts awaiting installation | 6.5 | 6.7 |
| Long-term project-based contract balances | <u>2.3</u> | <u>1.7</u> |
| | <u>24.4</u> | <u>23.1</u> |

There is no material difference between the value of stocks and their replacement cost.

Serco Limited

Notes to the Financial Statements for the Year Ended 31 December 2012

19 Debtors

a) Amounts falling due within one year

| | 2012 | 2011 |
|--|--------------|--------------|
| | £ m | £ m |
| Trade receivables | 187.7 | 171.7 |
| Amounts recoverable on long-term contracts | 15.7 | 8.2 |
| Amounts owed by group companies | 280.9 | 190.0 |
| Amounts owed by joint ventures | 1.4 | 2.1 |
| Corporation tax recoverable | 17.9 | 6.7 |
| Other debtors | 43.2 | 18.2 |
| Prepayments and accrued income | 33.7 | 37.3 |
| Short-term investments | 0.3 | - |
| | <u>580.8</u> | <u>434.2</u> |

Amounts owed to group companies are due within 30 days of the balance sheet date and do not bear interest

b) Amounts falling due after more than one year

| | 2012 | 2011 | 2011 |
|----------------------------------|-------------|-----------------|-------------------------------|
| | £ m | Restated £ m | Originally reported £ m |
| Amounts recoverable on contracts | 27.0 | 34.4 | 34.4 |
| Amounts owed by group companies | 0.1 | 0.5 | 0.5 |
| Amounts owed by joint ventures | 2.5 | 5.0 | 5.0 |
| Deferred tax assets | 15.2 | - | 17.1 |
| Other debtors | 5.4 | 8.2 | 8.2 |
| Prepayments and accrued income | - | 5.1 | 5.1 |
| | <u>50.2</u> | <u>53.2</u> | <u>70.3</u> |

Serco Limited

Notes to the Financial Statements for the Year Ended 31 December 2012

Deferred tax

The movement in the deferred tax asset/(liability) in the year is as follows

| | 2012 £ m | 2011 Restated £ m | 2011 Originally reported £ m |
|---|-------------|-------------------------|---------------------------------------|
| At 1 January originally reported | (8 6) | 16 7 | 16 7 |
| Effect of transition to FRS 101 | - | 8 7 | - |
| At 1 January restated | (8 6) | 25 4 | 16 7 |
| FRS 101 effect on share-based payments reserve | - | 4 1 | - |
| FRS 101 effect on retirement benefit obligations reserve | - | (1 2) | - |
| Arising on acquisition of operations | 4 5 | - | - |
| Eliminated on disposal of operations | 4 6 | - | - |
| Deferred tax credited to profit and loss account | (6 1) | 0 6 | 0 5 |
| Items taken directly to equity - hedging and translation reserve | 0 2 | (0 1) | (0 1) |
| Items taken directly to equity - share-based payments reserve | 0 1 | (3 1) | - |
| Items taken directly to equity - retirement benefit obligations reserve | 20 5 | (34 3) | - |
| Deferred tax asset/(liability) | 15 2 | (8 6) | 17 1 |

| | 2012 £ m | 2011 Restated £ m | 2011 Originally reported £ m |
|---|-------------|-------------------------|---------------------------------------|
| Difference between accumulated depreciation and amortisation and capital allowances | 15 6 | 2 1 | 2 5 |
| Movement in retirement benefit obligations | (12 5) | (26 8) | - |
| Other timing differences | 12 1 | 16 1 | 14 6 |
| | 15 2 | (8 6) | 17 1 |

There are no unprovided deferred tax assets or liabilities

20 Creditors: Amounts falling due within one year

| | 2012 £ m | 2011 Restated £ m | 2011 Originally reported £ m |
|---|-------------|-------------------------|---------------------------------------|
| Trade creditors | 72 8 | 69 6 | 69 6 |
| Obligations under finance lease and hire purchase contracts | 9 3 | 7 4 | 7 4 |
| Other loans | 25 5 | 24 7 | 24 7 |
| Amounts owed to group companies | 20 0 | 12 8 | 12 8 |
| Other taxes and social security | 53 3 | 49 4 | 49 4 |
| Other creditors | 20 1 | 11 8 | 11 8 |
| Accruals and deferred income | 262 8 | 222 0 | 222 3 |
| Corporation tax | 8 0 | 3 0 | 3 0 |
| | 471 8 | 400 7 | 401 0 |

