Registration number: 00242246

Serco Limited

Annual Report and Financial Statements

for the Year Ended 31 December 2021

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Company Information

Directors	A A Kirby N Girnary M W Irwin
Company secretary	D Eveleigh
Registered number	00242246
Registered office	Serco House 16 Bartley Wood Business Park Bartley Way Hook Hampshire RG27 9UY
Auditor	KPMG LLP 15 Canada Square London United Kingdom E14 5GL

Strategic Report
for the Year Ended 31 December 2021

The Directors present their Strategic Report for the year ended 31 December 2021.

Principal activity
The principal activity of Serco Limited (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 most important areas of public service, including transport, defence, health, justice, immigration, and citizens services.

The Company's immediate parent is Serco Holdings Limited. The ultimate parent and controlling party is Serco Group plc, a company incorporated in the United Kingdom and registered in England and Wales. Serco Group plc along with its subsidiaries is referred to in this document as the Group.

Business review

Overview
Turnover for the Company for the year was up 17.8% from £1,792.1m to £2,111.2m. The growth in revenue was mainly due to the additional revenue generated supporting the UK Government in managing the Covid-19 pandemic and additional volumes within the Company's immigration contract within the UK.

The Company generated an operating profit, before net exceptional items, for the year of £58.3m (2020: £35.6m). The operating profit, before exceptional items, was mainly improved as a result of the growth in revenue offset by mobilisation costs within the Company's Department of Work and Pensions Restart contract. The Company has also seen adverse impacts across its contracts ranging from higher levels of absenteeism through ill health, and additional utility costs towards the end of 2021. The Company, as it did in 2020, made ex-gratia payments of more than £2m to front-line workers.

During the year the Company reported net exceptional costs of £0.3m (2020: credits of £10.1m), with the profit generated in 2020 from the sale of its Joint Venture in Viapath not recurring.

After exceptional items the operating profit of the Company for the financial year was £58.0m (2020: £45.7m).

In 2021, the Company recognised a deferred tax asset of £149.5m which resulted in a credit to the profit and loss account. It is now considered that the Company has returned to sustainable profitability, and there is sufficient certainty of future taxable profits against which these deductions can be utilised to enable the recognition of an increased deferred tax asset.

The Company is focussed on its business development functions and bid pipeline, strengthening sector propositions, and consolidating differentiated capability to provide better outcomes and solutions to our customer. The Company continues to improve operational execution and drive further cost efficiencies in order to further improve underlying profitability.

As at 31 December 2021 the estimated actuarial surplus of the Company's primary defined benefit scheme was £23.0m (2020: deficit of £20.0m).

Strategic Report (continued)
for the Year Ended 31 December 2021

UK & Europe
The majority of Serco Group plc's UK & Europe division trades through the Company, and the operations support public service delivery and outcomes across all five of the Group's chosen sectors: our Justice & Immigration business provides a wide range of services to support safeguarding society and reducing re-offending, from secure accommodation management through to housing and welfare services for asylum seekers; in Defence, we are trusted to deliver critical support services and operate sensitive facilities; our Transport business provides a combination of passenger and commercial transport solutions through rail and ferry services; our Health business provides primarily non-clinical support services to hospitals; and the Citizens Services business provides environmental and leisure services, as well as a wide range of other front, middle and back-office services to support public sector customers in the UK or European institutions.

Turnover for 2021 was £2,004.8m (2020: £1,653.0m), an increase of 21.3% which makes up the majority of the revenue increase for the Company. The growth in revenue follows from the comments above regarding supporting the UK Government in managing the Covid-19 pandemic and additional volumes within the Company's immigration contract within the UK.

Middle East
Revenue for the year was £106.4m (2020: £139.1m). The Company lost its contract to operate the Dubai Metro rail service in 2021 which is the primary reason for the fall in revenues within the region.

Principal risks and uncertainties

Risk management
The Company leverages the risk management processes of its ultimate parent company, Serco Group plc. The risk management policies of Serco Group plc are outlined in its Annual Report and Accounts dated 23 February 2022, are available on its website and are outlined below. As a listed company, the risk management policies of Serco Group plc are sufficient for the Company to rely upon in addressing the risks specific to the Company.

The Company is exposed to a wide range of risks that, should they materialise, could have a detrimental impact on the Company's financial performance, reputation and operational resilience. The Company therefore takes risk management extremely seriously and invests significant effort into identifying and managing risks. The Board of Serco Group plc oversees the Company's risk management and internal control processes within an Enterprise Risk Management ("ERM") framework, discharging its oversight responsibilities through the Group Risk Committee ("GRC"), supported by the Corporate Responsibility Committee ("CRC") and Audit Committee.

The Company's ERM approach is not about eliminating risk but seeks to identify, understand, mitigate and manage risks that might disrupt the Company's ability to execute its strategy or deliver against the customer and contractual commitments. The key risks are agreed through an annual review with the Executive Committee and through quarterly challenge and review at either Serco Group plc's Group Risk Committee ("GRC"), Corporate Responsibility Committee, Audit Committee or Board supported by Divisional level quarterly reviews with the Executive Management teams. Each risk response reflects the nature of the activities being undertaken and the level of control considered necessary to protect the Company's interests and those of the stakeholders.

Strategic Report (continued)
for the Year Ended 31 December 2021

Risk management (continued)
In addition to the operational focus on risk, consideration and assessment of risk is an integral part of the annual strategic review that helps inform the Company's approach to operating across geographies, jurisdictions and sectors. These discussions include consideration of several of the principal risks, most notably Failure to Grow. The Company has assessed its markets and possible growth over the next five years as part of the strategy review to ensure it is sustainable and provides sufficient growth opportunities to meet its ambition without the need for a material shift in the operating model and existing markets. Further detail on the market can be found on page 4 of Serco Group plc 2021 Annual Report and Accounts.

Risk management process
The risk policy is set at the Serco Group plc level with implementation and execution owned within each of its Divisions. Serco Group plc and its subsidiaries are collectively referred to as the Group or Serco. The Serco risk management lifecycle process is mandated throughout the Company to seek a consistent approach to identification, analysis, monitoring and reporting of risks and to provide further assurance that the risk mitigation in place is sufficiently effective and appropriate.

There is a bottom-up review of risks quarterly, with the Business Units identifying the main threats to achievement of their objectives, documenting and analysing their potential impact, and defining clear actions to reduce the likelihood of those risks materialising and/or the financial impact if they should still occur. The Business Unit risks are consolidated and reported to Divisional leadership teams in a check and challenge capacity to ensure that risks on the Business Unit risk registers accurately reflect the concerns of local senior leadership. Once approved, the Divisional risks are reviewed by the Group ERM team and help inform the principal risk updates.

Each principal risk has a Subject Matter Expert ("SME") and a nominated Executive Committee sponsor allocated to it, supporting its review and management. Detailed reviews of the principal risks are carried out as part of the GRC reporting schedule, as well as topical "deep dives" that focus on pertinent risk themes. These deep dives may be focused on a region, led by the Divisional CEOs, or on functional or business unit areas involving specialists from the business operations. This risk focused approach facilitates flexibility that allows us to be responsive to changes in the risk profile throughout the year whilst still maintaining appropriate coverage of the principal risks and divisional risk landscapes. The principal risks and uncertainties are detailed on page 95 of Serco Group plc 2021 Annual Report and Accounts.

Each of the principal risks has an appetite statement to determine the nature and amount of risk that the Group is willing to accept as well as informing the decision-making. These statements include one of four appetite categories, averse, cautious, moderate and flexible, that reflect the Board's tolerance to each risk. These statements are aligned to the Values, Code of Conduct and other ethical requirements to support and drive the right risk culture within the Group and are set through discussion with the principal risk Executive Committee Sponsor and SME and ratified annually by the GRC.

Strategic Report (continued)
for the Year Ended 31 December 2021

Risk management process (continued)
As part of the ERM approach there are dedicated Compliance Assurance teams which operate as a second line function focusing on validation and testing of key controls to augment annual control self-assessments and annual and biannual compliance compliance assurance attestation statements. Key controls are mapped against the principal risks and Serco Management System ("SMS") and testing plans are reviewed annually to identify and respond to any significant amendments in the control environment. Whilst many controls are tailored to meet divisional requirements, there are consistent themes across the control environment to include clear oversight and reporting by divisional management teams, robust bid governance processes, a focus on the health, safety and wellbeing of the colleagues and service users and prioritisation of maintaining integrity and a strong ethics culture. In addition to the in-house assurance teams there are significant third line assurance activities and audits delivered through external third parties appropriate to the regulatory environment, certification standards and customer requirements in the varied service lines and business units. These reviews include those that support the range of ISO certifications managed across the business as well as independent performance and regulatory reports on the operations.

Emerging risks
As part of the review of Serco Group plc's Corporate risk profile there is a process to identify and monitor emerging risks to ensure that adequate steps are being taken to understand and mitigate new risk themes before they materialise and to assess any impact on the principal risks. This assessment is completed through individual discussions with Executive Committee members, via input from the Divisional risk teams and through the monitoring of external macro risk trends. A key theme arising from the emerging risk discussions is the importance of the ability to demonstrate our commitment to the Environmental, Social and Governance ("ESG") agenda, including treatment of climate change.

ESG: There are commitments to address the ESG risks that are material to the Company and important to our stakeholders, recognising their deep strategic relevance. Managing these risks and taking them seriously is something that the Company has been doing for many years, woven inseparably into the operational and commercial landscape, strategy and governance and how the Company analyses the performance and prospects. The ESG Framework brings all the ESG priorities together in one model, structured around the key stakeholder groups. The elements within the framework are considered in strategy development and are firmly embedded in how the business is managed, with appropriate Board and Executive oversight and dedicated leadership at both Group and Divisional levels. More information on our approach to ESG can be found on page 39 of Serco Group plc 2021 Annual Report and Accounts.

Climate change: Regardless of where the Company operates it recognises the need to drive consistent environmental behaviours and performance improvements throughout its operations. For example, by ensuring the employees are engaged, competent and encouraged to contribute to environmental improvements within its supply chain. Collectively the approach helps to not only reduce the environmental footprint but to also support the customers' environmental goals, make positive contributions to the communities, and address the environmental risks of the overall value chain.

Further detail on the approach to Task Force on Climate related Financial Disclosures ("TCFD") can be found on page 58 of Serco Group plc 2021 Annual Report and Accounts.

Emerging risks (continued)

Covid-19: The Company has continued to monitor and manage the impact of the Covid-19 pandemic and associated emerging risks across the business. The ongoing and uninterrupted focus is on the continued delivery of essential public services as well as the wellbeing of the colleagues and service users as the challenges of the pandemic are navigated. The impact of the Covid-19 pandemic have been considered against each principal risk at every quarterly GRC led through the work under the Health, Safety and Wellbeing principal risk. Further detail on the Covid-19 response can be found on page 39 of Serco Group plc 2021 Annual Report and Accounts.

Brexit: The Company has continued to monitor the potential implications of the UK's withdrawal from the European Union ("Brexit") and its impact on Serco over the last 12 months. Reiterating the position outlined in Serco Group plc's 2020 Annual Report, the Company has not experienced direct negative impact to a material extent. The Company continues to manage this risk in the ordinary course of business.

