Serco Limited

Annual Report and Financial Statements

for the Year Ended 31 December 2013

A company registered in England and Wales, number 00242246

Serco Limited
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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 2013

The directors present their report and the financial statements for the year ended 31 December 2013 As set out in note 2 to the financial statements, the directors consider it appropriate to prepare the accounts on the going concern basis

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

R Judge

T Lawlor

T Riall (resigned 8 March 2013)

J Stafford (resigned 18 November 2013)

Post balance sheet events

Contract & Balance Sheet reviews

A review of the Group's 30 September 2014 Balance Sheet was undertaken by management in the fourth quarter of 2014 in the context of the likely future strategy These Contract & Balance Sheet reviews were undertaken across the Serco Group and involved a re-assessment of the Group's assets and liabilities in light of current and latest forecast trading expectations They identified likely impairments and onerous contract provisions These reviews are still being finalised and the amounts have not yet been audited An initial estimate of the likely impact on Serco Limited's 2014 results is a charge to operating profit of approximately £450m Included in this amount are onerous contract provisions from future unavoidable losses expected to arise in the COMPASS (Commercial and Operational Managers Procuring Asylum Support Services) contract for the provision of accommodation to asylum seekers, the FPMS (Future Provision of Marine Services) contract for marine services provided at three UK Naval bases, the National Citizen Services contract, the PECS (Prisoner Escorting and Custody Services) contract and the Suffolk Community healthcare contract Additionally there is a potential impairment of up to £355m of goodwill balances held on the balance sheet of Serco Limited

New shares allotted

In December 2014 new ordinary shares were allotted by Serco Limited for an aggregate consideration of £452 2m

Estimated balance sheet position at 2014 year-end

Based on the post balance sheet events that are disclosed above, including the issue of new shares and taking account of the forecast results for 2014 year it is estimated that there will be positive net current assets and positive net assets as at 31 December 2014

Electronic Monitoring

In December 2013, following a review of the billing arrangements on the EM contract by the Ministry of Justice, a settlement of £64 3m was reached in respect of contractual claims Alongside the commercial settlement, the Serious Fraud Office investigated billing practices on the EM contract The Serious Fraud Office investigation is ongoing, and Serco continues to cooperate fully

Serco Group plc rights issue and debt refinancing

The Group announced in November 2014 plans for new equity to be raised through a rights issue and used to reduce the Group's indebtedness This is fully underwritten on a standby basis by Bank of America Merrill Lynch and J P Morgan Cazenove and is scheduled to complete in May 2015 and raise gross funds of up to £550m The Group is holding discussions with its debt holders to refinance its debt and these are expected to conclude by March 2015 The Group announced on 18 December 2014 it had reached agreement with its banks and US private placement lenders to amend its financial covenants This included deferral of the next covenant testing date to 31 May 2015

Employment of disabled persons

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 in to 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

Serco Limited
Directors' Report for the Year Ended 31 December 2013

Going concern

The Directors consider that Serco Limited is a going concern As set out in more detail in Note 2 to the accounts, the Directors note that there is material uncertainty which may affect the Company in relation to the ability of Serco Group plc to complete the debt refinancing and rights issue

The company is reliant upon the on-going financial support of its parent Serco Group plc to remain a going concern The company has received a letter of support from Serco Group plc that confirms it will make cash or equity funds available to the company to allow it to meet its financial obligations as and when they fall due over the period to 31 December 2015 Whilst the letter of support does not give rise to any legal obligation the directors are satisfied that it provides sufficient assurance of the intent of the parent to continue to support the business The ability of Serco Group plc to continue to provide support is wholly reliant upon its ability to raise sufficient new equity or debt to finance the group The group needs to be able to raise such new funds within a time frame that allows it to continue to meet its financial covenant requirements in 2015 In the event that Serco Group plc cannot raise sufficient fresh funding to support the business then Serco Limited would need to immediately seek its own financing in order to continue as a going concern Whilst management understand that Serco Group plc have publicly announced its intention to raise new equity in early 2015 and have obtained a standby underwriting letter, at the time of issuing these financial statements there remains material uncertainty over the ability of the parent to complete the raising of new funds necessary to support the company over the period to 31 December 2015

Nevertheless, after making enquiries and considering the uncertainties described above and taking consideration of the current forecasts for the Company, a letter of support provided by Serco Group plc and the financial strength of the Group following the expected successful completion of the rights issue and debt refinancing, the Directors have a reasonable expectation that the Company will continue to have adequate resources to continue in operational existence for the foreseeable future For these reasons, they continue to adopt the going concern basis of accounting in preparing the financial statements

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 auditors are aware of that information The directors confirm that there is no relevant information that they know of and of which they know the auditors are unaware

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

Approved by the Board on 22 December 2014 and signed on its behalf by

A Crawshaw
Director

Serco Limited
Strategic Report for the Year Ended 31 December 2013

The directors present their Strategic Report for the year ended 31 December 2013

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
2013 brought significant challenges, in particular from certain contract issues with the UK Ministry of Justice (MoJ) Revenue growth was up 5 1%, increasing from £1,784 9m to £1,876 2m, driven principally by contract awards in the previous year The Company generated an operating profit, before net exceptional items, for the year of £15 3m compared to an operating profit of £131 7m in 2012, due to lower margins on certain contracts including those at the initial stages where there is greater upfront investment required as well as fewer wins in the BPO market During the year net exceptional charges of £117 6m were incurred, reflecting principally the settlement relating to UK Government reviews and related costs as well as profit on disposal of operations and a settlement relating to a pension dispute After exceptional items the operating loss of the Company for the financial year was £102 3m

Net assets of the Company have decreased by 7 5% to £538 8m (2012 restated £582 6m) This includes a share issue of 4,453 ordinary shares of £1 each allotted to Serco Holdings Limited for aggregate consideration of £50 0m, giving rise to £50 0m of premium on the issue of the shares The results for 2012 have been restated for adoption of IAS 19 (Revised) 'Employee Benefits' which has been applied retrospectively The impact of this has been to reduce reported profit before tax for 2012 by £3 8m to £143 0m

The focus for the future will be to take the actions necessary to return the Company to longer term growth, fully implement the plan of corporate renewal and re-establish momentum within our markets We will continue to build differentiated capabilities that will secure the Company's future progress in large and growing markets and consistent with the Group's Strategy Review which will be presented in March 2015

Our various public service operations for UK Government make it collectively our single largest customer, with 2013 involving substantial effort to rebuild confidence in the Company There have been three main areas of activity Firstly, we cooperated fully with the detailed independent forensic audit of the Electronic Monitoring (EM) contract, the separate audits of our other MoJ contracts and the Cabinet Office's wider review across our other major UK Central Government contracts Beyond the EM and Prisoner Escort and Custody Services (PECS) issues that had previously been identified, no further material issues were raised and the audits and reviews were, therefore, concluded satisfactorily by the end of 2013

Secondly, a settlement was agreed with the MoJ in respect of the issues arising on the EM contract The settlement reflected the difference in interpretation regarding billing arrangements for the EM contract since 2005, together with a repayment of an element of past profit earned on the contract, interest and the UK Government's costs of the audits and reviews

Thirdly, Serco Limited has developed and is now in the process of implementing the comprehensive programme of corporate renewal that we outlined in January 2014 to ensure consistency of behaviours and strengthen operations across the Company Our plan was assessed externally by an Oversight Group of Government non-executive directors, with independent advisers appointed by the Government to review our progress against agreed milestones In January 2014 a positive assessment was provided on our programme, confirming Serco's consideration on an equal basis to other suppliers for current Central Government contract awards As a result of the changes in the year the operations of our UK & Europe division will split into two with a separate division for our UK Central Government work to achieve a focus on the UK Central Government as a customer

Serco Limited has also disposed of a number of operations during the year On 27 November 2013 the Company sold its London streets maintenance and UK transport technology business for consideration of £44 9m On 4 October 2013 the Company disposed of its occupational health business for £3 5m cash consideration Finally, in December 2013 the Company completed the disposal of its Ascot College business for consideration of £0 8m The net profit on disposal of operations for the financial year was £22 8m (2012 £74 0m)

UK & Europe

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

Ferry services to the Northern Isles of Scotland completed their first full year under Serco s management This has seen the refurbishment of all three passenger vessels and numerous other improvements delivered to assist increasing usage of the lifeline freight and passenger services In similar operations, Serco and its local joint venture partner Strömma Turism & Sjöfart AB were selected during the year to manage and operate four ferries currently carrying over two million passengers annually in Stockholm

Serco delivered the phase 3 expansion of London Cycle Hire for Transport for London, adding approximately 5,600 new docking points, and 2,400 new bikes to western boroughs Serco was also awarded an innovative new contract to provide end-to-end on-street parking enforcement for the West London Alliance, a partnership between Ealing, Hounslow and Brent borough councils

In Local Direct Services, Serco successfully extended or rebid its contracts for environmental services for Canterbury City Council, Welwyn Hatfield Borough Council and Breckland Borough Council, valued in total at over £100m Our operations for Sandwell Metropolitan Borough Council saw the opening of a new £10m waste transfer station in Tipton, handling more than 1,700 tonnes of waste and recycling each week