Amounts owed to group companies are due within 30 days of the balance sheet date and do not bear interest

Serco Limited

Notes to the Financial Statements for the Year Ended 31 December 2012

21 Creditors Amounts falling due after more than one year

| | 2012 £ m | 2011 Restated £ m | 2011 Originally reported £ m |
|---|--------------|-------------------------|---------------------------------------|
| Obligations under finance lease and hire purchase contracts | 35 0 | 27 7 | 27 7 |
| Amounts owed to group companies | 227 1 | 81 4 | 81 4 |
| Deferred tax liabilities | - | 8 6 | - |
| Other creditors | 19 2 | 15 6 | 15 6 |
| | <u>281 3</u> | <u>133 3</u> | <u>124 7</u> |

Amounts owed to group companies have no fixed repayment date and bear interest based on LIBOR plus 2%

Analysis of loan repayments

| | 2012 £ | 2011 £ |
|-----------------|-------------|-------------|
| Within one year | <u>25 5</u> | <u>24 7</u> |

Obligations under finance lease and hire purchase contracts

| | Minimum lease payments 2012 £ m | Present value of minimum lease payments 2012 £ m | Minimum lease payments 2011 £ m | Present value of minimum lease payments 2011 £ m |
|------------------------------|--|--|--|--|
| Within one year or on demand | 10 3 | 9 3 | 8 3 | 7 4 |
| Between two and five years | 37 7 | 35 0 | 29 3 | 27 7 |
| Less future finance charges | <u>(3 7)</u> | <u>-</u> | <u>(2 5)</u> | <u>-</u> |
| | <u>44 3</u> | <u>44 3</u> | <u>35 1</u> | <u>35 1</u> |

Finance lease obligations are secured by the lessors' title to the leased assets

The directors estimate that the fair value of the Company's lease obligations approximates to their carrying amount

Serco Limited

Notes to the Financial Statements for the Year Ended 31 December 2012

22 Provisions for liabilities

| | 2012 £ m |
|--|--------------|
| At 1 January 2012 restated | 4 2 |
| Charged to the profit and loss account | 8 5 |
| Utilised during the year | (0 1) |
| Foreign exchange | (0 2) |
| Arising on acquisition of operations | 5 1 |
| At 31 December 2012 | <u>17 5</u> |
| | 2011 £ m |
| At 1 January 2011 originally reported | 4 4 |
| Reclassification of provisions under FRS 101 | <u>0 3</u> |
| At 1 January 2011 restated | 4 7 |
| Credited to the profit and loss account | (0 4) |
| Utilised during the year | <u>(0 1)</u> |
| At 31 December 2011 restated | <u>4 2</u> |

23 Pension schemes

Pre-funded defined benefit schemes treated as defined contribution

The Company paid employer contributions of £27.6m (2011: £30.8m) into UK defined contribution schemes and foreign state pension schemes.

Defined benefit pension schemes

The Company operates defined benefit schemes for qualifying employees in the UK. The amounts recognised in the balance sheet are grouped together into two categories - contract specific and non-contract specific.

The assets of funded plans are held independently of the Company's assets in separate trustee administered funds. The Company's major plans are valued by independent actuaries using the projected unit credit method. This reflects service rendered by employees to the dates of valuation and incorporates actuarial assumptions primarily regarding discount rates used in determining the present value of benefits, projected rates of salary growth and long term expected rates of return for plan assets. Discount rates are based on the market yields of high quality corporate bonds in the country concerned. Long term expected rates of return for plan assets are based on published brokers' forecasts for each category of scheme assets. Pension assets and liabilities in different defined benefit schemes are not offset unless the Company has a legally enforceable right to use the surplus in one plan to settle obligations in the other plan and intends to exercise this right.

The normal contributions expected to be paid during the financial year ended 31 December 2013 are £27.1m (2012: £31.5m).