Summary of principal risks and uncertainties

Principal risks, as described below, have been reviewed by the Executive Committee, GRC and the Board of Serco Group plc. Each risk is classified as a strategic, financial, operational, people, hazard, or legal and compliance risk. The risks are described on the following pages, together with the relevant strategic business objectives, key risk drivers, the Group-wide material controls which have been put in place to mitigate principal risks and the mitigation priorities to improve the effectiveness of the controls. Each of the principal risks are relevant to the achievement of the KPIs as outlined on page 32 of Serco Group plc 2021 Annual Report and Accounts.

Principal risks are considered over the same three-year timeframe as the Viability Statement set out on page 105 of Serco Group plc 2021 Annual Report and Accounts, which takes account of the principal risks in its assessment.

In addition to the principal risks and uncertainties already identified, there may be other risks, either unknown, or currently believed to be immaterial, which could turn out to be material, the Covid-19 pandemic being a good example. These risks, whether they materialise individually or simultaneously, could significantly affect the Company's business and financial results.

Changes during the year

The Company is reporting strong financial performance and has not observed any material manifestation of risk that has caused significant operational or performance disruption even when considering the remaining impact of Covid-19. It is noted however, that in January 2021 the Company was subject to a cyber attack which did not result in a material disruption to operations. Further information on our approach to major information security breaches or cyber attacks are outlined on page 9. In addition, in the second half of 2021, the Company was exposed to rapidly rising inflation rates globally as a result of Geopolitical factors including but not limited to supply chain issues and the conflict in Ukraine. The Company is largely protected from rising inflation rates with strong indexation arrangements in most contracts. The timing of such clauses becoming effective may cause a lag between the impact of rising costs being experienced and any increase in revenue. However, the Director's believe that these contractual protections limit the impact of this risk.

As a result, the principal risks remain valid with their definition and scope remaining largely unchanged. These risks continue to underpin our business model described on page 11 of Serco Group plc 2021 Annual Report and Accounts and mitigation of the risks link directly to our four strategic priorities as described in our management philosophy on page 9 of Serco Group plc 2021 Annual Report and Accounts.

Strategic Report (continued)
for the Year Ended 31 December 2021

Strategic risks

Failure to grow profitably

Integral to the Strategy Review process, this risk considers the potential impact of failure to win material bids or renew material contracts profitably, or a lack of opportunities in our chosen markets, restricting revenue growth which may in turn have an adverse impact on Serco's profitability. This risk has a broad and direct link to the ability to meet the financial KPIs described on page 32 of Serco Group plc 2021 Annual Report and Accounts. The Company has moderate appetite for this risk recognising that there will be reasonable and considered risks taken to generate profitable growth. The business is linked to changes in the economy, fiscal and monetary policy, political stability and leadership, budget priorities, and the perception and attitude of governments and the wider public to outsourcing, which could result in decisions not to outsource services or lead to delays in placing work. The ability to succeed is also linked to the competitive landscape and the ability to efficiently deploy resources as part of the service offering. A comprehensive strategy review was carried out that took the divisional five-year strategies. This work concluded that the markets remain robust with significant revenue opportunity in our chosen markets and chosen activities.

Key risk drivers:

- External factors reducing the pipeline of opportunities.
- Failure to be competitive.
- Inability to meet customer and solution requirements during design, implementation and delivery.
- Ineffective business development.

Material controls:

- Serco Group and Divisional Strategy including periodic strategy reviews.
- Investment Committees.
- Sector-specific Centres of Excellence and Value Propositions.
- Serco Institute developing thought leadership and innovation for our markets.
- Business Lifecycle Review team Process.
- Pipeline and Business Development spend reviews
- Regular Growth Forum reviews.
- Divisional Performance Reporting process.

Mitigation priorities:

- Review pipeline opportunities to ensure all market activity is accurately captured and that budgets are allocated accordingly.
- Review portfolio for new attractive organic expansion areas.
- Continue to improve leveraging of Serco best practice and innovation and refinement of bid development processes.
- Continue to adopt a robust bid qualification process.
- Retain focus on effective management for major bids.
- Develop efficient common platforms for service delivery.

Financial risks

Financial control failure

Serco operates complex financial controls systems and processes and there is an inherent risk that these may fail. Such failures may result in: an inability to accurately report timely financial results and meet contractual financial reporting obligations; a heightened risk of error and fraud: poor quality data leading to poor business decisions, or an inability to forecast accurately; the failure to create a suitable capital structure; and an inability to execute critical financial transactions, leading to financial instability, potential business losses, and negative reputational impact. This risk links directly to the ability to meet the financial KPIs outlined on page 32 of Serco Group plc 2021 Annual Report and Accounts. The Company has an averse appetite for financial control failures and require a robust framework of financial processes, systems and controls to enable timely and accurate financial reporting.

At the start of the Covid-19 pandemic, it was recognised that the risk of financial control failure was heightened due to the fast-moving nature of the business, risk of absenteeism in both the in-house and outsourced finance organisation and disruption to core financial processes and data quality caused by new operating environments resulting from the items noted above and remote working. The Company mobilised quickly to ensure that key mitigants were put in place such as: additional assurance procedures; adequate remote working capacity, including within the outsourced finance teams; monitoring of working capital; and data capture to understand the impact of Covid-19 on the financial results. As a result of the actions taken, the risks which were identified at the start of the pandemic have not materialised in 2021 and the core financial processes and controls have continued to operate without significant disruption.

As noted in Serco Group plc 2020 Annual Report and Accounts, the European business was subject to a cyber-attack in January 2021. The results of the investigation into this attack, produced by both our internal investigations and by our external advisers, have not identified any compromise to the financial information used for the 2021 year-end reporting or to the integrity of financial results from the European Business Unit.

Key risk drivers:

- Not setting the right tone from the top.
- Poor financial processes.
- Inadequate financial controls within the business.
- Loss of critical roles and/or systems.
- Poorly skilled and resourced finance teams to address complex finance standards.

Financial risks (continued)

Financial control failure (continued)

Material controls:

- Group Governance and Finance strategy.
- Standardised and mandated financial systems, processes (including forecasting and reporting) and data structures.
- Governance and review procedures associated with managing the quality of services delivered by third party suppliers.
- Skilled and adequately trained finance staff.
- Disaster recovery plans and testing.
- Board oversight via the Audit Committee.
- Monthly Divisional performance reviews.
- Dedicated Financial Assurance team testing.

Mitigation priorities:

- Enhance the financial controls and assurance framework.
- Continue to deliver effective financial reporting.
- Continuously improve forecasting and reporting processes and data analysis.
- Deliver global finance process improvement and efficiency through automation and robotics.
- Develop a Group-wide training curriculum.
- Effectiveness reviews of disaster recovery plans.
- Ensure talent is retained within the finance function.

Operational risks

Major information security breach or cyber attack

Information security breaches or cyber-attacks represent a key risk for the Company. Such incidents could result in the loss or compromise of sensitive information (including personal or customer) or wilful damage resulting in the loss of service, causing significant reputational damage, financial penalties and loss of customer confidence. The Company operates an averse risk appetite to major information security breaches and cyber-attacks. The Company accepts that due to the nature of the services the the Company provides the Company faces threats from both internal and external factors but will mitigate the impact of any breach and carry out immediate remedial actions.

Strategic Report (continued)
for the Year Ended 31 December 2021

Operational risks (continued)

Major information security breach or cyber attack (continued)

The Company operates on a business-to-government platform that leverages scale and helps simplify the processes with a well invested portfolio of best-in-class software solutions to support the contracts and shared services. The Company continues to make significant investments in cyber-security both at the endpoints and in the core network. In most of the jurisdictions the Company tests itself against government standards including CES+ in the UK and also regularly run penetration tests as well as meeting specific security standards in line with customer requirements as a provider of public services to government. The Company has a continuing programme of upgrading old desktops and laptops, and the number of devices outside centralised management and monitoring is decreasing rapidly. The Company has its own in-house Security Operations Centre which monitors the networks and manages the response to cyber threats. The strategy review showed the benefit of investing in shared services to produce standardised and efficient processes.

Serco is committed to delivering secure services which protect its own and the customers' data and as such holds a variety of externally audited security-related certifications. This includes the Information Security Management System covering the UK corporate environment that is certified to ISO 27001. The certification is maintained, where specified, against the principal government security or cyber schemes in the markets the Company operates. The certifications are generally publicly available on the relevant accreditors' websites or can be requested from Serco Group plc directly.

We continue to invest in staff security training as a key mitigant to this risk. Security training is delivered via the Learning Management System as part of the broader Serco Essentials framework. Training comprises mandatory modules that cover a range of areas including responsibilities when dealing with personal data and how to identify and respond to issues. All Serco employees, including contractors, must complete Serco Essentials and pass a test at the end or alternatively, in the case of subcontract or staff, their employer must demonstrate that they provide equivalent security training. Training is further supplemented, where appropriate, to cover specific points relevant to any particular contract, together with regular campaigns and awareness tests such as protecting against phishing threats.

However, the external threat landscape continues to evolve. As evidenced in a cyber-attack in our European business in January 2021 and recent attacks on the competitors involving ransomware, the industry is a particular target for extortion, and this, along with the increased public profile because of involvement with government contracts to respond to the Covid-19 pandemic, leads the Company to conclude that this risk is increasing.

Key risk drivers:

- Non-compliant or obsolescent systems.
- Non-compliance or misconfiguration with policies and standards.
- Vulnerability of systems and information.
- Unauthorised use of systems.
- Inadequate incident monitoring and response.
- Increased regulatory scrutiny.

Strategic Report (continued)
for the Year Ended 31 December 2021

Operational risks (continued)

Major information on security breach or cyber attack (continued)

Material controls:

- Enterprise Architecture Boards & Solution Review meetings.
- Serco Management System ("SMS") including detailed guidance on minimum security controls.
- IT security infrastructure, processes and controls including isolated backups.
- Privileged Access Management and multi-factor authentication for our centralised managed systems.
- External assessments and scenario based cyber security testing and incident planning.
- Regular attestation statements on security controls compliance.

Mitigation priorities:

- Perform market reviews of deployed technology when services are reviewed at renewal to ensure we maintain our defences as threats change and develop in sophistication.
- Ongoing continuous improvement programmes for our Security Operations Centres to maintain effective risk identification.
- Continued routine vigilance and proactive vulnerability identification coordinated through our Security Operations Centres.
- Continued use of global key security risk indicators and regular third party testing and best practice configuration reviews to support mitigation priorities.
- Leveraging Cloud adoption to ensure standardised control mechanisms.
- A focus on the behavioural aspects of our employees.
- Maintaining government security attestations.

Contract non-compliance, non-performance or misreporting

There is a risk that the Company fails to deliver contractual requirements or to meet agreed service performance levels and report against these accurately. This failure may lead to significant financial penalties, legal notices, onerous contract provisions or, ultimately, early termination of contracts. The Company has an averse risk appetite to any possibility of deliberate misreporting of contractual performance and losing material contracts due to non-performance or non-compliance.

Governance in bid processes, transition and operations provide the primary means of managing this risk. The Serco Management System prescribes a review of contract risk through each of the stages of the bid lifecycle from prequalification to contract close out, including monthly performance reviews for all material contracts. As part of the commitment to ongoing improvement the mitigation priorities for the next year will focus on strengthening some of the key control processes and formalising these in the Serco Management System.