In our support services for the Armed Forces, Serco extended and then subsequently rebid successfully its Multi-Engine Pilot Training (MEPT) contract at RAF Cranwell, valued at approximately £36m over five years Other extended contracts included maintenance for the Search and Rescue fleet of Sea King aircraft, our Multi-Activity Contract at RAF Brize Norton and our Air Traffic Services at Wattisham for the British Army's Apache helicopter fleet In related services for the private sector, Serco has rebid and expanded its services to Airbus and also successfully rebid our support to the United States Air Force in Europe (USAFE) For the British Army, our pre-deployment training Contemporary Operating Environment Force (COEFOR) contract was extended for a further year

During the year in Home Affairs a detailed independent forensic audit of our EM contract was completed with Serco's full cooperation, with the audit identifying issues with billing A settlement of £64 3m with the MoJ reflected the difference in contract interpretation regarding the billing arrangements since 2005, together with a repayment of past profit earned on the contract, interest and the UK Government's costs of the audits and reviews The settlement was full and final in respect of contractual claims with the proviso that additional payments might be sought in limited circumstances, such as if criminality were to be established Serco continues to cooperate fully with the ongoing investigations by the Serious Fraud Office The settlement was included as an exceptional cost in the year

A second significant contract issue also arose during the year in Home Affairs Serco and the MoJ jointly referred misreporting of data on the Prisoner Escort & Custody Services (PECS) contract to the City of London Police Under the contract Serco is required to deliver defendants to Court with performance measured against the defendant being 'Designated Ready and Available for Court Time' (DRACT) Serco identified misreporting of DRACT data locally such that performance reported to the customer was overstated A settlement of £2 0m was reached in repayment of profit earned since the contract was renewed in 2011, this was included as an exceptional cost in the year Significant cost was incurred to deliver service improvements that enabled the MoJ to confirm that Serco could retain this contract whilst forgoing any future profits Separate audits of all of our MoJ contracts, as well as the Cabinet Office's wider review across the range of our other major UK Central Government contracts, concluded in December 2013 In December 2014 the City of London Police confirmed the investigation has been dropped Beyond the EM and PECS contracts, no further material issues were raised

Within our custodial operations, at HMP Thameside, Her Majesty's Chief Inspector of Prisons and more recently the Independent Monitoring Board have recognised the progress that has been made since the prison first opened, which has included a number of health and welfare initiatives to improve operational performance at this new London prison Supporting the MoJ's programme to modernise the UK prison estate, we are increasing the capacity of HMP Thameside with a contract expansion valued at £120m over 22 years which includes a £36m 18 month construction phase During the year Serco transitioned HMP & YOI Ashfield from being a Young Offender Institution to being an Adult Male prison At HMP & YOI Doncaster our payment by results pilot programme saw improvement in reoffending rates for prisoners serving less than twelve months, this work and our London Community Payback contract will conclude by the end of 2014 in order for them to be rolled into the Government's new Transforming Rehabilitation programme, where Serco will look at opportunities to support others in the development of the new probation services market

Serco Limited
Strategic Report for the Year Ended 31 December 2013

As reported by the National Audit Office in January 2014, our contract under the Home Office's COMPASS programme to provide accommodation and support services to almost 10,000 asylum applicants in the North West of England and in Scotland and Northern Ireland has experienced a challenging transition since taking over the service in late 2012 Whilst the report recognised that Serco had worked hard to raise standards, there remains scope for further improvement and we are committed to working with our customer and our partners in local government, the NHS and the voluntary sector to achieve that

In Health it is core to our strategy to provide healthcare organisations with integrated facilities management For example, Serco signed an extension to continue providing support services to Plymouth Hospitals NHS Trust valued at approximately £40m over three years Our UK skills and capabilities in this sector have also continued to be important references for contracts won in other regions

Operations at certain clinical health contracts have proved challenging in 2013 At our Cornwall GP out-of-hours contract, overall patient feedback is positive and the Care Quality Commission s (CQC) report noted the improvements made and that essential standards of quality and safety were being fully met However, the implementation of the NHS Pathways IT system during the year proved an additional challenge for a contract that Serco has acknowledged publicly that it has not delivered as successfully as it should have As announced in December 2013, Serco will end this contract early

Serco began a significant new contract for the NHS in Suffolk in October 2012, providing a wide range of community health services The contract is one of the first of its kind and runs for three years Serco has delivered some early benefits in 2013 such as reducing the length of stay in community hospitals by around a week and improving access to the service by establishing a 24-hour care coordination centre However, demand on the service has increased and it is taking longer than anticipated to bring about the operational performance levels that are expected At all times Serco has ensured that the service is properly resourced to deliver a safe, quality service and will continue to do so Serco remains committed to the community healthcare market and to the service in Suffolk Provisions for estimated losses in future years on the Suffolk and Cornwall contracts led to a non-cash exceptional charge of £14 4m in the year

The Cornwall Out of Hours contract is being exited early and the Suffolk Community Health contract is being run through to the end of the contract term in 2015

Global Services

Global Services is our Business Process Outsourcing (BPO) division, bringing together all of Serco Limited's middle and back office skills and capabilities across customer contact, transaction and financial processing, and related consulting and technology services This continues to be a developing area of the business and the major contract awards that began in the second half of 2012 helped to drive strong revenue growth in the first half of 2013 However, performance weakened in the second half of the year There was less success in winning new contract awards, and there was a lower level of UK Central Government discretionary and ad hoc project work The significant margin reduction reflected increased costs of contract bidding and new market development activity, the reduced level of typically higher margin project work and the transitional stage of the major new contracts which tend to involve greater upfront investment

At the Anglia Support Partnership (ASP), which was acquired in April 2012, we have continued to see expansion of our platform and framework contract where we provide shared service support to NHS organisations A further contract was signed with a large NHS hospital trust to provide strategic procurement and finance and accounting services, involving the transfer of the trust's systems to the ASP shared service platform The four-year contract is expected to generate revenue of approximately £112m

Serco secured extensions in the year for a number of UK Central Government BPO contracts valued at over £100m in total, with an average extension period of three years The contracts include the provision of specialist complex case management services for the Child Maintenance Group at the Department for Work and Pensions (DWP), managing enquiries on behalf of Jobcentre Plus and the Universities & Colleges Admissions Service (UCAS), supporting the delivery of the Department of Health's 'Healthy Start' programme and operating the Food Standards Agency's emergency helpline For our Child Maintenance Group operations, Serco won the 'Value for Money Award' at the DWP Supplier Excellence Awards 2013, recognising our continuous improvement ethos and innovative approaches to enhancing customer experience whilst driving down costs for the DWP

In our local authority strategic partnerships, at Hertfordshire County Council we continue to transform the way services are delivered Expanded services have included a pioneering new telecare service for adults in receipt of social care With an initial value of £12m over five years, there is potential for further growth as the service is extended to provide wider support At Thurrock, Serco has introduced a new debt collection programme and is providing additional ICT support as part of the council's wider transformation programme

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

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

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 Turnover may also be adversely affected by changes to the UK Government's policy in respect of outsourcing

Failure to understand and manage the consequences of changes in the political environment, adverse changes in political stability, political leadership, policy and economic conditions will negatively affect current and future business The sustainability of Serco's business with the Government is dependent on a stable government and a favourable policy climate to outsourcing The policy environment may change and favourable markets may become hostile leading to loss of business and reduced opportunities

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
- 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 - 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 debt covenants
- 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

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 A significant number of Serco's contracts with the UK Government and other public sector customers, including renewals and extensions of previous contracts, are awarded through formal competitive bidding processes Competitive bidding processes present a number of risks, including substantial cost and management time and effort to prepare bids and proposals for contracts that may not be won

If Serco does not continue to be competitive, show entrepreneurial spirit, deliver our promises it may result in the failure to win material bids or renew significant contracts that 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

Risk – Failure to effectively manage brand/reputation

The economic value of the business is significantly impacted by its reputation That reputation is held in the minds of others and broadly consists of their attitudes towards the Company 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

The events of the last year relating to two UK Government contracts have negatively impacted Serco's reputation and brand including our ability to bid for and win UK Government business during the second half of 2013

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
- An effective risk, issues and controls structure identifies potential reputational impacts allowing effective management and oversight
- Customer engagement and employee engagement strategies
- Relationship management and communication with external stakeholders

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 provide 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 damaged 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 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
- Cyber Resilience of Enterprise Applications
- Risk assessments
- User management, multifactor authentication, user awareness
- Regular risk reviews
- ISO 27000 certification

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

Our 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
- 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

Serco Limited

Strategic Report for the Year Ended 31 December 2013

Risk - Failure to retain/attract key leadership talent

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 The failure of the Company to retain and/or recruit additional or substitute senior management and/or other key employees could have an adverse impact on the business

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 through loss of leaders to them

Mitigation

- People policies and systems, strategy and targets supported by Governance structure including Remunerations Committee
- Succession planning
- 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

Strategic Report for the Year Ended 31 December 2013

Risk - Going Concern

The Directors note that there is material uncertainty which may affect the Company in relation to the ability of Serco Group plc to complete the debt refinancing and rights issue

Impact

- Risk of the Company's ability to continue in operational existence
- As a cross-guarantor with other group companies on a joint and several basis in respect of the borrowing facilities of the Serco Group, risk arises if these guarantees were invoked

Mitigation

- Successful completion of the rights issue and debt refinancing
- Proposed rights issue is fully underwritten on a standby basis by Bank of America Merrill Lynch and J P Morgan Cazenove
- Agreement reached on 18 December 2014 with the Group's banks and US private placement lenders to amend its financial covenants This includes deferral of the next covenant testing date to 31 May 2015