Serco Limited

Notes to the Financial Statements for the Year Ended 31 December 2012

Principal actuarial assumptions

The principal actuarial assumptions at the balance sheet date were as follows

| | 2012 | 2011 |
|---|------|------|
| | % | % |
| Discount rate | 4.3 | 4.7 |
| Future salary increases | 3.4 | 3.3 |
| Future pension increases (CPI) | 2.2 | 2.1 |
| Future pension increases (RPI) | 3.0 | 2.9 |
| Inflation assumption (CPI) | 2.2 | 2.1 |
| Inflation assumption (RPI) | 3.0 | 2.9 |
| Expected return on scheme assets - equity | 7.7 | 7.7 |
| Expected return on scheme assets - bonds (except LDI) | 4.3 | 4.7 |
| Expected return on scheme assets - LDI | 3.9 | 3.9 |
| Expected return on scheme assets - gilts | 3.1 | 3.1 |
| Expected return on scheme assets - property | 4.4 | 4.4 |
| Expected return on scheme assets - cash and other | 0.5 | 0.5 |
| Expected return on scheme assets - annuity policies | 4.3 | 4.7 |

Post retirement mortality assumptions

| | 2012 | 2011 |
|--|-------|-------|
| | Years | Years |
| Current UK pensioners at retirement age - male | 21.0 | 20.9 |
| Current UK pensioners at retirement age - female | 23.5 | 23.4 |
| Future UK pensioners at retirement age - male | 22.5 | 22.5 |
| Future UK pensioners at retirement age - female | 24.6 | 24.6 |

Contract specific

These are pre-funded defined benefit pension schemes. The Company has obligations to contribute variable amounts to the pension schemes over the terms of the related contracts. At rebid any deficit or surplus would transfer to the next contractor. The Company has recognised as a liability the defined benefit obligation less the fair value of scheme assets that it will fund over the period of the contracts with a corresponding amount recognised as an intangible asset at the start of the contract. Subsequent actuarial gains and losses in relation to the Company's share of the pension obligation are recognised in the statement of comprehensive income. Intangible assets are amortised over the term of the contracts.

Serco Limited

Notes to the Financial Statements for the Year Ended 31 December 2012

Reconciliation of scheme assets and liabilities to assets and liabilities recognised

The amounts recognised in the balance sheet are as follows

| | 2012 £ m | 2011 Restated £ m | 2011 Originally reported £ m |
|--|-------------|-------------------------|---------------------------------------|
| Fair value of scheme assets | 117.6 | 82.1 | 82.1 |
| Present value of scheme liabilities | (170.3) | (115.9) | (115.9) |
| | (52.7) | (33.8) | (33.8) |
| Franchise adjustment | 43.0 | 29.9 | 29.9 |
| Defined benefit pension scheme deficit | (9.7) | (3.9) | (3.9) |
| Related deferred tax asset | - | - | 1.0 |
| Net retirement benefit obligation | (9.7) | (3.9) | (2.9) |
| | | 2012 £ | 2011 £ |
| Related intangible assets (note 13) | | 2.0 | 0.9 |

Scheme assets

Changes in the fair value of scheme assets are as follows

| | 2012 £ m | 2011 £ m |
|--------------------------------------|-------------|-------------|
| Fair value at start of year | 82.1 | 72.5 |
| Expected return on assets | 5.0 | 5.2 |
| Employer contributions | 7.5 | 10.6 |
| Contributions by scheme participants | 0.5 | 0.5 |
| Benefits paid | (2.2) | (1.3) |
| Actuarial gains and losses | 1.8 | (5.4) |
| Arising on acquisition of operations | 22.9 | - |
| Fair value at end of year | 117.6 | 82.1 |

Analysis of assets

The major categories of scheme assets are as follows

| | 2012 £ m | 2011 £ m |
|--------------------|-------------|-------------|
| Equity instruments | 61.8 | 44.9 |
| Bonds | 20.1 | 11.6 |
| Gilts | 12.1 | 8.5 |
| Property | 7.5 | 3.2 |
| Cash and other | 16.1 | 13.9 |
| | 117.6 | 82.1 |