Strategic Report (continued)
for the Year Ended 31 December 2021

Operational risks (continued)

Contract non-compliance, non-performance or misreporting (continued)

Whilst still in the early stages of development the Company will also begin to track Environmental, Social and Governance impact from the contracts as the maturity of our reporting increases. Though each individual customer contracts vary on ESG-related commitments, the overall corporate commitment to ESG targets will permeate through to the contract teams and will form part of the overall assessment of contract performance and compliance.

Key risk drivers:

- Not setting the right tone from the top.
- Unclear contract requirements/obligations.
- Human error (deliberate or unintentional).
- Operational delivery or reporting failures.

Material controls:

- Contract Management application.
- Monthly performance reviews at Contract, Business Unit and Divisional level.
- Business Lifecycle Review team process.
- Communication of Our Values and Code of Conduct.
- Speak Up process ("Ethicspoint").
- Extensive internal and external assurance reviews, including independent third-party reviews and customer oversight processes.

Mitigation priorities:

- Strengthen processes related to agreeing clear contracts, change management, bid to contract handover and KPI reporting, formalised through Serco Management System.
- Contract Management training (Global and Divisional).
- Greater visibility of performance through contract performance dashboard ("Gauge").
- Continued focus on consistent approach to risk assessment.
- Operational excellence improvement plans.
- Ongoing ethics, business conduct and compliance training.

Strategic Report (continued)
for the Year Ended 31 December 2021

Operational risks (continued)

Significant failure of the supply chain
If there was a significant failure in Serco's end-to-end supply chain to perform to the required standard, Serco may be exposed to risks that mean Serco is unable to meet its customer obligations, perform critical business operations or win new business. This could cause a financial, operational or reputational impact to Serco. Supply chain risk is broad; examples include operational performance risk, cyber risk, regulatory or legal compliance risk, ethical risk, environmental, social or governance risk. The Company uses thousands of suppliers each year and take a proportionate approach to management of these third parties and have a moderate risk appetite for using them.

This year the Company has expanded this risk to encompass the broader risk to Serco from the supply chain rather than just the risk from the failure of a business-critical supplier. This new scope considers the risk to Serco from non-business critical suppliers and from the suppliers of the suppliers. This change was prompted by several factors including recognition of external challenges (e.g. mini umbrella companies) and the Company's growing maturity in this area. The risk was historically focused largely on operational failure; by amending the Company has extended the coverage to ensure the risk covers all significant risk exposures and has a view on emerging risks in the supply chain. A review of Serco's existing Supplier Risk Management processes has commenced, current supplier risk initiatives and key supplier risk exposures to identify any gaps and create alignment across the Group. The output of the review will be used to create a Supplier Risk Management Framework, encompassing risk exposures from information security or cyber, data protection, business integrity and social responsibility, regulatory and legal compliance, external and exceptional risks, supply chain performance, supply chain resilience, financial, environmental, and health, safety and wellbeing.

In 2021, a Sustainable Procurement Charter was launched which aims to improve our review of ESG and responsibility matters in the supply chain.

As a result of Covid-19 and Brexit the Company's third-party suppliers are reporting supply constraints (e.g. resources and logistics) in line with the general supply chain instability that is being widely reported in the media. There is a risk of disruption in all divisions, with a higher perceived risk in the UK where localised challenges are experienced and managed. Although the rating for this risk remains constant, the probability is trending upwards driven by the supply constraints seen in the UK.

Key risk drivers:

- Inadequate procurement standards, operating procedures and controls.
- Failures or inadequate due diligence and onboarding when bringing new suppliers, partners and sub-contractors into the business including poor specification of requirements, inadequate sourcing and selection and inadequate contracting.
- Inadequate or lack of monitoring - and management of supplier performance and risks.
- High volume of suppliers or complexity of supply chain.

Strategic Report (continued)
for the Year Ended 31 December 2021

Operational risks (continued)

Failure of business-critical partner, sub-contractor or supplier (continued)

Material controls:

- SMS Procurement policy, Standards and Procedures including Supplier Code of Conduct.
- Supplier checks (pre-qualification or on-boarding).
- Serco standard contracts including appropriate obligations, Key Performance Indicators and Service Level Agreements.
- Supplier Management Programme for most business-critical suppliers including performance.
- Bi-annual Procurement review process of all business-critical suppliers.

Mitigation priorities:

- Complete implementation of Supplier Risk Management Framework and commence delivery of resulting roadmap, including supplier triage and assessment.
- Enhance Procurement & Supply Chain Group Standard improving clarity and understanding of policy requirements, processes, controls and responsibilities.
- Risk assessment and mitigation plans incorporating actions to improve effective implementation of key risk controls for all material risk rated business-critical suppliers.
- Expand scope of supplier management programme, taking a tiered approach relative to risk. Review tools and guidance for contract level supplier management for lower risk suppliers.

People risks

Failure to act with integrity

As a people-based business there is an inherent risk of rogue employees engaging in significant corrupt or dishonest acts including bribery, fraud, misreporting, cheating or lying. If this risk occurred it would lead to reputation and brand damage and customers being reluctant to do business with the Company. Such behaviour might arise through the actions of rogue employees or as a result of pressures individuals may feel they are being placed under to deliver financial or operational performance and might lead to: the loss of existing business; restrictions on the ability to bid or win new business; a reduction in the ability to attract high-quality people or partners; or may impact shareholder, investor and financial institutions' confidence in Serco. The Company has an averse risk appetite to behaviours and actions that may compromise integrity. The values and purpose sit at the top of the Management Framework described on page 9 of Serco Group plc 2021 Annual Report and Accounts and integrity sits at the centre of and underpins the ESG framework. Whilst a new balance is being found as the pandemic evolves, the Company continues to recognise that Covid-19 has brought additional challenges to many parts of the business, and these could lead to an increase in inherent risk. However, the Company remains confident in the controls in place to manage this, and this risk is rated as stable.

Building on work from 2020 the Company has rolled out improved ethics training, strengthened the internal capability through professional qualifications and continued to reinforce our strong tone at the top and further developed our ESG framework as outlined on page 40 of Serco Group plc 2021 Annual Report and Accounts.

Strategic Report (continued)
for the Year Ended 31 December 2021

People risks (continued)

Failure to act with integrity (continued)

Key risk drivers:

- Not setting the right tone from the top.
- Weak values and culture.
- Increased pressure to deliver.
- Ineffective systems and processes.
- Weak diligence on where we work and who we work with.

Material controls:

- Strong, meaningful and understood Values and required behaviours which are role modelled by leaders.
- Robust governance (Corporate Responsibility Committee; Executive Committee; Investment Committee; Divisional Executive etc.) exercising oversight of decisions within delegated authorities.
- Effective policy and procedures including financial controls and processes defined within the SMS and supported by our Code of Conduct.
- Independent Speak Up process supported by corporate investigations.

Mitigation priorities:

- Deliver the Group's commitments under the Deferred Prosecution Agreement (DPA).
- Drive greater leadership ownership and accountability for a strong ethical culture.
- Embed Ethics Compliance controls and procedures as an integral part of business processes.
- Continue to implement effective due diligence processes for all third parties.
- Continue to strengthen Ethics Compliance resource and competency.
- Strengthen assurance provided by Ethics Compliance controls.

Failure to attract, engage and retain key talent

It is our ambition to be one of the best managed companies in the sector and, notwithstanding our framework of people processes, systems and controls, there is a risk that we are unable to attract, engage and retain an appropriately sized, qualified and competent workforce and management team. The impact of this risk materialising would restrict Serco's ability to deliver on its customer obligations, execute its strategy and achieve its business objectives whilst driving employee pride in the organisation. The ESG framework is an implicit consideration in this risk and influences the achievement of the Employee Engagement KPI as outlined on page 34 of Serco Group plc 2021 Annual Report and Accounts. The Company has a cautious risk appetite and take a pragmatic approach to the attraction, retention and development of key talent. The Company ensures that robust contingency plans are in place for business-critical roles but recognise that an element of churn is healthy for any business meaning that the Company is not averse to change.

Strategic Report (continued)
for the Year Ended 31 December 2021

People risks (continued)

Failure to attract, engage and retain key talent (continued)

This risk includes consideration of key person reliance in our leadership and executive teams including succession planning for our senior management team and other business-critical roles. It should be noted that there are difficulties in relation to labour markets, however, rather than being a problem across the whole business, the Company is currently addressing challenges in specific sectors, roles, or geographies. In response to Covid-19, a great deal of work has been done to streamline and simplify our approach to attracting and onboarding new colleagues. Extensive use of social media to promote recruitment activity and the "speedy boarding" global onboarding process has now been embedded, leading to significant efficiencies in bringing new staff into Serco.

The Group Chief Operating Officer continues to work closely with the Board of Serco Group plc to develop effective succession planning, both for Executive Committee and Group roles.

Key risk drivers:

- Lack of staff development.
- Poor talent management and succession planning.
- Low employee engagement.
- Unsatisfactory reward framework.
- Recruitment failings.
- Inability to attract appropriate new hires.

Material controls:

- Talent Management & Succession Processes.
- Leadership capability development.
- Targeted retention arrangements.
- Critical Resource Planning.
- Annual Performance Management process.
- Exit Interviews.
- Annual Viewpoint survey.

Mitigation priorities:

- Ensure up-to-date understanding of local employment markets.
- Continue to monitor channels to access external talent in chosen markets.
- Ongoing benchmarking activity to ensure market competitive reward packages to aid retention of existing staff and attraction of new.
- Continue with detailed review of succession plans and mitigation strategies as part of Talent Review process.
- Ensure ongoing use and analysis of exit interviews.
- Follow up and action on themes identified as a result of annual people survey.

Strategic Report (continued)
for the Year Ended 31 December 2021

People risks (continued)

Health, safety and wellbeing

The diversity of services provided by Serco exposes the employees, customers and third-parties to a wide range of health, safety and wellbeing risks inherent to the operations in both work and public environments. These may be caused by a process or control failure or by the wrong behaviour and inadequate safety culture. As responsible employers the Company recognises the complexity of wellbeing risk and aim to ensure that working for Serco does not impose any additional wellbeing challenges on the employees. This is a wide-reaching risk that directly supports the KPI target for Major Incident Frequency Rate and Lost Time Incident Frequency Rate as described on page 34 of Serco Group plc 2021 Annual Report and Accounts and Health, Safety and Environment ("HSE") related metrics outlined in the ESG report on page 69 of Serco Group plc 2021 Annual Report and Accounts. The Company has an averse risk appetite for actions or failures that would cause loss of life. The Company cannot eradicate Health and Safety risk entirely whilst maintaining operational delivery so the prevention of major injuries is prioritised and threats to wellness whilst accepting that minor injuries will occur on occasion but are minimised by training, risk assessment, safe systems of work, operating procedures, PPE, site supervision and audit and inspection.

The Company's vision is zero harm. The Company aims to ensure that no one comes to harm because of the work the Company does. Wherever the Company works, the Company is committed to the prevention of injury and promoting a “just” safety culture in which the Company fosters transparency, honesty and trust in order to identify root causes and prevent recurrence. Wherever the Company works, the Company is committed to the promotion of wellbeing and the prevention of ill health. The Company understands that healthier, happier employees go hand-in-hand with strong business performance, enhanced productivity, a far more positive culture and better outcomes for those the Company serves.