Approved by the Board on 22 December 2014 and signed on its behalf by

A Crawshaw
Director

Serco Limited

Statement of Directors' Responsibilities

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 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

Serco Limited
Independent Auditor's Report

We have audited the financial statements of Serco Limited for the year ended 31 December 2013, set out on pages 15 to 50 which comprise the profit and loss account, statement of comprehensive income, statement of changes in equity, balance sheet and related notes 1 to 31 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 Statement of Directors' Responsibilities (set out on page 13), 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

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 and the Strategic Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit 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 2013 and of its loss 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

Emphasis of matter - Going concern
In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosure made in note 2 to the financial statements concerning the company's ability to continue as a going concern Matters explained in note 2 to the financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the company's ability to continue as a going concern The financial statements do not include the adjustments that would result if the company was unable to continue as a going concern

Opinion on other matter prescribed by the Companies Act 2006
In our opinion the information given in the Directors' Report and the Strategic Report for the financial year for which the financial statements are prepared are 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, Statutory Auditor
London
United Kingdom

23,
~~20~~ December 2014

Serco Limited
Profit and Loss Account for the Year Ended 31 December 2013

	Note	Before exceptional items 2013 £ m	Exceptional items 2013 £ m	Total 2013 £ m	2012 Restated* £ m
Turnover	5	1,876 2	-	1,876 2	1,784 9
Cost of sales		(1,691 5)	-	(1,691 5)	(1,575 3)
Gross profit		**184.7**	-	**184.7**	**209.6**
Administrative expenses		(147 6)	-	(147 6)	(121 4)
Amortisation of intangible fixed assets	17	(21 8)	-	(21 8)	(20 0)
Transaction-related costs		-	-	-	(0 8)
Investment impairment		-	-	-	(9 7)
Exceptional net profit on disposal of operations	6	-	22 8	22 8	74 0
Other exceptional operating items	7	-	(140 4)	(140 4)	-
Operating profit/(loss)		**15 3**	**(117 6)**	**(102 3)**	**131.7**
Investment income	11	-	-	-	17 4
Interest receivable and similar income	12	4 8	-	4 8	7 2
Interest payable and similar charges	13	(15 9)	-	(15 9)	(13 3)
Profit/(loss) before tax		**4 2**	**(117 6)**	**(113 4)**	**143.0**
Tax on (loss)/profit on ordinary activities	14	(7 8)	21 8	14 0	(11 3)
(Loss)/profit for the financial year		**(3.6)**	**(95 8)**	**(99 4)**	**131.7**

The above results were derived from continuing operations

* Certain amounts here do not correspond to the 2012 financial statements and reflect adjustments made in respect of the retrospective application of new or revised standards and reallocation of costs See note 4

Serco Limited
Statement of Comprehensive Income for the Year Ended 31 December 2013

	Note	2013 £ m	2012 Restated £ m
(Loss)/profit for the year		**(99.4)**	**131.7**
Other comprehensive (expense)/income for the year.			
Items that will not be reclassified subsequently to profit or loss			
Net actuarial gain/(loss) on defined benefit pension schemes	25	28 4	(94 7)
Actuarial (loss)/gain on reimbursable rights	25	(30 1)	23 9
Tax relating to items not reclassified		6 8	19 5
Items that may be reclassified subsequently to profit or loss:			
Net exchange loss on translation of foreign operations		(0 6)	(1 2)
Tax relating to items that may be reclassified		0 1	0 2
Fair value loss on cash flow hedges		(0 3)	(0 6)
Unrealised gain/(loss) on hedge of investments in foreign operations		0 1	(0 1)
Total comprehensive (expense)/income for the year		**(95.0)**	**78.7**

Serco Limited

Statement of Changes in Equity for the Year Ended 31 December 2013

	Called up share capital £ m	Share premium £ m	Hedging and translation reserve £ m	Share-based payments reserve £ m	Retirement benefit obligations reserve £ m	Profit and loss account £ m	Total £ m
At 1 January 2012 originally reported	0 2	457 3	0 5	33 1	(80 4)	188 3	599 0
Changes in accounting policies (note 4)	-	-	-	-	6 8	(6 8)	-
At 1 January 2012 as restated	**0 2**	**457.3**	**0 5**	**33.1**	**(73 6)**	**181 5**	**599.0**
Total comprehensive (expense)/income for the financial year	-	-	(0 5)	-	(51 3)	130 5	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 restated	**0.2**	**457 3**	**-**	**38.0**	**(124 9)**	**212.0**	**582.6**
Total comprehensive (expense)/income for the financial year	-	-	(0 1)	-	5 1	(100 0)	(95 0)
New share capital subscribed	-	50 0	-	-	-	-	50 0
Credit in relation to share-based payments	-	-	-	2 3	-	-	2 3
Tax charge in relation to share-based payments	-	-	-	(1 1)	-	-	(1 1)
At 31 December 2013	**0.2**	**507.3**	**(0 1)**	**39.2**	**(119 8)**	**112.0**	**538 8**

Serco Limited

Balance Sheet as at 31 December

	Note	31 December 2013 £ m	31 December 2012 Restated £ m	1 January 2012 Restated £ m
Fixed assets				
Goodwill	17	355 3	367 4	318 5
Other intangible fixed assets	17	100 8	103 5	76 8
Property, plant and equipment	18	91 7	81 1	81 5
Investments	19	9 0	9 0	18 7
Derivative financial instruments	29	-	-	0 3
		556 8	561 0	495 8
Current assets				
Stocks	20	23 7	24 4	23 1
Debtors amounts due within one year	21	466 6	607 8	468 6
Debtors amounts falling due after more than one year	21	35 6	8 0	18 8
Deferred tax assets amounts falling due after more than one year	15	34 1	15 2	-
Derivative financial instruments	29	0 2	0 3	0 6
Cash at bank and in hand		64 3	84 7	27 3
		624 5	740 4	538 4
Creditors: amounts falling due within one year				
Creditors amounts falling due within one year	22	(453 4)	(471 8)	(400 7)
Derivative financial instruments	29	(0 4)	(0 2)	(0 3)
Provisions	24	(20 2)	(7 2)	-
		(474 0)	(479 2)	(401 0)
Net current assets		**150.5**	**261.2**	**137.4**
Creditors: amounts falling due after more than one year				
Creditors amounts due after more than one year	23	(172 4)	(281 3)	(124 7)
Derivative financial instruments	29	(0 1)	-	-
Provisions	24	(50 0)	(10 3)	(4 2)
Deferred tax liabilities	15	-	-	(8 6)
		(222 5)	(291 6)	(137 5)
Net assets excluding pension asset/(liability)		**484 8**	**530.6**	**495.7**
Defined benefit pension asset	25	64 2	69 7	122 3
Defined benefit pension liability	25	(10 2)	(17 7)	(19 0)
Net assets		**538.8**	**582.6**	**599.0**
Capital and reserves				
Called up share capital	26	0 2	0 2	0 2
Share premium		507 3	457 3	457 3
Hedging and translation reserve		(0 1)	-	0 5
Share-based payments reserve		39 2	38 0	33 1
Retirement benefit obligations reserve		(119 8)	(124 9)	(73 6)
Profit and loss account		112 0	212 0	181 5
Shareholder's funds		**538 8**	**582 6**	**599.0**

The financial statements (registered number 00242246) were approved by the Board of Directors on 22 December 2014 and signed on its behalf by

A Crawshaw
Director

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 Strategic Report set out on pages 4 to 12

These financial statements are presented in pounds Sterling because that is the currency of the primary economic environment in which the Company operates

2 Accounting policies

Summary of significant accounting policies and key accounting estimates

The principal accounting policies applied in the preparation of these financial statements are set out below These policies have been consistently applied to all the years presented, unless otherwise stated

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 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

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 This is because the Company is included within the consolidated financial statements of Serco Group plc which are available from the address provided in note 31

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 goods and services

Adoption of new and revised Standards

In the current year, the following new and revised standards and interpretations have been adopted and have affected the amounts reported in these financial statements

- IAS 1 (amended) 'Presentation of Financial Statements' increases the required level of disclosure within the statement of comprehensive income One impact of this amendment has been to analyse items within the statement of comprehensive income between items that will not be reclassified subsequently to profit or loss and items that will be reclassified subsequently to profit or loss in accordance with the respective IFRS standard to which the item relates The financial statements have also been amended to analyse income tax on the same basis The amendments have been applied retrospectively, and hence the presentation of items of comprehensive income have been restated to reflect the change Other than the above mentioned presentation changes, the application of the amendments to IAS 1 did not result in any impact on profit or loss, comprehensive income and total comprehensive income
- IAS 19 (Revised) 'Employee Benefits' requires pension interest return to be calculated using the value of scheme assets multiplied by the discount rate rather than the expected rate of asset return The Group has applied IAS 19 (Revised) retrospectively and in accordance with the transitional provisions as set out in that standard The impact of this change is to reduce reported profit before tax for 2012 by £3 8m IAS 19 (Revised) also introduces more extensive disclosures in the presentation of the defined benefit cost
- IFRS 13 'Fair Value Measurement' establishes a single source of guidance under IFRS for all fair value measurements IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS IFRS 13 defines fair value as an exit price As a result of the guidance in IFRS 13, the Company re-assessed its policies for measuring fair values, in particular, its valuation inputs such as non-performance risk for fair value measurement of liabilities IFRS 13 also requires additional disclosures Application of IFRS 13 has not materially impacted the fair value measurements of the Company
- IAS 36 (Revised) 'Impairment of Assets' enhances the disclosure requirements arising when recoverable amounts have been determined on the basis of fair value less costs of disposal They also limit the requirement to disclose the recoverable amount of an asset or Cash Generating Unit (CGU) to periods in which an impairment loss has been recognised or reverses IAS 36 (Revised) has been adopted early, as allowed by the standard, with effect from 1 January 2013