Serco Limited

Notes to the Financial Statements for the Year Ended 31 December 2012

Actual return on scheme's assets

| | 2012 | 2011 |
|--------------------------------|------------|--------------|
| | £ m | £ m |
| Actual return on scheme assets | <u>6.8</u> | <u>(0.2)</u> |

The pension scheme has not invested in any of the company's own financial instruments or in properties or other assets used by the Company

Scheme liabilities

Changes in the present value of scheme liabilities are as follows

| | 2012 | 2011 |
|--|--------------|--------------|
| | £ m | £ m |
| Present value at start of year | 115.9 | 92.9 |
| Current service cost | 5.3 | 4.3 |
| Contributions by scheme participants | 0.6 | 0.4 |
| Interest cost | 5.7 | 5.1 |
| Benefits paid | (2.2) | (1.3) |
| Actuarial gains and losses | 17.2 | 14.5 |
| Liabilities arising on acquisition of operations | <u>27.8</u> | <u>-</u> |
| Present value at end of year | <u>170.3</u> | <u>115.9</u> |

Amounts recognised in the profit and loss account

| | 2012 | 2011 |
|---|--------------|--------------|
| | £ m | £ m |
| Amounts recognised in operating profit | | |
| Current service cost | 5.3 | 4.3 |
| Amounts recognised in other finance income | | |
| Expected return on scheme assets | (5.0) | (5.2) |
| Interest on franchise adjustment | (1.4) | (0.8) |
| Interest cost | <u>5.7</u> | <u>5.1</u> |
| Recognised in other finance income | <u>(0.7)</u> | <u>(0.9)</u> |
| Total recognised in the profit and loss account | <u>4.6</u> | <u>3.4</u> |

Amounts recognised in the statement of comprehensive income

| | 2012 | 2011 |
|--|---------------|---------------|
| | £ m | £ m |
| Actual return less expected return on scheme assets | 1.8 | (5.4) |
| Change in franchise adjustment | 13.5 | 13.7 |
| Other actuarial losses | <u>(17.2)</u> | <u>(14.5)</u> |
| Actuarial gains and losses recognised in the statement of comprehensive income | <u>(1.9)</u> | <u>(6.2)</u> |

The cumulative amount of actuarial gains and losses recognised in the statement of comprehensive income since 1 January 2002 is £14.4m loss (2011: £12.5m loss)

Serco Limited

Notes to the Financial Statements for the Year Ended 31 December 2012

History of experience adjustments on scheme assets and liabilities

Amounts for the current year and previous four years are as follows

| | 2012 | 2011 | 2010 | 2009 | 2008 |
|--|---------|---------|--------|--------|--------|
| | £ m | £ m | £ m | £ m | £ m |
| Fair value of scheme assets | 117.6 | 82.1 | 72.5 | 63.2 | 49.9 |
| Present value of scheme liabilities | (170.3) | (115.9) | (92.9) | (81.6) | (55.7) |
| Deficit in scheme | (52.7) | (33.8) | (20.4) | (18.4) | (5.8) |
| | 2012 | 2011 | 2010 | 2009 | 2008 |
| | £ m | £ m | £ m | £ m | £ m |
| Experience adjustments. | | | | | |
| Experience adjustments arising on scheme assets | 1.8 | (5.4) | 1.0 | 5.7 | (8.8) |
| Experience adjustments arising on scheme liabilities | 2.8 | 0.5 | (0.3) | (5.2) | (0.9) |

Non contract specific

This consists of a pre-funded defined benefit scheme that does not relate to any specific contract. The funding policy is to contribute such variable amounts, on the advice of the actuary, as will achieve 100% funding on a projected salary basis. Any liabilities arising are recognised in full.

Triennial funding valuation

Among our non contract specific schemes the largest is the Serco Pension and Life Assurance Scheme (SPLAS). The valuation used to ascertain the values reported at 31 December 2012 was undertaken as at 6 April 2009 and resulted in an actuarially assessed deficit of £141m. Following this review, the Group agreed with the Trustees to make cash contributions of 30% of members' pensionable salaries until 2019, plus lump sum payments of £20m, which was paid in December 2010 and £40m, which was paid in January 2011. Since the balance sheet date an updated triennial valuation has been signed off by the Trustees in respect of SPLAS. The most recent full actuarial valuation of this scheme was undertaken as at 5 April 2013 and resulted in an actuarially assessed deficit of £24m. The level of benefits and contributions under the scheme is kept under continual review in light of the needs of the business and changes to pensions legislation.