In addition to personal injury concerns, a breach of Health and Safety regulations or failure to meet the contracted expectations could disrupt the business, have a negative impact on the reputation and lead to contractual, financial and regulatory costs.

Much of 2020 had been dominated by the impact of the Covid-19 pandemic and this has continued into 2021 and will do so into at least 2022. The Company has continued our response to the Covid-19 pandemic where the Company has ensured focus on the protection of the employees, customers and third parties. The Health, Safety and Wellbeing teams continue to support our Covid-19 response across the business, facilitating key mitigations and supporting the continuing recovery phase activities, including design and implementation of Covid-19 site specific risk assessments, remote working risk assessments, training and the development of mental health resources. The Company has also continued to develop and mature the Diversity and Inclusion network. The Company recognises that Covid-19 continues to present an ongoing challenge and elevates the position of this risk on the corporate profile.

Strategic Report (continued)
for the Year Ended 31 December 2021

People risks (continued)

Health, safety and wellbeing (continued)

Key risk drivers:

- Failure of the Serco Safety Management System.
- Insufficient communication of key issues, risks and changes.
- Lack of, or out-of-date task specific competence.
- Human factors impact on behaviour.
- Occupational wellbeing risks including psychosocial risks.
- Public Health and wellbeing risks.
- Behavioural failures or human error resulting in injury or incident.
- Impact of the Covid-19 pandemic.

Material controls:

- Serco Health, Safety, Environmental and Wellbeing ("HSEW") Strategies and Safety Management System (policies and procedures including Covid-19 Secure and specific guidance and policies) underpinned by the ESG framework.
- Safety and wellbeing training, communications and guidance (including Serco Essentials) and individual development plans and processes based on role and operational risk.
- Spontaneous and planned preventative, maintenance, inspection and repair programmes.
- Effective incident or near-miss observations reporting and investigations and effective use of ASSURE (independent reporting and compliance system).
- Regular organisation wide and local Covid-19 specific guidance and communication.

Mitigation priorities:

- Continue to embed updated Health, Safety, Environment and Wellbeing strategies and a positive "just" culture.
- Increase Zero Harm Engagement and Safety Moment activity across the regions.
- Drive wellbeing agenda and ensure appropriate focus at a corporate level.
- Continuing 1st, 2nd and 3rd line assurance activities and ensuring understanding of appropriate levels of ownership, accountability, and responsibility.
- Further embed the Serco (Health, Safety, Environmental and Wellbeing) Strategies and Safety Management System (policies and procedures including Covid-19 Secure and specific guidance and policies).
- Further development and maturity of our ESG agenda and programme of improvements to meet best practice and evolving stakeholder expectations.
- Continued review and sharing of lessons learnt throughout the Covid-19 pandemic recovery phases.

Strategic Report (continued)
for the Year Ended 31 December 2021

Hazard risks

Catastrophic incident

Given the nature of the business the Company is exposed to the risk of an event (incident or accident) occurring as a result of Serco's actions or failure to effectively respond to or prepare for an event that results in multiple fatalities, and/or severe property/asset damage/loss and/or very serious environmental damage. Management of this risk influences the KPI target for Major Incident Frequency Rate as described on page 34 of Serco Group plc 2021 Annual Report and Accounts. The Company aims to provide safe services and places to work and has an averse risk appetite for this risk.

Each division is continuing to assess risks at a contract level to ensure that all relevant material risks have been identified and to assess and assure mitigations, including insurance cover, are appropriate. Contracts considered inherently high risk are reviewed regularly. The physical risks linked to climate change related events are now included more explicitly in the risk management framework as part of the work initiated for TCFD and outlined in more detail on page 58 of Serco Group plc 2021 Annual Report and Accounts. Existing business continuity and crisis management plans and processes have been used and served the business well during the Covid-19 pandemic and, despite a continued hard insurance market, the Company has secured extensive insurance protection as a key mitigant for this risk.

Key risk drivers:

- Factors resulting in unsafe conditions.
- Ineffective or inadequate policies, standards and procedures.
- Lack of capability and experience.
- Lack of safety cultural alignment.
- Insufficient safety management oversight.
- Inadequate planning or response to a catastrophic event, including extreme weather or a climate change related event.

Material controls:

- Regular reviews of high-risk contracts.
- Serco Health, Safety, Environmental and Wellbeing ("HSEW") Strategies and Safety Management System (policies and procedures) underpinned by our ESG framework.
- Safety training (including Serco Essentials) and individual development plans and processes based on role and operational risk.
- Effective incident or near-miss investigations and effective use of ASSURE (independent reporting and compliance system).
- Business continuity, crisis and incident emergency response plans and testing.
- Risk transfer via insurance where appropriate.

Strategic Report (continued)
for the Year Ended 31 December 2021

Hazard risks (continued)

Catastrophic incident (continued)

Mitigation priorities:

- Continue to embed updated HSEW strategies and a positive "just" culture.
- Ongoing work within divisions to identify and assess contract specific risks and liabilities.
- Continued training in insurance and contractual risk management.
- Review and optimisation of the insurance programme and captive structure.
- Review levels and adequacy of compliance assurance.

Legal and compliance risks

Material legal and regulatory compliance failure

Serco operates in complex legal and regulatory environments across multiple industries and geographies and there is a risk that we might not comply with all relevant laws and regulations. Failure to comply with laws and regulations could cause significant loss and damage to the Company and its people including exposure to regulatory prosecution and fines, reputational damage and the potential loss of licences and authorisations, all of which may prejudice the prospects for future bids. Defending legal proceedings may be costly and may also divert management attention away from running the business for a prolonged period. Uninsured losses or financial penalties resulting from any current or threatened legal actions may also have a material adverse effect on the Company. The Company is averse to risks which may result in legal and regulatory non-compliance and require processes that seek to minimise regulatory fines and legal action, as well as targeted and selected assurance activity.

The Covid-19 pandemic, post-Brexit regulatory landscape in the UK and changes in many governments where the customers operate has introduced additional and fast-moving complexity to the legal compliance framework and the Company recognises that this may increase the risk exposure. In addition, various laws and regulations that apply across the business continue to be subject to increased focus and attention, including Anti-Bribery and Corruption laws, Market Abuse Regulation, Data and Privacy laws, Modern Slavery, Trade Compliance, Competition and Antitrust and Human Rights and Modern Slavery.

The Serco Group plc 2019 Annual Report documented the approach to the Deferred Prosecution Agreement ("DPA") one of the subsidiaries of Serco Group plc, Serco Geografix Limited (SGL), entered into with the Serious Fraud Office ("SFO") in July 2019. Throughout 2020 and 2021 all of the obligations under the DPA, including reporting to the SFO in June 2020 and June 2021, have continued to be implemented and monitored. Focus remains on delivering ongoing obligations via the DPA plan with both the Board of Serco Group plc and GRC providing review and oversight of progress.

The management of this risk is also a key enabler of Serco's governance for ESG purposes.

Strategic Report (continued)
for the Year Ended 31 December 2021

Legal and compliance risks (continued)

Material legal and regulatory compliance failure (continued)

Key risk drivers:

- Lack of governance and oversight.
- Failure to comply with the SMS and contractual obligations.
- Failure to identify and respond to material changes in legal and regulatory requirements, including fast-moving new laws.
- Lack of awareness by employees of the legal and regulatory requirements placed upon them and the business.
- Inadequate provision of systems and tools.
- Legal or regulatory compliance failure by a third party.
- Class action litigation and increasing regulatory fines.
- Compliance with the Group's SFO DPA obligations.

Material controls:

- Externally appointed legal specialists monitoring and advising on legal and regulatory obligations and changes.
- Legal and contract experts aligned to various specialist areas across the business supported by mandatory and bespoke training.
- Investment Committee and Business Life cycle Review Team ("BLRT") bid process and governance.
- Third-party due diligence on all suppliers.
- Speak Up process and systems and corporate investigation case management system.

Mitigation priorities:

- Compliance with DPA obligations.
- Automating legislation tracking and horizon scanning on key new laws and regulations.
- Greater use of data and trend analysis.
- Embedding risk based third-party due diligence including modern slavery risk assessment.
- Continuing development of Serco Essentials training programmes including Code of Conduct training.
- Continuing to improve key contract and compliance assurance reviews.

Strategic Report (continued)
for the Year Ended 31 December 2021

Corporate Governance Arrangements

As required under the Companies (Miscellaneous Reporting) Regulations 2018, this section of the Directors' Report describes the corporate governance arrangements of the Company during the year.

The Directors confirm that the Company has applied all of the Principles set out in the Wates Corporate Governance Principles for Large Private Companies 2018, a copy of which is available at www.frc.org.uk.

1. Purpose and Leadership
The Board of the Company is collectively responsible for promoting the success of the Company and ensuring that its values, strategy and culture align with its purpose. The purpose of the Company is set out on page 2 of these accounts, and the values, strategy and culture of the Company are aligned with those of the Company's ultimate parent company, Serco Group plc. Further information concerning the values, strategy and culture of the Group are provided in the 2021 Serco Group plc Annual Report and Accounts.

2. Board Composition
The Board of the Company's ultimate parent company, Serco Group plc, has delegated responsibility to the Executive Committee of Serco Group plc to ensure the effective direction and control of the business.

The Executive Committee has approved internal guidelines for the constitution of subsidiary boards which take into consideration the value and strategic importance of the contracts which operate through each subsidiary and the level of oversight required. This ensures that the Board of the Company is of an appropriate size and structure, and has an appropriate combination of skills, experience and knowledge to promote accountability and to provide constructive challenge to achieve effective decision making, and that the level of understanding is relevant to the Company's business needs and stakeholder interests.

The Board of Serco Group plc is committed to improving gender and ethnic diversity on the Serco Group plc Board and in the senior management population within the Group from which appointments to the Board of the Company are selected. Further details of how the Serco Group plc Board Diversity Policy is reviewed and assessed can be found on page 134 of the 2021 Serco Group plc Annual Report and Accounts. Details of how diversity and inclusion is promoted across the Group can be found in the People Report 2021, which is available on the Serco Group plc website, www.serco.com.

Details of how the members of the Board of the Company are supported in continued investment in personal and professional development are provided on page 44 of the 2021 Serco Group plc Annual Report and Accounts.

3. Director Responsibilities
The internal affairs of the Company are governed by the management framework of its ultimate parent company, Serco Group plc, (the Serco Management System ('SMS')). The SMS ensures clear levels of accountability and governance through policies, standards and procedures concerning:

- Business Conduct and Ethics
- Business Continuity and Crisis Management
- Business Development
- Environment and Climate Change
- Finance

Strategic Report (continued)
for the Year Ended 31 December 2021

Corporate Governance Arrangements (continued)

3. Director Responsibilities (continued)

- Governance
- Health and Safety
- Information Integrity
- Information Technology
- Operations
- People
- Procurement and Supply Chain
- Quality
- Risk Management
- Security

The policy statements can be found on the Serco Group plc website, www.serco.com.

4. Opportunity and Risk

The SMS includes polices, standards and procedures to identity future opportunities for innovation and entrepreneurship, and to ensure that business development is managed through organisational structures with clearly defined responsibilities and decision points. A specific procedure describes reserved powers and delegated powers of authority that apply within the Serco Group and its subsidiaries, including processes for approval of business opportunities of a certain value.