Going concern
In order to satisfy ourselves that the Company has adequate resources to continue in operational existence for the foreseeable future, the Directors note the following matters

• A review of current and forecast trading of the Company, which included a review of the expected financial consequences of items identified as post balance sheet events The Directors note that the Contract & Balance Sheet Reviews are not yet complete and have not been audited Accordingly the outcome of these reviews and its impact on the forecast trading and future cash flows may be materially different from the forecast position that management have considered to date
• There has been a recapitalisation of Serco Limited which involved the issue of new shares to the value of £452m This was undertaken in December 2014 to ensure the Company retains a financially strong balance sheet position
• The receipt of a letter of support from Serco Group plc to Serco Limited Serco Group plc provided this letter having considered its plans to undertake a debt refinancing and rights issue

The Directors note that there is material uncertainty which may affect the Company in relation to the ability of Serco Group plc to complete the debt refinancing and rights issue

The company is reliant upon the on-going financial support of its parent Serco Group plc to remain a going concern The company has received a letter of support from Serco Group plc that confirms it will make cash or equity funds available to the company to allow it to meet its financial obligations as and when they fall due over the period to 31 December 2015 Whilst the letter of support does not give rise to any legal obligation the directors are satisfied that it provides sufficient assurance of the intent of the parent to continue to support the business The ability of Serco Group plc to continue to provide support is wholly reliant upon its ability to raise sufficient new equity or debt to finance the group The group needs to be able to raise such new funds within a time frame that allows it to continue to meet its financial covenant requirements in 2015 In the event that Serco Group plc cannot raise sufficient fresh funding to support the business then Serco Limited would need to immediately seek its own financing in order to continue as a going concern Whilst management understand that Serco Group plc have publicly announced its intention to raise new equity in early 2015 and have obtained a standby underwriting letter, at the time of issuing these financial statements there remains material uncertainty over the ability of the parent to complete the raising of new funds necessary to support the company over the period to 31 December 2015

Nevertheless, after making enquiries and considering the uncertainties described above and taking consideration of the current forecasts for the Company, a letter of support provided by Serco Group plc and the financial strength of the Serco Group following the expected successful completion of the rights issue and debt refinancing, the Directors have a reasonable expectation that the Company will continue to have adequate resources to continue in operational existence for the foreseeable future For these reasons, they continue to adopt the going concern basis of accounting in preparing the financial statements

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

Turnover
Turnover is measured at the fair value of the consideration received or receivable and represents amounts due for goods and services provided in the normal course of business, net of discounts, VAT and other sales related taxes

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

Turnover on repeat service-based contracts is recognised as services are provided

The Company has a number of long-term contracts for the provision of complex, project-based services Where the outcome of such long-term project-based contracts can be measured reliably, income and costs are recognised by reference to the stage of completion of the contract activity at the balance sheet date in accordance with IAS 18 'Revenue' and IAS 11 'Construction Contracts' This is measured by the proportion of contract costs incurred for work performed to date compared to the estimated total contract costs

Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer, or are virtually certain of being received

Where the outcome of a long-term project-based contract cannot be estimated reliably, contract turnover is recognised to the extent of contract costs that are probable to be recovered Contract costs are recognised as expenses in the period in which they are incurred

When it is probable that the total contract costs will exceed total contract income, the expected loss is recognised as an expense immediately

Sales of goods are recognised when goods are delivered and title has passed

Dividend income
Dividend income from investments is recognised when the shareholders' rights to receive payment have been established

Interest income
Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount

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 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

Goodwill
Goodwill arising on the acquisition of businesses is capitalised on the balance sheet in accordance with IAS 38 'Intangible Assets' and IFRS 3 'Business Combinations' 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

Property, plant and equipment
Property, plant and equipment is 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 rate
Freehold land and buildings	2 5%
Short leasehold building improvements	The higher of 10% or rate produced by lease term
Machinery	15% - 20%
Motor vehicles	18% - 33%
Furniture	10%
Office equipment	20% - 33%
Leased equipment	The higher of the rate produced by either the lease term or useful life

Other intangible assets
Licences and software are measured initially at purchase costs and 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

Licences, software and development expenditure are amortised over the period in 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

Impairment of tangible and intangible assets

The Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any) Recoverable amount is defined as the higher of fair value less costs to sell and value in use In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount An impairment loss is recognised as an expense immediately

An impairment loss in respect of goodwill is not reversed In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for indications that the loss has decreased or no longer exists Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, had no impairment loss been recognised for the asset in prior years A reversal of an impairment loss is recognised as income immediately

Impairment losses and reversals are included within administrative expenses within the profit and loss account

Investments

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

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 debtors 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

Stocks

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

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

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

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 pension obligation
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

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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 contribution pension obligation
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

Multi-employer pensions
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 in accordance with IAS 19 where the legal responsibility for settlement resides in another group entity and there is no contractual agreement for charging the net defined benefit cost associated with the Company

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 Transaction-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

Financial instruments
The Company enters into a variety of derivative financial instruments to manage the exposure to interest rate foreign exchange risk and price risk, including currency swaps, foreign exchange forward contracts, interest rate swaps and commodity future contracts

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance sheet date A derivative with a positive fair value is recognised as a financial asset whereas a derivative with a negative fair value is recognised as a financial liability The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship The Company designates certain derivatives as either hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedges), hedges of highly probable forecast transactions or hedges of foreign currency risk of firm commitments (cash flow hedges), or hedges of net investments in foreign operations

A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realised or settled within 12 months Other derivatives are presented as current assets or current liabilities

Cash flow hedges
The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are deferred in equity The gain or loss relating to the ineffective portion is recognised immediately in profit or loss

Amounts deferred in equity are recycled to profit or loss in the periods when the hedged item affects profit or loss, in the same line of the profit and loss account as the recognised hedged item However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability

Hedge accounting is discontinued when the Company revokes the hedging relationship, the hedging instrument expires or is sold, terminated, exercised, or no longer qualifies for hedge accounting Any cumulative gain or loss deferred in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was deferred in equity is recognised immediately in profit or loss

Hedges of net investments in foreign operations
Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in equity and accumulated in the hedging and translation reserve The gain or loss relating to the ineffective portion is recognised immediately in profit or loss and is included in the net exchange gain/loss on translation of foreign operations' line item

Gains and losses on the hedging instrument relating to the effective portion of the hedge accumulated in the foreign currency translation reserve are reclassified to profit or loss in the same way as exchange differences relating to the foreign operations

Net investments in foreign operations
Exchange differences arising on monetary items that form part of the Company's net investment in foreign operations are initially recognised in equity and accumulated in the hedging and translation reserve and reclassified from equity to profit or loss on disposal of the net investment

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 38 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

3 Critical accounting judgments and key sources of estimation uncertainty

Critical judgements in applying the Company's accounting policies
In the process of applying the Company's accounting policies, which are described in note 2 above, management has made the following judgments that have the most significant effect on the amounts recognised in the financial statements (apart from those involving estimations which are dealt with below)

Turnover and profit recognition of long-term project-based contracts

Turnover and profit is recognised for certain long-term project-based contracts based on the stage of completion of the contract activity The assessment of the stage of completion requires the exercise of judgment and is measured by the proportion of costs incurred to estimated whole life contract costs, except where whole life contract costs exceed the contract value, in which case the excess is expensed immediately

Capitalisation of internally generated intangible assets

When the Company creates an intangible asset where the future economic benefits are greater than the expected costs, the development costs are capitalised if they meet the other requirements of IAS 38 'Intangible Assets' as set out in the accounting policies section above

Separation of profit and loss items from underlying results

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

Going concern basis of accounting in preparing the financial statements

Note 2 on Going Concern highlights the material uncertainty which may affect the Company in relation to the abilities of Serco Group plc to complete the debt refinancing and rights issue

Key sources of estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below

Retirement benefit obligations

The calculation of retirement benefit obligations is dependent on material key assumptions including discount rates, future returns on assets and future contribution rates The value of net retirement benefit obligations at the balance sheet date is an asset of £54 0m (2012 £52 0m) Details of the impact of changes in assumptions relating to retirement benefit obligations are disclosed in note 25

Business combinations

The calculation of fair values associated with business combinations requires the use of judgment in determining the future economic inflows and outflows associated with the acquired assets and liabilities This includes the estimation of contingent deferred consideration and intangibles arising on acquisition As permitted by IFRS 3 (2008), provisional amounts are recognised for acquired net assets during the measurement period where complete information about facts and circumstances that existed at the acquisition date is not available at the reporting date

Provisions for onerous contracts

Determining whether provisions are required for loss making onerous contracts requires an estimate to be made of the future profitability of the given contract, based on various interdependent factors Historically these provisions have been rare, but in the current year an exceptional charge was made for onerous contracts, with further details provided in notes 7 and 24

4 Prior year restatement

Changes in accounting policies

The revisions to IAS 19 were adopted in 2013 which require the pension interest return to be calculated using the value of scheme assets multiplied by the discount rate rather than the expected rate of return This change was applied retrospectively, with the date of initial application being 1 January 2012, in accordance with the transitional provisions of the individual standards and IAS 8 The result has been to increase the pension cost for 2012 by £3 8m, £0 4m within cost of sales and £3 4m additional interest cost