Reconciliation of scheme assets and liabilities to assets and liabilities recognised

The amounts recognised in the balance sheet are as follows

| | 2012 | 2011 | 2011 |
|--|-----------|----------|---------------------|
| | £ m | Restated | Originally reported |
| | £ m | £ m | £ m |
| Fair value of scheme assets | 1,094.3 | 1,064.1 | 1,064.1 |
| Present value of scheme liabilities | (1,039.0) | (953.1) | (955.2) |
| | 55.3 | 111.0 | 108.9 |
| Effect of IFRIC 14 | 2.2 | (6.0) | - |
| Members' share of deficit | 4.2 | 2.2 | 2.2 |
| Defined benefit pension scheme surplus | 61.7 | 107.2 | 111.1 |
| Related deferred tax liability | - | - | (27.8) |
| Net retirement benefit asset | 61.7 | 107.2 | 83.3 |

Serco Limited

Notes to the Financial Statements for the Year Ended 31 December 2012

| | 2012 £ m | 2011 Restated £ m | 2011 Originally reported £ m |
|-------------------------------|-------------|-------------------------|---------------------------------------|
| Analysed as: | | | |
| Retirement benefit asset | 69.7 | 122.3 | 94.6 |
| Retirement benefit obligation | (8.0) | (15.1) | (11.3) |

Scheme assets

Changes in the fair value of scheme assets are as follows

| | 2012 £ m | 2011 £ m |
|--------------------------------------|-------------|-------------|
| Fair value at start of period | 1,064.1 | 874.1 |
| Expected return on assets - employer | 51.4 | 53.5 |
| Expected return on assets - employee | 1.1 | 1.4 |
| Employer contributions | 26.8 | 63.7 |
| Contributions by scheme participants | 0.8 | 0.7 |
| Benefits paid | (35.4) | (33.0) |
| Actuarial gains and losses | (14.5) | 107.8 |
| Plan settlements | - | (4.1) |
| Fair value at end of year | 1,094.3 | 1,064.1 |

Analysis of assets

The major categories of scheme assets are as follows

| | 2012 £ m | 2011 £ m |
|------------------------------------|-------------|-------------|
| Equity instruments | 52.4 | 39.1 |
| Bonds except LDI | 7.9 | 5.9 |
| Liability Driven Investments (LDI) | 948.0 | 918.6 |
| Gilts | 9.0 | 11.9 |
| Property | - | 3.0 |
| Cash and other | 54.6 | 59.6 |
| Annuity policies | 22.4 | 26.0 |
| | 1,094.3 | 1,064.1 |

Actual return on scheme's assets

| | 2012 £ m | 2011 £ m |
|--------------------------------|-------------|-------------|
| Actual return on scheme assets | 38.0 | 162.7 |

The pension scheme has not invested in any of the Company's own financial instruments or in properties or other assets used by the Company

Serco Limited

Notes to the Financial Statements for the Year Ended 31 December 2012

Scheme liabilities

Changes in the present value of scheme liabilities are as follows

| | 2012 £ m | 2011 Restated £ m | 2011 Originally reported £ m |
|--------------------------------------|----------------|-------------------------|---------------------------------------|
| Present value at start of period | 953.1 | 902.9 | 902.9 |
| Current service cost - employer | 12.6 | 15.2 | 15.2 |
| Current service cost - employee | 0.2 | 0.3 | 0.3 |
| Past service cost | 1.1 | 0.4 | 0.4 |
| Interest cost - employer | 43.4 | 45.6 | 45.6 |
| Interest cost - employee | 1.0 | 1.1 | 1.1 |
| Benefits paid | (35.4) | (33.0) | (33.0) |
| Actuarial gains and losses | 68.5 | 24.3 | 26.7 |
| Contributions by scheme participants | 0.6 | 0.9 | 0.9 |
| Plan curtailments | (6.1) | (0.3) | (0.3) |
| Plan settlements | - | (4.3) | (4.3) |
| Present value at end of year | <u>1,039.0</u> | <u>953.1</u> | <u>955.5</u> |