The Company leverages the risk management processes of its ultimate parent company, Serco Group plc, see pages 3 to 21 of this Annual Report for further details.

5. Remuneration

The Company is a subsidiary of Serco Group plc. The remuneration of its Directors, and the approach to remuneration for all colleagues within Serco Limited, follows the principles and philosophy of remuneration at Serco as set out in the Serco Group plc Directors' Remuneration Policy. The Remuneration Policy is set by the Remuneration Committee of Serco Group plc taking into consideration the pay and conditions of the wider workforce, and general practice in the external market. Full details of our approach to remuneration, and the framework applied throughout the Group, can be found in our 2020 Directors' Remuneration Report. The approach to remuneration is compliant with the provisions of the UK Corporate Governance Code.

6. Stakeholder Relationships and Engagement

The Company leverages the Environmental, Social and Governance ('ESG') agenda of its ultimate parent company, Serco Group plc, which is driven by the ESG Framework of the Group. Serco Group publishes an annual ESG report which details its commitment, strategy and performance. The report can be found: https://www.serco.com/esg.

Strategic Report (continued)
for the Year Ended 31 December 2021

Corporate Governance Arrangements (continued)

6. Stakeholder Relationships and Engagement (continued)
The SMS includes workforce policies and procedures for reporting concerns regarding violations of Group values, policies or the Group Code of Conduct.

The Board of the Company is responsible for overseeing meaningful engagement with stakeholders, including the workforce, and must have regard to their views when taking decisions. The ways in which interests of stakeholders have been considered and the manner in which engagement is achieved is set out on pages 24 to 32.

Section 172 (1) Statement
The Directors of the Company are bound by their duties under the Companies Act 2006 and, in particular, must act in the way they consider, in good faith, would most likely promote the success of the Company for the benefit of its members as a whole, taking into account the factors listed in section 172(1)(a) to (f) of the Companies Act 2006.

The following disclosure describes how the Board has had regard to those matters and forms the Directors' statement required under section 414CZA of the Companies Act 2006.

Board Engagement with Stakeholders
The Board is committed to enhancing engagement and seeks to build honest, respectful and transparent relationships with all of the Company's stakeholders. The Board looks to the activities undertaken by the Board of Directors of Serco Group plc (the 'Serco Group plc Board'), the Company's ultimate parent company, in engaging with the Group's wider stakeholders and details of the Group's key stakeholders, their key concerns and how the Serco Group plc Board engages with them are provided on pages 107 to 114 of the Serco Group plc 2021 Annual Report.

As with other large and complex companies, the Directors of the Company fulfil their duties partly through a governance framework which delegates day-to-day decision-making from the Serco Group plc Board to the Executive Directors of Serco Group plc and, within defined levels of costs and impact, the Group Divisional leadership teams which includes the Directors of the Company. The Chief Executive Officer, UK and Europe is responsible for the management of the UK and Europe senior management team and is also a member of the Executive Committee, along with the Group Chief Operating Officer, both of whom are Directors of the Company. In addition to financial authorities, the framework also covers areas such as risk, ethics, and new sector or country approaches. A number of the items covered by the governance framework and other operational matters are considered by the Executive Committee prior to discussion and agreement with the Serco Group plc Board.

The governance structure, which covers the values and behaviours expected of our employees, the standards to which they must adhere, how the Group engages with stakeholders and how the Serco Group plc Board looks to ensure that we have a robust system of control and assurance processes, is designed to drive high standards of business conduct across the Group.

Strategic Report (continued)
for the Year Ended 31 December 2021

Board Engagement with Stakeholders (continued)

The Group's Environmental, Social and Governance ('ESG') Framework, of which the Company forms part, is structured around our key stakeholders and focus on our approach to and progress in delivering our ESG commitments has continued. The Group's progress and performance is summarised in the ESG Impact and Integrity section of the Serco Group plc 2021 Annual Report on pages 39 to 76.

The continued impact of Covid-19 on the Group's stakeholders was considered by the Serco Group plc Board throughout the year and Serco Group plc's response is set out throughout the Serco Group plc 2021 Annual Report, with more detailed information in the Our People section of that report on pages 35 to 38.

Our Shareholders

Engagement with and receiving the support of our ultimate parent company is a key factor in achieving our ambitions. We seek long-term relationships based on transparency, honesty and clarity - all of which are critical for building trust.

The Serco Group plc shareholders and debt holders are concerned with a broad range of issues, including how the Company has responded to and is affected by Covid-19, other operational and financial performance, developments in our markets for public services, the execution and delivery of our strategy, the sustainability of our business, and the impact Serco has on the communities we serve and the environment in which we operate.

As part of a Group level programme of engagement, the Serco Group plc Chief Executive Officer, the Group Chief Financial Officer, and other members of the Serco senior management team, including the Directors of the Company, meet with Serco Group plc shareholders to discuss relevant developments in the business at post-results road shows and a programme of investor meetings. During 2021, the Serco Group plc Board asked for feedback on ESG reporting from the top 20 investors in Serco Group plc and those comments were taken into account in the Serco Group plc 2021 Annual Report, along with feedback received from shareholders and shareholder representative bodies. The Chairman of the Serco Group plc Board, John Rishton, undertook a governance roadshow in January 2021 and met with a number of top investors. The key themes of discussion were ESG, succession, growth and strategy. The governance roadshow was repeated in 2022 and the Chairman was joined by the Serco Group plc Remuneration Committee Chair and the Group General Counsel and Company Secretary and further meetings with investors are planned. Feedback from these meetings is shared with the Directors of the Company as appropriate.

In December 2021, Serco Group plc held a Capital Markets Day event. It was attended by the Serco Group plc Chief Executive Officer and Group Chief Financial Officer, the Serco Group plc Board Chairman, a number of the Serco Group plc Non-Executive Directors, the Serco Group plc Executive Committee and members of the Divisional and Group senior management teams, including the Directors of the Company. This included a series of presentations and Q&A sessions to provide an update and greater insight into the Group's strategy, business operations, and financials. Further information, including the Capital Markets Event presentation and webcast, can be found on www.serco.com.

The Serco Group plc Chief Executive Officer and Group Chief Financial Officer and other members of the senior management team, including the Directors of the Company, also meet regularly with the debt investors of Serco Group plc, including lending banks and US private placement note holders, and bi-annual update calls or meetings are arranged with our debt investors after the half year and final results announcements of Serco Group plc.

Strategic Report (continued)
for the Year Ended 31 December 2021

Our Shareholders (continued)

Further relevant details are referred to elsewhere in the Serco Group plc 2021 Annual Report:

- Key Performance Indicators on pages 32 to 34.
- Further ESG items and details on our ESG performance and data are set out in the ESG Impact and Integrity section on pages 39 to 76.
- Details of notifiable interests in the shares of Serco Group plc are provided on page 177 of the Directors' Report.

Our People

Our people are at the heart of our business and, as a Company, we are the sum of the efforts, energy and values of our people, who are critical to achieving our mission of improving the lives of citizens and service users around the world.

During the year, the Executive Committee and the Serco Group plc Board endorsed the launch of the Serco People Fund, which is an independent charity and embraces Serco's value of Care, providing support to current and retired colleagues of the Company and their families in times of need and when facing extraordinary financial challenges.

Dame Sue Owen, Non-Executive Director and the Employee Voice representative on the Serco Group plc Board, updates the Serco Group plc Board on feedback received from our people at virtual engagement activities held throughout the year as part of the Employee Voice and Colleague ConneXions initiatives. This feedback is also shared with the Directors of the Company. Other members of the Serco Group plc Board, the Serco Group plc Executive Committee and leadership teams, including some of the Directors of the Company, participated in a number of these virtual engagement activities and Serco Inclusion Hub events arranged by our employee networks: Serco Inspire, Serco Unlimited, Serco Embrace and In@Serco. Reports on the activities of each network are received by the Serco Group plc Board through the regular People reports provided by the Group Chief Operating Officer, who sits on the Board of the Company, and the Serco Group plc Board conducts a focused review of the output of the Viewpoint survey every year.

Through the annual Group-wide engagement survey, Viewpoint, and more frequent targeted 'pulse' surveying in selected parts of the business, we know that our people are happy working with Serco and would recommend Serco as a great place to work. Each year our colleagues provide their views on a wide range of topics so we can better understand their perspectives and experiences working with us. Currently we are focusing on two main areas: creating career opportunities; and providing channels for colleagues to feel heard. There were 12,609 "Tell the Board" comments submitted and, as in previous years, compensation and recognition were key areas to be prioritised. In addition to this, colleagues indicated that they would like the Board to focus on the journey out of Covid-19 with a key emphasis on the next phase of the business and personal wellbeing.

Further relevant details are referred to elsewhere:

- Our People Report, available on the Serco Group plc website www.serco.com.
- ESG Impact and Integrity section of the Serco Group plc 2021 Annual Report on pages 39 to 76.
- Employee engagement metrics as part of the Key Performance Indicators on page 34 of the Serco Group plc 2021 Annual Report.

Strategic Report (continued)
for the Year Ended 31 December 2021

Our Customers

As a B2G business, the Company's customers are many and varied, consisting of local, regional and national government and agencies, those receiving our services at a contract level and those who use the services we provide on behalf of our customers.

Our business is built on our ability to retain existing and win new customers. As such, understanding, engaging with and responding to customer needs is a critical priority. While the demands vary significantly, at the most basic level our customers seek to procure from us quality public service delivery, at a price they feel represents good value for money. This requires us to have both a deep understanding of their sector specific needs, and the technical and commercial 'know how' to deliver public services more efficiently.

In addition, there are significant regional and sector specific concerns that vary enormously and which also change over time. For example, social value outcomes are core to most UK bids. It is critical that we maintain a detailed appreciation of these concerns so that we can respond accordingly.

The Group Chief Executive Officer and Group Chief Financial Officer meet directly with different customers across all our regions, as does the Chief Executive Officer, UK and Europe, and the Group Chief Operating Officer, each being Directors of the Company, although this was more challenging due to Covid-19. The Divisional Performance Reviews, which are made available to and reviewed by the Directors of the Company, also contain details on customer issues and engagement across the contracts operated by the Company.

With the 2015 Group strategy having been implemented, with significant achievements and progress across the business, a detailed Group strategy review was conducted involving all parts of the business and carried out over several months in 2021. As in previous years, this process culminated in a day-long Executive Committee Strategy Review, which was attended by the Chief Executive Officer, UK and Europe, and the Group Chief Operating Officer, who are both Directors of the Company, and a Serco Group plc Board Strategy Day during which the Serco Group plc Board debated current and future customer requirements at length. Further information about the outcome of the 2021 strategy review is provided on pages 18 and 19 of the Serco Group plc 2021 Annual Report.