The reserves bought forward at 1 January 2012 have also been restated for this change The result has been to recognise additional interest income on the retirement benefit obligation of £6 8m, reducing the accumulated profits reserve and the retirement benefit obligations reserve

The 2012 balance sheet has been restated to reallocate £27 0m of deferred bid and phase in costs within one year that was previously disclosed greater than one year as they are considered to form part of the normal operating cycle of the Company Provisions have also been split between those expected to be utilised within one year and those held relating to liabilities greater than one year

Reallocation of costs

In 2012 £13 6m of costs previously included in administrative expenses have been reallocated to cost of sales, as in the view of the Company, this classification better reflects the underlying nature of these items

Serco Limited
Notes to the Financial Statements for the Year Ended 31 December 2013

5 Turnover

The analysis of the Company's turnover for the year from continuing operations is as follows

	2013 £ m	2012 £ m
Rendering of services	1,833 4	1,699 5
Turnover from long-term project-based contracts	42 8	85 4
Turnover as disclosed in the profit and loss account	1,876 2	1,784 9
Investment income (note 11)	-	17 4
Interest receivable and similar income (note 12)	4 8	7 2
Total income as defined in IAS 18	**1,881.0**	**1,809 5**

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 Strategic 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

The reportable segments will change in 2014 to reflect the separation of the UK & Europe segment in to two new segments, UK Central Government and UK Local and Regional Government The existing segment will no longer exist

An analysis of turnover by class of business is given below

	2013 £ m	2012 £ m
UK & Europe	1,512 9	1,511 0
Global Services	363 3	273 9
	1,876 2	1,784 9

An analysis of turnover by geographical location is given below

	2013 £ m	2012 £ m
United Kingdom	1,782 8	1,681 7
Other	93 4	103 2
	1,876 2	1,784 9

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

6 Disposals

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

	2013 £ m	2012 £ m
Profit on disposal of UK transport maintenance and technology business	26 6	-
Loss on disposal of occupational health business	(3 7)	-
Loss on disposal of Ascot College	(0 1)	-
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)
Net profit on disposal of operations	22 8	74 0

London streets maintenance and UK transport technology business

On the 27 November 2013 Serco Limited disposed of its London streets maintenance and UK transport technology business Initially the trade and assets of the UK transport maintenance and technology business were transferred to a subsidiary company, Integrated Transport Management Solutions Limited (ITMS), at their net book value of £13 5m Subsequent to the transfer of trade and assets, Serco Limited then sold 100% of the ordinary share capital of ITMS in November 2013 for consideration of £44 9m Overall net assets disposed of amounted to £15 0m The Company realised a profit on disposal of the investment in ITMS of £26 6m after accounting for disposal-related costs of £3 3m

Occupational health business

On 4 October 2013 the Company disposed of its occupational health business There was £3 5m of consideration received and the net assets disposed of amounted to £4 5m, giving a loss of £3 7m after accounting for disposal-related costs of £2 7m

Ascot College

In December 2013 the Company disposed of Ascot College There was £0 8m of consideration received and the net assets disposed of amounted to £0 6m, giving a loss of £0 1m, after accounting for disposal-related costs of £0 3m

Serco Limited

Notes to the Financial Statements for the Year Ended 31 December 2013

7 Exceptional items

Exceptional items are non-recurring items of financial performance that are material to the results of the Company either by virtue of size or nature These items require separate disclosure on the face of the profit and loss account to assist in the understanding of the underlying performance of the Company

During the year an investigation was undertaken by the Ministry of Justice (MoJ) into the billing practices in respect of our Electronic Monitoring (EM) contract Additionally, the Cabinet Office undertook a wider review across other Serco Limited contracts with UK Central Government Serco has also agreed with the UK Government to undertake a process of corporate renewal, to strengthen governance and transparency which includes the separation of the UK & Europe division into two The audits, reviews and corporate renewal processes all incurred one-off costs that are deemed to be exceptional items, which are set out in the table below

	UK Government review related items 2013 £ m	Other 2013 £ m	Total 2013 £ m
Settlement amounts relating to UK Government reviews	66 3	-	66 3
Cost associated with UK Government reviews	10 5	-	10 5
UK clinical health contract provisions	-	14 4	14 4
Provision for settlement relating pension deficit funding	-	35 8	35 8
Restructuring	-	13 4	13 4
Exceptional operating items	76 8	63 6	140 4

Settlement amounts relating to UK Government reviews
In December 2013, following a review of the billing arrangements on the EM contract by the Ministry of Justice, a settlement of £64 3m was reached in respect of contractual claims In addition, a £2 0m settlement was reached on the Prisoner Escort and Custody Services (PECS) contract which was also subject to Government review to reflect repayment of past profit earned on this contract The settlement was full and final in respect of contractual claims with the proviso that additional payments might be sought in limited circumstances, such as if criminality were to be established, Serco continues to cooperate fully with the ongoing investigations by the Serious Fraud Office

Costs associated with UK Government reviews
Since July 2013 there have been external adviser and other directly-related incremental costs that amount to £10 5m

UK clinical health contract provisions
During the year we completed a review of the clinical health operations in the UK As a result, we will exit two contracts early These contracts require contract provisions for estimated losses in future years and the impairment of operating assets which in total amounts to a non-cash exceptional charge of £14 4m

Provision for settlement relating to pension deficit funding
The Group has been in dispute with the Trustees of the Docklands Light Railway (DLR) Pension Scheme over the extent of its liabilities to fund the deficit on the pension scheme In November 2014 a settlement of £33 0m was agreed with the Trustees, in consequence a provision totalling £35 8m for the settlement and associated costs has been recognised

Restructuring
As a result of a wider assessment of the Company's operations, a restructuring charge of £13 4m was taken largely in relation to the corporate renewal process

8 Operatıng profit/(loss)

Operatıng profit/(loss) ıs stated after chargıng/(credıtıng)

	2013 £ m	2012 Restated £ m
Research and development costs	1 4	5 5
Operatıng lease expense - property	32 7	34 0
Operatıng lease expense - plant and machınery	18 7	13 3
Amortısatıon of other ıntangıble assets (note 17)	21 8	20 0
Depreciatıon of tangıble fixed assets - owned (note 18)	11 4	11 6
Depreciatıon of tangıble fixed assets - leased (note 18)	8 7	7 4
Net profit on dısposal of operatıons (note 6)	(22 8)	(74 0)
Other exceptıonal operatıng ıtems (note 7)	140 4	-
Amounts wrıtten off fixed asset ınvestments	-	9 7
Audıt of the financıal statements	0 3	0 1
Other fees to audıtors	0 8	0 2
Transactıon-related costs	-	0 8
Foreıgn exchange losses	1 1	0 1

9 Staff costs

The average number of persons employed by the Company (ıncludıng dırectors) durıng the year was 23,182 (2012 29,987)
The aggregate payroll costs (ıncludıng dırectors' remuneratıon) were as follows

	2013 £ m	2012 £ m
Wages and salarıes	665 4	719 6
Socıal securıty costs	67 4	67 3
Staff pensıons	49 6	46 3
Share-based payment expenses	2 3	4 8
	784 7	838 0

10 Dırectors' remuneration

The dırectors' remuneratıon for the year was as follows

	2013 £ m	2012 £ m
Aggregate emoluments	3 0	3 4

Included ın the aggregate emoluments figure above ıs £0 3m relatıng to loss of office of a former dırector

Durıng the year the number of dırectors who were receıvıng benefits and share ıncentıves was as follows

	2013 No	2012 No
Receıved or were entıtled to receıve shares under long-term ıncentıve schemes	6	8
Exercısed share optıons	3	3
Accruıng benefits under defined benefit pensıon scheme	3	6
Accruıng benefits under defined contrıbutıon pensıon scheme	2	1

In respect of the hıghest paıd dırector

	2013 £ m	2012 £ m
Remuneratıon	1 3	0 7
Company contrıbutıons to money purchase pensıon schemes	0 1	0 2

Durıng the year the hıghest paıd dırector exercısed share optıons and receıved shares under a long-term ıncentıve scheme

Serco Limited
Notes to the Financial Statements for the Year Ended 31 December 2013

11 Income from investments

	2013 £ m	2012 £ m
Dividends from shares in group undertakings	-	17 0
Other investment income	-	0 4
	-	17 4

12 Interest receivable and similar income

	2013 £ m	2012 Restated £ m
Bank interest receivable	0 1	0 2
Interest receivable from group undertakings	1 3	1 4
Net interest receivable on retirement benefit obligations	2 6	5 3
Other interest receivable	0 8	0 3
	4 8	7 2

13 Interest payable and similar charges

	2013 £ m	2012 £ m
Bank loans and overdrafts	-	0 1
Other interest payable	2 1	2 2
Interest payable to group undertakings	11 5	8 8
Borrowing costs	0 1	0 1
Interest payable under finance leases	2 2	2 1
	15 9	13 3