In some schemes, employee contributions vary over time to meet a specified proportion of the overall costs, including a proportion of any deficit. The liabilities recognised in the balance sheet for these schemes are net of the proportion attributed to employees. In addition, the amounts charged to the income statement for these schemes are net of the proportion attributed to employees. The amounts attributed to employees are shown separately in the reconciliation of changes in the fair value of scheme assets and liabilities.

Amounts recognised in the profit and loss account

| | 2012 £ m | 2011 £ m |
|---|--------------|--------------|
| Amounts recognised in operating profit | | |
| Current service cost - employer | 12.6 | 15.2 |
| Past service cost | 1.1 | 0.4 |
| Curtailment gain | (6.1) | (0.3) |
| Settlement gain | <u>-</u> | <u>(0.2)</u> |
| Recognised in arriving at operating profit | <u>7.6</u> | <u>15.1</u> |
| Amounts recognised in other finance income | | |
| Expected return on scheme assets - employer | (51.4) | (53.5) |
| Interest cost - employer | <u>43.4</u> | <u>45.6</u> |
| Recognised in other finance income | <u>(8.0)</u> | <u>(7.9)</u> |
| Total recognised in the profit and loss account | <u>(0.4)</u> | <u>7.2</u> |

Serco Limited

Notes to the Financial Statements for the Year Ended 31 December 2012

Amounts recognised in the statement of comprehensive income

| | 2012 £ m | 2011 Restated £ m | 2011 Originally reported £ m |
|--|-------------|-------------------------|---------------------------------------|
| Actual return less expected return on scheme assets | (14.5) | 107.8 | 107.8 |
| Change in members' share | 2.0 | 0.9 | 0.9 |
| Other actuarial losses | (60.2) | (30.6) | (26.7) |
| Actuarial gains and losses recognised in the statement of comprehensive income | (72.7) | 78.1 | 82.0 |

The cumulative amount of actuarial gains and losses recognised in the statement of comprehensive income since 1 January 2002 is £34.2m loss (2011 £39.6m gain restated)

History of experience adjustments on scheme assets and liabilities

Amounts for the current year and previous four years is as follows

| | 2012 £ m | 2011 Restated £ m | 2010 £ m | 2009 £ m | 2008 £ m |
|--|-------------|-------------------------|-------------|-------------|-------------|
| Fair value of scheme assets | 1,094.3 | 1,064.1 | 874.1 | 776.6 | 718.5 |
| Present value of scheme liabilities | (1,039.0) | (953.1) | (902.9) | (851.1) | (669.3) |
| Surplus/(deficit) in scheme | 55.3 | 111.0 | (28.8) | (74.5) | 49.2 |
| Experience adjustments | | | | | |
| Experience adjustments rising on scheme assets | (14.5) | 107.8 | 34.3 | 24.7 | (74.7) |
| Experience adjustments arising on scheme liabilities | 16.3 | (2.0) | (2.4) | (32.9) | (2.6) |

24 Called up share capital

Allotted, called up and fully paid

| | 2012 £ m | 2011 £ m |
|---|-------------|-------------|
| 213,744 (2011 213,744) ordinary shares of £1 each | 0.2 | 0.2 |