The Serco Institute, often in conjunction with customers, looks at macro societal issues and the research and development of public service solutions. Updates on the work of the Serco Institute are provided to the Board by the Group Strategy Director and a number of the Board have attended Serco Institute events. The Serco Institute conducts research, holds events and produces research papers, articles and thought pieces on a number of areas including:

- Delivering Better Services for the Public: How competition and choice can improve public service delivery in the UK
- People Powered Public Services: Monitoring UK opinion
- What's heading down the tracks? The Future of Passenger Rail in Britain
- Vaccine Passports & UK Public Opinion

Strategic Report (continued)
for the Year Ended 31 December 2021

Our Customers (continued)

Further relevant details are referred to elsewhere:

- Pipeline and Order Book metrics as part of Key Performance Indicators on page 33 of the Serco Group plc 2021 Annual Report.
- The UK and Europe Divisional Review on pages 27 and 28 of the Serco Group plc 2021 Annual Report.
- Principal Risks on pages 95 to 104 of the Serco Group plc 2021 Annual Report and in particular the risks of contract non-compliance, failure to act with integrity and failure to grow profitably.
- The Serco Institute website at www.sercoinstitute.com.

Our Suppliers

Suppliers have an important role to play in Serco being a leading international provider of public services. We aim to build honest, respectful and transparent relationships with suppliers which have high levels of regulatory compliance and share our ethical standards and commitment to sustainability throughout the supply chain.

Our suppliers are concerned with the ease of doing business with Serco, responsible business practices, conduct and ethics, driving innovation, building long-term relationships, fair business terms and receiving prompt payment.

The Chief Executive Officer for UK and Europe and the Group Chief Operating Officer, who sit on the Board of the Company, engage directly with key suppliers to contracts operated by the Company and the Serco Group plc Board is regularly briefed on operational matters and on the management and assessment of suppliers by Divisional senior management, the Group Director Enterprise Risk, the Group Director Business Compliance and Ethics and the Director of Procurement.

During the year, the Serco Sustainable Procurement Charter was launched, which was well received by suppliers, and an assessment of current Group-wide procurement practices against the ISO20400 framework (the standard for sustainable procurement). In addition, as part of the annual risk review process, the Serco Group plc Group Risk Committee considered the definition of the principal risk, Significant Failure of the Supply Chain, and expanded the risk to encompass the broader risk from the supply chain.

Further relevant details are referred to elsewhere in the Serco Group plc 2021 Annual Report:

- ESG Impact and Integrity section on pages 39 to 76.
- Principal Risks on pages 95 to 104, in particular the significant failure of the supply chain.

Strategic Report (continued)
for the Year Ended 31 December 2021

Our Communities and Environment
Our communities comprise those living and working in close proximity to our operations, those for whom we provide services on behalf of our government customers and those who represent the needs of the communities we operate in, including charities, independent bodies and local government.

Operating amongst and on behalf of our communities, we strive to maintain a deep understanding of the complex social challenges that impact them, whilst recognising our responsibility to contribute to the sustainability and wellbeing of society and the economy wherever we operate.

We are also committed to building climate resilience and limiting the impact of our operations on the environment through more sustainable business practices for our customers and stakeholders, including our communities through our strategic themes of carbon and climate resource efficiency and environmental protection. We are committed to addressing the environmental and climate emergencies and supporting the net zero carbon ambitions of our clients and wider society. Alongside our customers and other stakeholders, we recognise that environmental sustainability is a critical factor in the wellbeing of society. In 2020, the Serco Group plc Board endorsed a new standalone Group Strategy for Environment, inclusive of carbon reduction targets, to sharpen focus and direction on delivering longer-term Group Environment, Energy and Sustainability commitments in our operations and supply chain. To address key challenges and opportunities over the next ten years, with oversight from the Serco Group plc Board through the Corporate Responsibility Committee, we are focusing on enhancing understanding of our environmental and climate risks and opportunities; evolving our business lifecycle process to capture and cost carbon and environmental risks; reducing business travel, emissions and carbon; measuring and reducing the impact of our supply chain; and embedding environmental behaviours in Group culture.

Our communities are primarily concerned with the impact of our operations on society, the economy, and the environment and knowing that we operate and conduct our business as a respectful and responsible neighbour.

The Directors of the Company had the opportunity to meet with users of the services we provide on behalf of our customers during contract visits and the work of the Serco Institute and the Serco Foundation informs reports from management which are considered during the year. The Business Compliance & Ethics Director, Health, Safety and Environment Director, and the Group Head of Environment, Energy and Sustainability provide regular updates on ethics and business conduct matters, the Speak Up service and environmental strategy.

Further relevant details are referred to elsewhere:

- ESG Impact and Integrity section of the Serco Group plc 2021 Annual Report on pages 39 to 76.
- The ESG section of our website at www.serco.com.
- The Serco Foundation website at www.sercofoundation.org.

Strategic Report (continued)
for the Year Ended 31 December 2021

Decision-making in practice

A summary of how the Board applied the factors listed in section 172(1)(a) to (f) of the Companies Act 2006 when making principal decisions during the year is provided below.

Principal Decision	S172 Considerations
Carbon Reduction Plan	In considering approval of the Carbon Reduction Plan, the Directors of the Company considered the commitment of Serco Group plc to achieving Net Carbon Zero, as detailed in the Serco Group plc 2020 Corporate Responsibility Report, the expectations of the UK Government of major suppliers set out in Procurement Policy Note 06/21: Taking account of Carbon Reduction Plans in the procurement of major government contracts and the benefits to the community and future sustainability of the business overall in making a committed to achieve Net Zero Carbon emissions by 2050. A copy of the Carbon Reduction Plan 2021 can be found at www.serco.com/uk.
Covid-19 response and decision to make further payments to front line employees.	The Executive Committee and the Serco Group plc Board routinely reviewed the Company's worldwide response to the ongoing Covid-19 pandemic with updates from and discussions with the Group Chief Operating Officer, who sits on the Board of the Company, to help ensure that sufficient focus was being directed to the wellbeing and welfare of employees and that its customers were getting the best service possible in challenging circumstances. It also spent time assessing the outcomes from the annual Viewpoint survey of employees.
See also: Serco Group plc Trading update on 15 November 2021	The Serco Group plc Board demonstrated its focus on employees by recognising the intense pressure and extra work incurred as a result of Covid-19 by announcing in November 2021 a further ex-gratia payment to around 50,000 employees, as it did in 2020, and in addition agreed to make a significant one-off commitment to the recently established Serco People Fund. The fund provides cash and other support to current and retired colleagues and their families who would benefit from a little extra help. Together, these initiatives cost Serco Group plc around £10m in 2021 and the Serco Group plc Board considered the balance of employees and return to shareholders in its considerations. The Serco Group plc Board also assessed the impact on Covid-19 of its supply chain and the risks inherent to that.

Strategic Report (continued)
for the Year Ended 31 December 2021

Decision-making in practice (continued)

Principal Decision	S172 Considerations
Bid for contract to support the UK Department for Work and Pensions Restart Programme. See also: Serco Group plc announcement released 27 April 2021	Prior to seeking the support of the Serco Group plc Board, the bid submission was reviewed and approved by the UK and Europe Management Team (including the Chief Executive Officer of UK and Europe, a Director of the Company) and the Serco Group plc Investment Committee (of which the Group Chief Operating Officer, a Director of the Company, is a member). In considering whether to proceed with the bid for contract to support the UK Department for Work and Pensions Restart Programme, the Serco Group plc Board considered how the Company could utilise existing experience and expertise to support the UK Government in delivering the Restart programme, which includes assessment of jobseekers' needs to devise individually tailored programmes, identifying and leveraging skills to help UK citizens find sustainable employment. The bid was also considered in the context of the overall Group strategy and the Company's track record in employment services, and in enhancing the supply base by working with teams of expert partners, including small companies and charities, to achieve positive outcomes for individual job-seekers, the UK economy and the community more generally. The Company was awarded two contracts (covering the East Central region and Wales) in April 2021.
Bid for contract to continue providing support services to Covid-19 regional, local and mobile test centres in England and Northern Ireland for the UK Department of Health and Social Care (DHSC).	Prior to seeking the support of the Serco Group plc Board, the bid submission was reviewed and approved by the UK and Europe Management Team (including the Chief Executive Officer of UK and Europe, a Director of the Company) and the Serco Group plc Investment Committee (of which the Group Chief Operating Officer, a Director of the Company, is a member). The Serco Group plc Board considered how the services provided under this contract would utilise existing expertise and capabilities to provide asset administration support, cleaning and security services and allow the Company to continue to support the UK Government in building and operating the UK's Covid-19 testing infrastructure and meet the demand for testing. The Board noted the part the Company had played in building the UK's Covid-19 testing infrastructure which had benefited the customer, involved numerous suppliers and many small and medium-sized enterprises, as well as providing employment to thousands of new colleagues and providing benefit to the Company's shareholders.

Strategic Report (continued)
for the Year Ended 31 December 2021

Decision-making in practice (continued)

Principal Decision	S172 Considerations
Strategy	Shareholders, Customers, People, Suppliers, Community and the Environment are both critical and central to any meaningful discussion on Strategy. The Executive Committee and the Serco Group plc Board regularly reviewed updates from global functions, the global sector Centres of Excellence, as well as every operating Division, including the UK and Europe Division, throughout the course of the year, all of which contained elements of, and updates on, their respective strategies.
See also: Serco Group plc Capital Markets Day announcement and presentation released on 2 December 2022	Along with members of the Divisional leadership teams, the Directors of the Company met with the Group Strategy Director during the year to discuss their key strategic questions and any new areas of desired strategic exploration for the Group – many of which related to our people, culture, ESG, social value, how investors regard us, and how we might better serve our customers. The Executive Committee and the Serco Group plc Board discussed Strategy at length and in detail at the Annual Board Strategy Day, with presentations led by the Group Strategy Director, Group Chief Executive and Group Chief Financial Officer, and at further subsequent discussions following this meeting. These sessions and debates were relevant to all our stakeholders and reached conclusions on, amongst other things: the updated five-year plan for the Group in both financial and qualitative terms; the key steps, methods, strengths and weaknesses of this plan including customers, people, suppliers, community and the environment; a summary of the Divisional and Sector strategies for the next five years; the Group's portfolio for the next five years – including the position and potential of each Division and each Sector and how they fit together; top internal and external strategic challenges and opportunities in reaching its ambitions over the next five years and plans to address those; and Serco's B2G operating platform and offer to both customers and shareholders. The strategy formed the basis of the Capital Markets Day, which was attended by the Directors of the Company, where the Serco Group plc Board was able to ascertain reactions of both investors and customers who attended in person or virtually.

Streamlined Energy and Carbon Reporting (SECR)
Serco Limited is going to play its part to address climate change and further details on the goals set by the Directors along with emissions related information can be found in the Serco Group plc 2021 Annual Report and Accounts on pages 39 to 76.

Approved by the Board on 29 June 2022 and signed on its behalf by:

....

N Girnary
Director

Directors' Report
for the Year Ended 31 December 2021

The Directors present their report and the financial statements for the year ended 31 December 2021.

Directors of the Company
The Directors, who held office throughout the year, and subsequently to the date of this report, unless otherwise stated, were as follows:

K D Craven (resigned on 14 April 2021)

N Crossley (resigned on 14 April 2021)

A A Kirby

N Girnary (appointed on 14 April 2021)

M W Irwin (appointed on 14 April 2021)

New shares allotted
There were no new ordinary shares allotted in the current and prior year.

Going concern
The Company has net current assets of £506.6m as at 31 December 2021 (2020: £265.7m) including a £348.4m intercompany receivable which is repayable on demand although not intended to be recalled in the next year (2020: £211.5m) and a profit for the year then ended of £193.1m (2020: £51.6m). The Company's financial forecasts for the period of going concern indicate that the Company has sufficient financial resources to meet its financial obligations as they fall due during the period of assessment, considered to be twelve months from the signing date of these financial statements.