14 Tax

Tax on profit/(loss) on ordinary activities

	Before exceptional items 2013 £ m	Exceptional items 2013 £ m	Total 2013 £ m	2012 Restated £ m
Current tax				
UK corporation tax	-	-	-	(0 5)
UK corporation tax adjustment to prior periods	(1 8)	-	(1 8)	(0 7)
Group relief payable	-	-	-	11 9
	(1 8)	-	(1 8)	10 7
Foreign tax	0 4	-	0 4	0 5
Total current income tax	(1 4)	-	(1 4)	11 2
Deferred tax				
Current year	9 1	(21 8)	(12 7)	(0 6)
Adjustments in respect of prior years	0 1	-	0 1	0 7
Total deferred tax	9 2	(21 8)	(12 6)	0 1
Tax expense/(credit) in the profit and loss account	**7 8**	**(21 8)**	**(14.0)**	**11.3**

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 in the UK (2012 lower than the standard rate of corporation tax in the UK) of 23 3% (2012 24 5%)

The differences are reconciled below

	Before exceptional items 2013 £ m	Exceptional items 2013 £ m	Total 2013 £ m	2012 Restated £ m
Profit/(loss) on ordinary activities before tax	4 2	(117 6)	(113 4)	143 0
Corporation tax at 23 3% (2012 24 5%)	1 0	(27 4)	(26 4)	35 0
Expenses not deductible for tax purposes	3 6	9 3	12 9	2 9
Statutory tax benefits	1 1	(6 2)	(5 1)	(25 9)
Impact of changes in statutory tax rates	3 4	2 5	5 9	2 2
Irrecoverable overseas tax	0 4	-	0 4	0 5
Adjustment in respect of prior years	(1 7)	-	(1 7)	-
Group relief with no consideration	-	-	-	(3 4)
Total tax charge/(credit) on profit/(loss) on ordinary activities	**7.8**	**(21.8)**	**(14.0)**	**11.3**

15 Deferred Tax

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

	2013 £ m	2012 Restated £ m
At 1 January	15 2	(8 6)
Arising on acquisition of operations	-	4 5
Arising on disposal of operations	(0 1)	4 6
Deferred tax credited/(charged) to profit and loss account	12 6	(0 1)
Items taken directly to equity - hedging and translation reserve	0 1	0 2
Items taken directly to equity - share-based payments reserve	(0 5)	0 1
Items taken directly to equity - retirement benefit obligations reserve	6 8	14 5
At 31 December	34 1	15 2

	2013 £ m	2012 £ m
Difference between accumulated depreciation and amortisation and capital allowances	14 9	15 6
Movement in retirement benefit obligations	(11 2)	(12 5)
Other temporary differences	30 4	12 1
	34 1	15 2

Unprovided deferred tax

There is an unprovided deferred tax asset of £7 2m in relation to the provision for settlement relating to pension deficit funding

16 Equity dividends

	2013 £ m	2012 £ m
Equity dividend of £nil (2012 £467 85) per ordinary share	-	100 0

17 Goodwill and other intangible assets

	Goodwill £ m	Licences, software and development expenditure £ m	Pension related intangibles £ m	Total £ m
Cost				
At 1 January 2013	450 0	182 5	6 2	638 7
Additions	-	20 7	-	20 7
Disposals	-	(15 6)	-	(15 6)
Eliminated on disposal	(15 7)	(1 5)	-	(17 2)
Foreign exchange movements	-	(0 2)	-	(0 2)
At 31 December 2013	434 3	185 9	6 2	626 4
Accumulated amortisation				
At 1 January 2013	82 6	81 0	4 2	167 8
Amortisation charge	-	20 6	1 2	21 8
Disposals	-	(14 6)	-	(14 6)
Eliminated on disposal	(3 6)	(1 0)	-	(4 6)
Foreign exchange movements	-	(0 1)	-	(0 1)
At 31 December 2013	79 0	85 9	5 4	170 3
Net book value				
At 31 December 2013	**355.3**	**100 0**	**0 8**	**456.1**
At 31 December 2012	367 4	101 5	2 0	470 9

Serco Limited

Notes to the Financial Statements for the Year Ended 31 December 2013

18 Property, plant and equipment

	Freehold land and buildings £ m	Short leasehold building improvements £ m	Machinery, motor vehicles, furniture and equipment £ m	Total £ m
Cost				
At 1 January 2013	2 6	23 8	130 2	156 6
Additions	0 1	1 9	30 6	32 6
Disposals	-	(2 3)	(17 9)	(20 2)
Reclassifications	0 8	5 7	(6 5)	-
Eliminated on disposal	-	(0 4)	(1 7)	(2 1)
Foreign exchange movements	-	-	(0 1)	(0 1)
At 31 December 2013	3 5	28 7	134 6	166 8
Accumulated depreciation				
At 1 January 2013	1 5	12 4	61 6	75 5
Charge for the year	0 2	3 1	16 8	20 1
Disposal	-	(1 5)	(17 5)	(19 0)
Reclassifications	0 2	(0 2)	-	-
Eliminated on disposal	-	(0 2)	(1 2)	(1 4)
Foreign exchange movements	-	-	(0 1)	(0 1)
At 31 December 2013	1 9	13 6	59 6	75 1
Net book value				
At 31 December 2013	**1.6**	**15 1**	**75 0**	**91.7**
At 31 December 2012	1 1	11 4	68 6	81 1

Finance lease assets

Included within the net book value of tangible fixed assets is £48 8m (2012 £36 9m) in respect of assets held under finance leases Depreciation for the year on these assets was £8 7m (2012 £7 4m)

Serco Limited

Notes to the Financial Statements for the Year Ended 31 December 2013

19 Investments held as fixed assets

	Subsidiaries £ m	Joint ventures £ m	Total investments £ m
Cost or valuation			
At 1 January 2013	3 5	5 5	9 0
Additions	13 5	-	13 5
Disposals	(13 5)	-	(13 5)
At 31 December 2013	3 5	5 5	9 0

During the year the Company acquired a subsidiary company, ITMS, which held the trade and assets of the UK transport maintenance and technology business This was subsequently disposed of, see note 6 for details

Details of undertakings

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 the Company is shown below The companies are incorporated and principally operate in the United Kingdom

Undertaking	Principal activity	Holding	Proportion of voting rights and shares held 2013	2012
Subsidiary undertakings				
Serco Geografix Limited	Manufacture and leasing of electronic tagging equipment	Ordinary shares	100%	100%
Joint ventures				
GSTS Pathology LLP	Pathology services		33%	33%
Service Glasgow LLP	Provision of facility management services		50%	50%
Agbar Serco Technology Services Limited	IT consultancy		50%	50%

20 Stocks

	2013 £ m	2012 £ m
Service spares	17 2	15 6
Work in progress	4 1	6 5
Parts awaiting installation	2 4	2 3
	23 7	24 4

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 2013

21 Debtors

a) Amounts falling due within one year

	2013 £ m	2012 Restated £ m
Trade debtors	68 5	71 2
Amounts recoverable on long-term contracts	6 5	13 0
Amounts owed by group companies	135 1	280 9
Amounts owed by joint ventures	-	1 4
Corporation tax asset	19 2	17 9
Other debtors	33 8	43 2
Prepayments and accrued income	203 2	179 9
Short term investments	0 3	0 3
	466 6	607 8

Deferred bid and phase in costs are held within other debtors as due within one year as they are realised as part of the normal operating cycle of the Company 2012 has been restated to include £27 0m on amounts recoverable on contracts due within one year that was previously disclosed as due greater than one year An amount of £116 5m has also been reclassified from trade debtors to accrued income, in relation to unbilled debtors for 2012

Amounts owed by 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

	2013 £ m	2012 Restated £ m
Amounts owed by group companies	21 8	0 1
Amounts owed by joint ventures	2 8	2 5
Other debtors	11 0	5 4
	35 6	8 0

Amounts owed by group companies have no fixed repayment date and bear interest based on LIBOR minus 0 2%

22 Creditors Amounts falling due within one year

	2013 £ m	2012 £ m
Trade creditors	79 0	72 8
Amounts due on long-term contracts	-	0 9
Obligations under finance lease and hire purchase contracts	14 8	9 3
Other loans	13 1	25 5
Amounts owed to group companies	63 4	20 0
Other taxes and social security	45 4	53 3
Other creditors	20 4	20 1
Accruals and deferred income	210 5	261 9
Corporation tax	6 8	8 0
	453 4	471 8

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

23 Creditors: Amounts falling due after more than one year

	2013 £ m	2012 £ m
Obligations under finance lease and hire purchase contracts	48 4	35 0
Amounts owed to group companies	109 5	227 1
Other creditors	14 5	19 2
	172 4	281 3

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

Analysis of loan repayments

	2013 £ m	2012 £ m
Within one year	13 1	25 5

Obligations under finance leases and hire purchase contracts

2013	Minimum lease payments £ m	Present value of minimum lease payments £ m
Within one year or on demand	16 6	14 8
Between two and five years	52 4	48 4
Less future finance charges	(5 8)	-
	63 2	63 2

2012	Minimum lease payments £ m	Present value of minimum lease payments £ m
Within one year or on demand	10 3	9 3
Between two and five years	37 7	35 0
Less future finance charges	(3 7)	-
	44 3	44 3

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 2013

24 Provisions

	Contract £ m	Employee related £ m	Property £ m	Other £ m	Total £ m
At 1 January 2013	3 2	4 3	1 5	8 5	17 5
Charged to the profit and loss account	19 1	1 4	0 2	40 9	61 6
Utilised during the year	(2 6)	(0 8)	(0 5)	(2 4)	(6 3)
Released to the profit and loss account	-	-	-	(2 2)	(2 2)
Foreign exchange	-	(0 1)	-	-	(0 1)
Derecognised on disposal of operations	-	-	(0 3)	-	(0 3)
At 31 December 2013	19 7	4 8	0 9	44 8	70 2
Analysed as:					
Current	13 7	-	-	6 5	20 2
Non-current	6 0	4 8	0 9	38 3	50 0
	19 7	4 8	0 9	44 8	70 2