Serco Limited

Notes to the Financial Statements for the Year Ended 31 December 2012

25 Reconciliation of movement in shareholders' funds

| | 2012 £ m | 2011 Restated £ m | 2011 Originally reported £ m |
|---|--------------|-------------------------|---------------------------------------|
| Shareholders' fund at 1 January originally reported | 599 0 | 523 5 | 523 5 |
| Adjustment in respect of transition to FRS 101 | - | 0 5 | - |
| Shareholders' funds at 1 January restated | 599 0 | 524 0 | 523 5 |
| Profit for the year attributable to members of the Company | 134 5 | 45 6 | 26 1 |
| Equity dividend paid | (100 0) | (30 0) | (30 0) |
| Net actuarial (loss)/gain on defined benefit pension schemes | (54 1) | 53 5 | 57 4 |
| Net exchange (loss)/gain on translation of foreign operations | (1 2) | 0 1 | - |
| Tax credit/(charge) on hedging and translation reserve | 0 2 | (0 1) | (0 1) |
| Amortisation of cash flow hedging reserve | (0 1) | 0 1 | 0 1 |
| Net fair value (loss)/gain on cash flow hedges | (0 6) | 0 3 | 0 3 |
| Credit in relation to share-based payments | 4 8 | 5 1 | 5 1 |
| Tax credit in relation to share-based payments | 0 1 | 0 4 | - |
| Shareholders' funds at 31 December | <u>582 6</u> | <u>599 0</u> | <u>582 4</u> |

26 Restatement of reserves

The transition to FRS 101 has had the following effect on the shareholders' funds originally reported at 31 December 2011

| | 2011 £ m |
|--|--------------|
| Shareholders' funds at 31 December 2011 originally reported | <u>582 4</u> |
| Elimination of amortisation charge on goodwill | 22 1 |
| Amortisation of other intangible assets | (2 7) |
| Recognition of IFRC 14 movements on retirement benefit obligations | (3 9) |
| Tax credit in relation to share-based payments | 0 4 |
| Prior year tax restatement due to transition to FRS 101 | 0 5 |
| Other smaller adjustments | <u>0 2</u> |
| Shareholders' funds at 31 December 2011 restated | <u>599 0</u> |

27 Contingent Liabilities

The Company, together with its ultimate parent and certain other subsidiaries, is included within interest pooling arrangements involving cross guarantee structures. The maximum overdraft permitted by these arrangements is £12 0m (2011 £12 0m). The overdraft was undrawn at 31 December 2012.

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

Serco Limited

Notes to the Financial Statements for the Year Ended 31 December 2012

28 Commitments

Capital commitments

The total amount contracted for but not provided in the financial statements was £7.0m (2011: £0.6m)

Operating lease commitments

The total future value of minimum lease payments under non-cancellable operating leases is as follows

| | 2012 | 2011 |
|----------------------|-------------|-------------|
| | £ m | £ m |
| Within one year | 20.9 | 17.1 |
| In two to five years | 48.3 | 39.4 |
| In over five years | 29.0 | 20.1 |
| | <u>98.2</u> | <u>76.6</u> |

29 Derivative financial instruments

| | 2012 | 2012 | 2011 | 2011 |
|------------------------------------|------------|--------------|------------|--------------|
| | Assets | Liabilities | Assets | Liabilities |
| | £ m | £ m | £ m | £ m |
| Forward foreign exchange contracts | <u>0.3</u> | <u>(0.2)</u> | <u>0.9</u> | <u>(0.3)</u> |
| | 2012 | 2012 | 2011 | 2011 |
| | Assets | Liabilities | Assets | Liabilities |
| | £ m | £ m | £ m | £ m |
| Analysed as | | | | |
| Non-current | - | - | 0.3 | - |
| Current | <u>0.3</u> | <u>(0.2)</u> | <u>0.6</u> | <u>(0.3)</u> |
| | <u>0.3</u> | <u>(0.2)</u> | <u>0.9</u> | <u>(0.3)</u> |

The Company is exposed to foreign currency transaction risk on costs. Any material transactional exposure that does arise is hedged by the Group Treasury function using forward foreign currency contracts. Hedges on highly probable forecast transactions or commitments have been designed as cash flow hedges. All currency derivatives designated as cash flow hedges are highly effective and the fair value loss of £0.6m in the year (2011: £0.3m gain) has been deferred in equity.

30 Control

The Company's immediate parent is Serco Holdings Limited. The ultimate parent company and controlling party is Serco Group plc, a company incorporated in the United Kingdom and registered in England and Wales. Serco Group plc is the parent undertaking of the smallest and largest group to consolidate these financial statements. These financial statements are available upon request from the Company Secretary, Serco Group plc, 16 Bartley Wood Business Park, Bartley Way, Hook, Hampshire RG27 9UY.