The Company is dependent on the availability of the intercompany financing facility that it uses to meet its day to day working capital requirements and therefore has obtained a letter of support from the Group's ultimate parent, Serco Group plc. Serco Group plc has indicated its intention to continue to make available such funds as are needed by the Company for the period of this assessment. The Directors of the Company have been made aware of the going concern assessment which has been performed in respect of the Group. The Directors believe they are able to place reliance on this letter of support, which is not legally binding, for the reasons discussed below.

At 31 December 2021, the Group's principal debt facilities comprised a £250m revolving credit facility (of which £nil was drawn), acquisition term loan facilities totalling £120m (of which £120m was drawn) and £259m of US private placement notes, giving £629m of committed credit facilities and committed headroom of £444m. The principal financial covenant ratios are consistent across the private placement loan notes and revolving credit facility. As at 31 December 2021, the Group's primary restricting covenant, its leverage ratio, was below the covenant of 3.5x and was below the Group's target range of 1x-2x at 0.68.

The Directors of the Group have undertaken a rigorous assessment of going concern and liquidity, taking into account financial forecasts, as well as the potential impact of key uncertainties and sensitivities on the Group's future performance. In making this assessment the Directors of the Group have considered the Group's existing debt levels, the committed funding and liquidity positions under its debt covenants, its ability to generate cash from trading activities and its working capital requirements. The Directors of the Group have also identified a series of mitigating actions that could be used to preserve cash in the business should the need arise.

Directors' Report (continued)
for the Year Ended 31 December 2021

Going concern (continued)

The basis of the assessment continues to be the budget approved by the Serco Group plc Board. The budget is prepared annually for the next two-year period and is based on a bottom-up approach to all of the Group's existing contracts, potential new contracts and administrative functions. As part of the budgeting process covering 2022 and 2023, consideration was given to the known impacts of Covid-19, though most of the Group's contracts deliver critical services to governments and the delivery requirements of these have not been materially impacted. Where situations have evolved, these have been reflected in the Group's most recent forecasts and thus are included within the assessment process outlined below.

The Directors of the Group have considered the ongoing impact of Covid-19 on the Group's operations. The key impacts which the Group has felt are lower passenger volumes on the Group's train operating contracts, lower volumes within its air traffic control business in the Middle East, higher costs within the Health portfolio and lower usage of the Group's UK leisure centres. The Group has continued to trade profitably during the pandemic, and even at the various peaks globally, the potentially adverse impact of the pandemic was mitigated through the Group's involvement in Covid-related responses. Due to the limited adverse impacts of Covid-19 on the Group's profitability, the Directors of the Group believe that appropriate sensitivities in assessing the Group's ability to continue as a going concern are to model reductions in the Group's win rates for new business and rebids, and reductions in profit margins. Due to the diversity in the Group's operations, the Directors of the Group believe that a reverse stress test of these sensitivities to assess the headroom available under the Group's debt covenants and available liquidity provides meaningful analysis of the Group's ability to continue as a going concern. Based on the headroom available, the Directors of the Group were able to assess whether the reductions required to breach the Group's financial covenants, or exhaust available liquidity, are plausible. This reverse stress test shows that, even after assuming that the US private placement loans of $28.4m due to mature before 30 June 2023 and the £45m acquisition term loan facility used to fund the acquisition of NSBU are repaid, and that no additional refinancing occurs, the Group can afford to be unsuccessful on 60% of its target new business and rebid wins, combined with a profit margin 60 basis points below the Group's forecast, and still retain sufficient liquidity to meet all liabilities as they fall due and remain compliant with the Group's financial covenants. In respect of win rates, rebids have a more significant impact on the Group's revenue than new business wins during the assessment period. The Group has won more than 85% of its rebids and available contract extensions over the last two years, therefore a reduction of 60% or more to the budgeted win rates and rebid rates is not considered plausible. The Group does not generally bid for contracts at margins below its target range. In respect to margin reduction, due to the diversified nature of the Group's portfolio of long-term contracts and the fact that the Group has met or exceeded its full-year guidance for the last five years, a reduction in margin of 60bps versus the Group's budget is not considered plausible within the assessment period combined with a 60% reduction in win rates for new business and rebids. Consequently, the Directors of the Group are confident that the Group will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements and therefore have prepared its financial statements on a going concern basis.

As with any company placing reliance on other group entities for financial support, the Directors acknowledge that there can be no certainty that this support will continue, although at the date of approval of these financial statements, they have no reason to believe that it will not do so. In making this assessment, the Directors have taken consideration of public statements made by Serco Group plc of which none have been noted to be adverse. Consequently, the Directors are confident that the Company will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements and therefore they have prepared the financial statements on a going concern basis.

Directors' Report (continued)
for the Year Ended 31 December 2021

Proposed dividend
The Directors do not recommend the payment of a dividend (2020: £nil).

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.

Political contributions
The Company made no political donations or incurred any political expenditure during the year (2020: £nil).

Disclosure of information to the auditor
The Directors have taken steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information. The Directors confirm that there is no relevant information that they know of and of which they know the auditor is unaware.

Risks and uncertainties
A review of risks is undertaken in the Strategic Report.

Reappointment of auditor
Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.

Post balance sheet events
There were no post balance sheet events affecting the Company since the year end.

Approved by the Board on 25 June 2022 and signed on its behalf by:

....

N Girnary
Director

Statement of Directors' Responsibilities in respect of the Strategic Report, the Directors' Report and the Financial Statements

The Directors are responsible for preparing the Strategic Report, 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 they have elected to prepare the financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 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 then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

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 responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SERCO LIMITED

Opinion

We have audited the financial statements of Serco Limited (the 'Company') for the year ended 31 December 2021 which comprise the Profit and Loss Account, Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity, and related notes, including the accounting policies in note 2.

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2021 and of its profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 101 *Reduced Disclosure Framework*; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or to cease its operations, and as they have concluded that the Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

In our evaluation of the Directors' conclusions, we considered the inherent risks to the Company's business model and analysed how those risks might affect the Company's financial resources or ability to continue operations over the going concern period.

Our conclusions based on this work:

- we consider that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate; and
- we have not identified, and concur with the Directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for the going concern period.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the above conclusions are not a guarantee that the Company will continue in operation.

Fraud and breaches of laws and regulations - ability to detect

Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SERCO LIMITED (continued)

Fraud and breaches of laws and regulations - ability to detect (continued)

Identifying and responding to risks of material misstatement due to fraud (continued)

- Enquiring of Directors, internal audit, internal legal counsel and inspection of policy documentation as to the Company's high-level policies and procedures to prevent and detect fraud as well as whether they have knowledge of any actual, suspected or alleged fraud;
- Reading Board of Directors meeting minutes;
- Considering remuneration incentive schemes and performance targets; and
- Using analytical procedures to identify any usual or unexpected relationships.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit.

As required by auditing standards, and taking into account our overall knowledge of the control environment, we perform procedures to address the risk of management override of controls and the risk of fraudulent revenue recognition, in particular:

- the risk that management may be in a position to make inappropriate accounting entries;
- the risk of bias in accounting estimates and judgements such as assessing whether long-term contracts are onerous and, determining provisions for disputes and litigation are adequate and the assumptions; and
- the risk that variable revenue is inappropriately recognised.

We did not identify any additional fraud risks.

We also performed procedures including:

- Identifying journal entries and other adjustments to test based on risk criteria and comparing the identified entries to supporting documentation. These included those posted by senior finance management/those posted to seldom used accounts and those posted to unexpected accounts; and
- Assessing whether the judgements made in making accounting estimates are indicative of a potential bias.

Identifying and responding to risks of material misstatement related to compliance with laws and regulations

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience, and through discussion with the Directors and other management (as required by auditing standards), and from inspection of the Company's regulatory and legal correspondence and discussed with the Directors the policies and procedures regarding compliance with laws and regulations.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SERCO LIMITED (continued)

Fraud and breaches of laws and regulations - ability to detect (continued)

Identifying and responding to risks of material misstatement related to compliance with laws and regulations (continued)

Firstly, the Company is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation, and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Company is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation or the loss of the Company's license to operate. We identified the following areas as those most likely to have such an effect:

- health and safety, given the front-line nature of many of the Company's operations;
- data protection laws, such as the General Data Protection Regulations in Europe due to the number of employees and the services performed for customers in Europe;
- anti-bribery and corruption, recognising the Governmental nature of many of the Company's customers;
- employment law, due to the significant number of employees the Company employs;
- national security laws; and
- Single source procurement regulations in the UK, due to the contracting environment.

Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the Directors and other management and inspection of regulatory and legal correspondence, if any. Therefore if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

Context of the ability of the audit to detect fraud or breaches of law or regulation

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SERCO LIMITED (continued)

Strategic Report and Directors' Report
The Directors are responsible for the Strategic Report and the Directors' Report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the Strategic Report and the Directors' Report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the Strategic Report and the Directors' Report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception
Under the Companies Act 2006 we are required 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.

We have nothing to report in these respects.

Directors' responsibilities
As explained more fully in their statement set out on page 36, the Directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SERCO LIMITED (continued)

The purpose of our audit work and to whom we owe our responsibilities

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.

John Luke

John Luke (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants

15 Canada Square
Canary Wharf
London United Kingdom
E14 5GL

Date: 29 June 2022

Profit and Loss Account
for the Year Ended 31 December 2021

	Note	2021 £ m	2020 £ m
Turnover	4	2,111.2	1,792.1
Cost of sales		(1,931.1)	(1,655.7)
Gross profit		180.1	136.4
Administrative expenses		(113.3)	(87.9)
Amortisation of intangible fixed assets	15	(8.5)	(12.3)
Impairment of investments	17	-	(3.5)
Exceptional net gain on disposal of operations	5	-	11.0
Other exceptional operating items	6	(0.3)	(0.9)
Income from joint ventures	7	-	2.9
Operating profit	8	58.0	45.7
Interest receivable and similar income	11	1.3	1.4
Interest payable and similar charges	12	(4.7)	(9.8)
Profit before tax		54.6	37.3
Tax on profit on ordinary activities	13	138.5	14.3
Profit for the year		193.1	51.6

The above results were derived from continuing operations.

The notes on pages 47 to 99 form an integral part of these financial statements.

Statement of Comprehensive Income
for the Year Ended 31 December 2021

	Note	2021 £ m	2020 £ m
Profit for the year		193.1	51.6
Other comprehensive income for the year:			
Items that will not be reclassified subsequently to profit or loss			
Actuarial gain on reimbursable rights*		-	0.1
Tax related to items not reclassified*	14	(21.4)	(5.9)
Net actuarial gain on defined benefit pension schemes*	25	65.1	21.4
Total		43.7	15.6
Items that may be reclassified subsequently to profit or loss			
Net gain/(loss) on cash flow hedges**		0.2	(0.2)
Total other comprehensive income		43.9	15.4
Total comprehensive income for the year		237.0	67.0

* Recorded in retained earnings in the Statement of Changes in Equity.
** Recorded in hedging and translation reserve in the Statement of Changes in Equity.

The notes on pages 47 to 99 form an integral part of these financial statements.