Contract provisions relate to provisions for loss making onerous contracts Management has used the present value of the estimated future cash outflows required to settle the contract obligations as they fall due over the respective contracts in determining the provision

Employee related provisions are for long-term service awards and terminal gratuities liabilities which have been accrued and are based on contractual entitlement, together with an estimate of the probabilities that employees will stay until retirement and receive all relevant amounts

Property provisions relate to leased properties which are either underutilised or vacant and where the unavoidable costs associated with the lease exceed the economic benefits expected to be received Management has calculated the provision based on the discounted cash outflows required to settle the lease obligations as they fall due over the next ten years

Other provisions are held for legal and other costs that the Company expects to incur over an extended period These costs are based on past experience of similar items and other known factors and represent management's best estimate of the likely outcome Included in this category is £35 8m in relation to the provision for settlement of the pension dispute, see note 7 for further details

25 Pension and other schemes

Defined contribution scheme
The Company operates a defined contribution scheme The pension cost charge for the year represents contributions payable by the Company to the scheme which amounted to £30 5m (2012 £27 6m)

Contributions totaling £nil (2012 £nil) were payable to the scheme at the end of the year

Pre-funded defined benefit schemes treated as defined contribution
Serco Limited accounts for certain pre-funded defined benefit schemes relating to contracts as defined contribution schemes because the contributions are fixed until the end of the current concession and at rebid any surplus or deficit would transfer to the next contractor Cash contributions are recognised as pension costs and no asset or liability is shown on the balance sheet

Defined benefit pension schemes
The Company operates defined benefit schemes for qualifying employees in the UK The amounts in the balance sheet are grouped in to two categories, contract specific and non contract specific

The assets of the funded schemes are held independently of the Company's assets in separate trustee administered funds The trustees of the pension fund are required by law to act in the interest of the fund and of all relevant stakeholders in the scheme The trustees of the pension fund are responsible for the investment policy with regard to the assets of the fund The Company's major schemes are valued by independent actuaries annually using the projected unit credit actuarial cost 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 scheme 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 scheme 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 scheme to settle obligations in the other scheme and intends to exercise this right

The schemes in the UK typically expose the Company to actuarial risks such as investment risk, interest rate risk, longevity risk and salary risk

- Investment risk - the present value of the defined benefit schemes' liability is calculated using a discount rate determined by reference to high quality corporate bond yields, if the return on plan assets is below this rate, a deficit will be created
- Interest risk - a decrease in the bond interest rate will increase the scheme liability but this will be partially offset by an increase in the return of the plan's debt investments
- Longevity risk - the present value of the defined benefit plan liability is calculated by reference to the best estimate of the mortality of plan participants both during and after their employment An increase in the life expectancy of the plan participants will increase the plan's liability
- Salary risk - the present value of the defined benefit scheme liability is calculated by reference to the future salaries of plan participants, as such, an increase in the salary of the plan participants will increase the plan's liability

The normal contributions expected to be paid during the financial year ending 31 December 2014 are £22 1m (31 December 2013 £27 1m)

Triennial funding valuation
The largest non contract specific scheme is the Serco Pension and Life Assurance Scheme (SPLAS) The estimated actuarial deficit of SPLAS as at 31 December 2013 was approximately £13 0m (2012 £10 9m) The most recent full actuarial valuation of this scheme was undertaken as at 5 April 2012 and resulted in an actuarially assessed deficit of £24m Following this review, the Company agreed with the Trustees to make a small increase in contributions, bringing cash contributions of up to 33% of members' pensionable salaries until 2021 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 pension legislation

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

Contributions payable to the pension scheme at the end of the year are £nil (2012 £nil)

Reconciliation of scheme assets and liabilities to assets and liabilities recognised
The amounts recognised in the balance sheet are as follows

	2013 £ m	2012 £ m
Fair value of scheme assets	137 3	117 6
Present value of scheme liabilities	(159 3)	(170 3)
	(22 0)	(52 7)
Franchise adjustment*	17 3	43 0
Contract specific defined benefit pension scheme deficit	**(4.7)**	**(9.7)**

* The franchise adjustment represents the amount of scheme deficit that is expected to be funded outside the contract period

	2013 £ m	2012 £ m
Related intangible assets (note 17)	0 8	2 0

Scheme assets
Changes in the fair value of scheme assets are as follows

	2013 £ m	2012 Restated £ m
At 1 January	117 6	82 1
Interest income on scheme assets - employer	5 5	4 0
Return on scheme assets less interest income	8 9	3 3
Administrative expenses and taxes	(0 7)	(0 5)
Employer contributions	8 2	7 5
Contributions by employees	0 7	0 5
Benefits paid	(2 9)	(2 2)
Arising on acquisition of operations	-	22 9
At 31 December	137 3	117 6

Analysis of assets
The major categories of scheme assets are as follows

	2013 £ m	2012 £ m
Equity instruments	66 6	61 8
Bonds	25 6	20 1
Gilts	17 1	12 1
Property	9 1	7 5
Annuity policies	2 0	-
Cash and other	16 9	16 1
	137 3	117 6

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 Virtually all equity and debt instruments have quoted prices in an active market

Scheme liabilities

Changes in the present value of scheme liabilities are as follows

	2013 £ m	2012 Restated £ m
At 1 January	170 3	115 9
Current service cost - employer	7 2	4 9
Effect of changes in demographic assumptions	(7 0)	2 2
Effect of changes in financial assumptions	(7 4)	19 1
Effect of experience adjustments	(8 8)	(3 6)
Interest cost - employer	7 2	5 7
Benefits paid	(2 9)	(2 2)
Contributions by scheme participants	0 7	0 5
Arising on acquisition of operations	-	27 8
At 31 December	159 3	170 3

Amounts recognised in the profit and loss account

	2013 £ m	2012 Restated £ m
Amounts recognised in operating profit/(loss)		
Current service cost	7 2	4 9
Administrative expenses and taxes	0 7	0 5
Recognised in arriving at operating profit/(loss)	7 9	5 4
Amounts recognised in interest receivable and similar income		
Interest cost on scheme liabilities - employer	7 2	5 7
Interest cost on scheme assets - employer	(5 5)	(4 0)
Interest on franchise adjustment	(1 5)	(1 4)
Recognised in interest receivable and similar income	0 2	0 3
Total recognised in the profit and loss account	**8.1**	**5.7**

Amounts recognised in the statement of comprehensive income

	2013 £ m	2012 Restated £ m
Remeasurements recognised in the statement of comprehensive income		
Return on scheme assets less interest income	8 9	3 3
Effect of changes in financial assumptions	7 4	(19 1)
Effect of changes in demographic assumptions	7 0	(2 2)
Effect of experience adjustments	8 8	3 6
	32 1	(14 4)
Actuarial (losses)/gains on reimbursable rights		
Change in franchise adjustment	(27 2)	13 5
	(27 2)	13 5
Total pension cost recognised in the statement of comprehensive income	**4.9**	**(0.9)**

Serco Limited

Notes to the Financial Statements for the Year Ended 31 December 2013

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

During the year special pension contributions of £19 7m were paid relating to a £16 8m payment to fund the deficit on the Vertex pension fund prior to its transfer into the Company's largest defined benefit scheme, Serco Pension and Life Assurance Scheme (SPLAS), and £2 9m in relation to deficit recovery funding of the Walsall defined benefit pension scheme before being settled in the year The Vertex payment enabled their separate defined benefit scheme to be closed and thereby reduces ongoing administration costs

Contributions payable to the pension scheme at the end of the year are £nil (2012 £nil)

Reconciliation of scheme assets and liabilities to assets and liabilities recognised

The amounts recognised in the balance sheet are as follows

	2013 £ m	2012 £ m
Fair value of scheme assets	1,146 1	1,094 3
Present value of scheme liabilities	(1,091 1)	(1,039 0)
	55 0	55 3
Effect of IFRIC 14	-	2 2
Members' share of deficit	3 7	4 2
Net non contract specific defined benefit pension scheme surplus	**58.7**	**61.7**

	2013 £ m	2012 £ m
Analysed as:		
Retirement benefit assets	64 2	69 7
Retirement benefit obligations	(5 5)	(8 0)
	58 7	61 7

Scheme assets

Changes in the fair value of scheme assets are as follows

	2013 £ m	2012 Restated £ m
At 1 January	1,094 3	1,064 1
Interest income on scheme assets - employer	47 4	48 7
Interest income on scheme assets - employee	0 8	1 1
Administrative expenses and taxes	(3 2)	(1 3)
Employer contributions	14 3	26 8
Employer contributions - special	19 7	-
Contributions by employees	0 7	0 8
Benefits paid	(37 3)	(35 4)
Return on scheme assets less interest income	(30 8)	(10 5)
Plan settlements	(25 8)	-
Transfer from other Group company	66 0	-
At 31 December	1,146 1	1,094 3

Serco Limited

Notes to the Financial Statements for the Year Ended 31 December 2013

Analysis of assets

The major categories of scheme assets are as follows

	2013 £ m	2012 £ m
Equity instruments	36 0	52 4
Liability Driven Investments (LDI)	1,048 9	948 0
Bonds except LDI	13 7	7 9
Property	-	9 0
Annuity policies	22 4	22 4
Cash and other	25 1	54 6
	1,146 1	1,094 3

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 Virtually all equity and debt instruments have quoted prices in an active market

Scheme liabilities

Changes in the present value of scheme liabilities are as follows

	2013 £ m	2012 Restated £ m
At 1 January	1,039 0	953 1
Current service cost - employer	10 8	11 6
Current service cost - employee	0 3	0 2
Past service cost - employer	-	1 1
Plan participants' contributions	0 5	0 6
Interest cost - employer	44 6	43 1
Interest cost - employee	1 0	1 0
Benefits paid	(37 3)	(35 4)
Effect of changes in financial assumptions	(0 9)	-
Effect of changes in demographic assumptions	8 2	84 7
Effect of experience adjustments	(34 4)	(14 9)
Plan curtailments	(2 4)	(6 1)
Plan settlements	(25 9)	-
Transfers from other Group company	87 6	-
At 31 December	1,091 1	1,039 0

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

Serco Limited
Notes to the Financial Statements for the Year Ended 31 December 2013

Amounts recognised in the profit and loss account

	2013 £ m	2012 Restated £ m
Amounts recognised in operating profit/(loss)		
Current service cost - employer	10 8	11 6
Past service cost	-	1 1
Curtailment gain	(2 4)	(6 1)
Administrative expenses and taxes	3 2	1 3
Recognised in arriving at operating profit/(loss)	11 6	7 9
Amounts recognised in interest receivable and similar income		
Expected return on scheme assets - employer	(47 4)	(48 7)
Interest cost - employer	44 6	43 1
Recognised in interest receivable and similar income	(2 8)	(5 6)
Total pension cost recognised in the profit and loss account	**8.8**	**2.3**

Amounts recognised in the statement of comprehensive income

	2013 £ m	2012 Restated £ m
Remeasurements recognised in the statement of comprehensive income		
Actual return on scheme assets less interest income	(30 8)	(10 5)
Effect of changes in financial assumptions	0 9	-
Effect of changes in demographic assumptions	(8 2)	(84 7)
Effect of experience adjustments	34 4	14 9
	(3 7)	(80 3)
Actuarial (losses)/gains on reimbursable rights		
Change in IFRIC 14	(2 2)	8 4
Change in members' share	(0 7)	2 0
	(2 9)	10 4
Total pension cost recognised in the statement of comprehensive income	**(6.6)**	**(69.9)**

Principal actuarial assumptions

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

	2013 %	2012 %
Discount rate	4 6	4 3
Future salary increases	3 2	3 4
Future pension increases (CPI)	2 5	2 2
Future pension increases (RPI)	3 3	3 0
Inflation assumption (CPI)	2 6	2 2
Inflation assumption (RPI)	3 4	3 0

Post retirement mortality assumptions

	2013 Years	2012 Years
Current UK pensioners at retirement age - male	22 4	21 0
Current UK pensioners at retirement age - female	24 8	23 5
Future UK pensioners at retirement age - male	24 2	22 5
Future UK pensioners at retirement age - female	26 8	24 6

Management considers the significant actuarial assumptions with regards to the determination of the defined benefit obligation to be the discount rate, inflation, the rate of salary increases and mortality

Sensitivity analysis is provided below, based on reasonably possible changes of the assumptions occurring at the end of the reporting period, assuming all other assumptions are held constant

The sensitivities have been derived in the same manner as the defined benefit obligation as at 31 December 2013 where the defined benefit obligation is estimated using the Projected Unit Credit method Under this method each participant s benefits are attributed to years of service, taking into consideration future salary increases and the scheme's benefit allocation formula Thus, the estimated total pension to which each participant is expected to become entitled at retirement is broken down into units, each associated with a year of past or future credited service

The defined benefit obligation as at 31 December 2013 is calculated on the actuarial assumptions agreed as at that date The sensitivities are calculated by changing each assumption in turn following the methodology above with all other things held constant The change in the defined benefit obligation from updating the single assumption represents the impact of that assumption on the calculation of the defined benefit obligation

	Change in assumption %	Change in present value of scheme liabilities %
Assumption		
Discount rate 4 6%	0 5	(9 0)
	(0 5)	10 0
Inflation 2 6% CPI and 3 4% RPI	0 5	9 0
	(0 5)	(8 0)
Rate of salary increase 3 2%	0 5	1 0
	(0 5)	(1 0)

If the mortality rate was increased by one year to the post retirement range of assumptions applied for male and female, current and future pensioners from 20 7 - 27 8, the change in present value of scheme liabilities would increase 2 0%

Management acknowledges that the method used of presuming that all other assumptions remaining constant has inherent limitation given that it is more likely for a combination of changes, but highlights the value of each individual risk and is therefore a suitable basis for providing this analysis

Serco Limited

Notes to the Financial Statements for the Year Ended 31 December 2013

26 Called up share capital

Allotted, called up and fully paid shares

	No. m	2013 £ m	No. m	2012 £ m
Ordinary share capital of £1 each	0 2	0 2	0 2	0 2

New shares allotted

During the year 4,453 ordinary shares having a nominal value of £1 were allotted for an aggregate consideration of £50,000,000, giving rise to share premium of £49 995,547

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 £5 0m (2012 £5 0m) The overdraft was undrawn at 31 December 2013

Serco Limited is a cross-guarantor with other group companies on a joint and several basis in respect of the borrowing facilities of the Serco Group These relate to bank debt facilities and US private placement bonds As at 31 December 2013, the total facility amounts were £730m for the RCF and £575m for the US private placements

The Company is aware of other 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

As discussed in note 7, the Electronic Monitoring contract was referred by the Cabinet Office to the Serious Fraud Office for investigation That investigation is ongoing

28 Commitments

Capital commitments

The total amount contracted for but not provided in the financial statements was £12 3m (2012 £7 0m)

Operating leases

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

	2013 £ m	2012 Restated £ m
Within one year	30 7	27 4
In two to five years	65 9	58 0
In over five years	29 1	29 6
	125 7	115 0

Serco Limited

Notes to the Financial Statements for the Year Ended 31 December 2013

29 Derivative financial instruments

	2013 Assets £ m	2013 Liabilities £ m	2012 Assets £ m	2012 Liabilities £ m
Forward foreign exchange contracts	0 2	(0 5)	0 3	(0 2)

	2013 Assets £ m	2013 Liabilities £ m	2012 Assets £ m	2012 Liabilities £ m
Analysed as				
Non-current	-	(0 1)	-	-
Current	0 2	(0 4)	0 3	(0 2)
	0 2	(0 5)	0 3	(0 2)

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 1m in the year (2012 £0 5m loss) has been deferred in equity

30 Non adjusting events after the financial period

Contract & Balance Sheet reviews
A review of the Group's 30 September 2014 Balance Sheet was undertaken by management in the fourth quarter of 2014 in the context of the likely future strategy These Contract & Balance Sheet reviews were undertaken across the Serco Group and involved a re-assessment of the Group's assets and liabilities in light of current and latest forecast trading expectations They identified likely impairments and onerous contract provisions These reviews are still being finalised and the amounts have not yet been audited An initial estimate of the likely impact on Serco Limited's 2014 results is a charge to operating profit of approximately £450m Included in this amount are onerous contract provisions from future unavoidable losses expected to arise in the COMPASS (Commercial and Operational Managers Procuring Asylum Support Services) contract for the provision of accommodation to asylum seekers, the FPMS (Future Provision of Marine Services) contract for marine services provided at three UK Naval bases, the National Citizen Services contract, the PECS (Prisoner Escorting and Custody Services) contract and the Suffolk Community healthcare contract Additionally there is a potential impairment of up to £355m of goodwill balances held on the balance sheet of Serco Limited

New shares allotted
In December 2014 new ordinary shares were allotted by Serco Limited for an aggregate consideration of £452 2m

Estimated balance sheet position at 2014 year-end
Based on the post balance sheet events that are disclosed above, including the issue of new shares and taking account of the forecast results for 2014 year it is estimated that there will be positive net current assets and positive net assets as at 31 December 2014

Electronic Monitoring
In December 2013, following a review of the billing arrangements on the EM contract by the Ministry of Justice, a settlement of £64 3m was reached in respect of contractual claims Alongside the commercial settlement, the Serious Fraud Office investigated billing practices on the EM contract The Serious Fraud Office investigation is ongoing, and Serco continues to cooperate fully

Serco Group plc rights issue and debt renegotiation
The Group announced in November 2014 plans for new equity to be raised through a rights issue and used to reduce the Group's indebtedness This is fully underwritten on a standby basis by Bank of America Merrill Lynch and J P Morgan Cazenove and is scheduled to complete in May 2015 and raise gross funds of up to £550m The Group is holding discussions with its debt holders to refinance its debt and these are expected to conclude by March 2015 The Group has announced on 18 December 2014 it had reached agreement with its banks and US private placement lenders to amend its financial covenants This included deferral of the next covenant testing date to 31 May 2015

31 Control

The Company's ımmedıate parent ıs Serco Holdıngs Lımıted The ultımate parent and controllıng party ıs Serco Group plc, a company ıncorporated ın the Unıted Kıngdom and regıstered ın England and Wales Serco Group plc ıs the parent undertakıng of the smallest and largest group to consolıdate these financıal statements These financıal statements are avaılable upon request from the Company Secretary, Serco Group plc, 16 Bartley Wood Busıness Park, Bartley Way, Hook, Hampshıre RG27 9UY