Balance Sheet
as at 31 December 2021

Registration number: 00242246

	Note	2021 £ m	2020 £ m
Fixed assets			
Goodwill	15	6.7	6.8
Intangible assets	15	26.2	31.8
Property, plant and equipment	16	373.0	330.8
Investments	17	-	-
		405.9	369.4
Current assets			
Stocks	18	8.8	9.4
Debtors: amounts falling due within one year	19	245.4	263.0
Debtors: amounts falling due after more than one year	19	348.7	212.7
Deferred tax assets	14	149.5	29.6
Corporation tax asset		0.1	0.1
Cash at bank and in hand	20	-	9.1
Defined benefit pension asset	25	166.2	114.6
		918.7	638.5
Total assets		1,324.6	1,007.9
Current liabilities			
Creditors: amounts falling due within one year	21	(348.3)	(346.9)
Bank overdrafts	22	(17.1)	-
Corporation tax liabilities		(3.5)	(3.4)
Derivative financial instruments	28	(0.1)	(0.1)
Provisions	24	(43.1)	(22.4)
		(412.1)	(372.8)
Net current assets		506.6	265.7
Total assets less current liabilities		912.5	635.1
Creditors: amounts falling due after more than one year	23	(437.2)	(366.4)
Provisions	24	(11.1)	(24.8)
Derivative financial instruments	28	-	(0.1)
		(448.3)	(391.3)
Defined benefit pension liability	25	(16.7)	(34.6)
Net assets		447.5	209.2

The notes on pages 47 to 99 form an integral part of these financial statements.

Balance Sheet (continued)
as at 31 December 2021

Registration number: 00242246

	Note	*2021 £ m*	*2020 £ m*
Capital and reserves			
Called up share capital	26	0.8	0.8
Share premium reserve		1,108.9	1,108.9
Other reserves		-	(0.2)
Profit and loss account		(662.2)	(900.3)
Shareholder's funds		447.5	209.2

These financial statements were approved by the Board on 29 June 2022 and signed on its behalf by:

N Girnary
Director

The notes on pages 47 to 99 form an integral part of these financial statements.

Statement of Changes in Equity
for the Year Ended 31 December 2021

	Called up share capital *£ m*	*Share premium reserve* *£ m*	*Other reserves* *£ m*	*Profit and loss account* *£ m*	*Total* *£ m*
At 31 December 2019	0.8	1,108.9	-	(967.8)	141.9
Total comprehensive (expense)/income for the financial year	-	-	(0.2)	67.2	67.0
Credits in relation to share-based payments	-	-	-	0.3	0.3
At 31 December 2020	0.8	1,108.9	(0.2)	(900.3)	209.2
At 1 January 2021	0.8	1,108.9	(0.2)	(900.3)	209.2
Total comprehensive income for the financial year	-	-	0.2	236.8	237.0
Credits in relation to share-based payments	-	-	-	1.3	1.3
At 31 December 2021	0.8	1,108.9	-	(662.2)	447.5

The notes on pages 47 to 99 form an integral part of these financial statements.

Notes to the Financial Statements
for the Year Ended 31 December

1 General information

The Company is a private company limited by share capital, incorporated and domiciled in the United Kingdom.

The address of its registered office is:
Serco House
16 Bartley Wood Business Park
Bartley Way
Hook
Hampshire
RG27 9UY

The registered company number is 00242246. The nature of the Company's operations and its principal activities are set out in the Strategic Report on page 2.

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

The level of rounding is to the nearest tenth of a million ('m) unless otherwise stated.

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
These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101").

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of international accounting standards in conformity with the requirements of the Companies Act 2006 ("Adopted IFRSs"), but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

Summary of disclosure exemptions
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, fair value measurement, 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 29.

Notes to the Financial Statements (continued)
for the Year Ended 31 December

2 Accounting policies (continued)

Summary of disclosure exemptions (continued)
The financial statements have been prepared on the historical cost 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.

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 & Wales.

New and amended standards and interpretations
The Company applied for the first-time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2021.

- Interest Rate Benchmark Reform - Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16); and
- Amendments to IFRS 16 Covid-19 Related Rent Concessions beyond 30 June 2021.

These amendments had no material impact on the financial statements of the Company.

Changes in accounting policies
The Group, following a review of its accounting policies, has updated its accounting policy for modifications to contracts with customers which do not result in the provision of distinct goods or services. Previously, it was stated that if the pricing in the new contract was not commensurate with the stand-alone selling prices for the goods or services and the new goods and services were not distinct from those in the original contract, that any historic adjustments would be recognised through opening retained earnings. This is not the case, and the Group would recognise any adjustments as an adjustment to revenue in the period of the modification. No such modifications have occurred either during the year ended 31 December 2021 or 31 December 2020.

Notes to the Financial Statements (continued)
for the Year Ended 31 December

2 Accounting policies (continued)

Going concern

The Company has net current assets of £506.6m as at 31 December 2021 (2020: £265.7m) including a £348.4m intercompany receivable which is repayable on demand although not intended to be recalled in the next year (2020: £211.5m) and a profit for the year then ended of £193.1m (2020: £51.6m). The Company's financial forecasts for the period of going concern indicate that the Company has sufficient financial resources to meet its financial obligations as they fall due during the period of assessment, considered to be twelve months from the signing date of these financial statements.

The Company is dependent on the availability of the intercompany financing facility that it uses to meet its day to day working capital requirements and therefore has obtained a letter of support from the Group's ultimate parent, Serco Group plc. Serco Group plc has indicated its intention to continue to make available such funds as are needed by the Company for the period of this assessment. The Directors of the Company have been made aware of the going concern assessment which has been performed in respect of the Group. The Directors believe they are able to place reliance on this letter of support, which is not legally binding, for the reasons discussed below.

At 31 December 2021, the Group's principal debt facilities comprised a £250m revolving credit facility (of which £nil was drawn), acquisition term loan facilities totalling £120m (of which £120m was drawn) and £259m of US private placement notes, giving £629m of committed credit facilities and committed headroom of £444m. The principal financial covenant ratios are consistent across the private placement loan notes and revolving credit facility. As at 31 December 2021, the Group's primary restricting covenant, its leverage ratio, was below the covenant of 3.5x and was below the Group's target range of 1x-2x at 0.68.

The Directors of the Group have undertaken a rigorous assessment of going concern and liquidity, taking into account financial forecasts, as well as the potential impact of key uncertainties and sensitivities on the Group's future performance. In making this assessment the Directors of the Group have considered the Group's existing debt levels, the committed funding and liquidity positions under its debt covenants, its ability to generate cash from trading activities and its working capital requirements. The Directors of the Group have also identified a series of mitigating actions that could be used to preserve cash in the business should the need arise.

The basis of the assessment continues to be the budget approved by the Serco Group plc Board. The budget is prepared annually for the next two-year period and is based on a bottom-up approach to all of the Group's existing contracts, potential new contracts and administrative functions. As part of the budgeting process covering 2022 and 2023, consideration was given to the known impacts of Covid-19, though most of the Group's contracts deliver critical services to governments and the delivery requirements of these have not been materially impacted. Where situations have evolved, these have been reflected in the Group's most recent forecasts and thus are included within the assessment process outlined below.

2 Accounting policies (continued)

Going concern (continued)

The Directors of the Group have considered the ongoing impact of Covid-19 on the Group's operations. The key impacts which the Group has felt are lower passenger volumes on the Group's train operating contracts, lower volumes within its air traffic control business in the Middle East, higher costs within the Health portfolio and lower usage of the Group's UK leisure centres. The Group has continued to trade profitably during the pandemic, and even at the various peaks globally, the potentially adverse impact of the pandemic was mitigated through the Group's involvement in Covid-related responses. Due to the limited adverse impacts of Covid-19 on the Group's profitability, the Directors of the Group believe that appropriate sensitivities in assessing the Group's ability to continue as a going concern are to model reductions in the Group's win rates for new business and rebids, and reductions in profit margins. Due to the diversity in the Group's operations, the Directors of the Group believe that a reverse stress test of these sensitivities to assess the headroom available under the Group's debt covenants and available liquidity provides meaningful analysis of the Group's ability to continue as a going concern. Based on the headroom available, the Directors of the Group were able to assess whether the reductions required to breach the Group's financial covenants, or exhaust available liquidity, are plausible. This reverse stress test shows that, even after assuming that the US private placement loans of $28.4m due to mature before 30 June 2023 and the £45m acquisition term loan facility used to fund the acquisition of NSBU are repaid, and that no additional refinancing occurs, the Group can afford to be unsuccessful on 60% of its target new business and rebid wins, combined with a profit margin 60 basis points below the Group's forecast, and still retain sufficient liquidity to meet all liabilities as they fall due and remain compliant with the Group's financial covenants. In respect of win rates, rebids have a more significant impact on the Group's revenue than new business wins during the assessment period. The Group has won more than 85% of its rebids and available contract extensions over the last two years, therefore a reduction of 60% or more to the budgeted win rates and rebid rates is not considered plausible. The Group does not generally bid for contracts at margins below its target range. In respect to margin reduction, due to the diversified nature of the Group's portfolio of long-term contracts and the fact that the Group has met or exceeded its full-year guidance for the last five years, a reduction in margin of 60bps versus the Group's budget is not considered plausible within the assessment period combined with a 60% reduction in win rates for new business and rebids. Consequently, the Directors of the Group are confident that the Group will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements and therefore have prepared its financial statements on a going concern basis.

As with any company placing reliance on other group entities for financial support, the Directors acknowledge that there can be no certainty that this support will continue, although at the date of approval of these financial statements, they have no reason to believe that it will not do so. In making this assessment, the Directors have taken consideration of public statements made by Serco Group plc of which none have been noted to be adverse. Consequently, the Directors are confident that the Company will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements and therefore they have prepared the financial statements on a going concern basis.

2 Accounting policies (continued)

Fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or is estimated using another valuation technique. There are certain transactions in these financial statements which are similar to fair value, but are determined by the treatment set out in their respective standards. These are share based payment transactions that are within the scope of IFRS 2 Share Based Payment, leasing transactions that are within the scope of IFRS 16 Leases, or the calculation of net realisable value under IAS 2 Inventories or value in use under IAS 36 Impairment of Assets.

Revenue

The Company recognises revenue based on the principles set out in IFRS 15 Revenue from Contracts with Customers and is recognised in any period based on the delivery of performance obligations and an assessment of when control is transferred to the customer.

For all contracts, the Company determines whether each arrangement meets the definition of a contract under IFRS 15 and creates enforceable rights and obligations.

Contracts are combined if they are entered into at or near the same time and one or more of the following criteria are met:

- They are negotiated as a package with a single commercial objective.
- Consideration receivable in one contract depends on the other contract.
- Goods or services are a single performance obligation.

For contracts with multiple components, Management applies judgement to consider whether those promised goods and services are:

- a deliverable (i.e. a good or a service) that is distinct; or
- a series of distinct deliverables that are substantially the same and that have the same pattern of transfer to the customer (transferred over time using the same measure of progress).

At contract inception, the transaction price is the total amount of consideration to which the Company expects to be entitled to in exchange for transferring goods or services to a customer.

Once the total transaction price is determined, the Company allocates this to the identified performance obligations in proportion to their relative stand-alone selling prices and recognises revenue when (or as) those performance obligations are satisfied. Where there is only one performance obligation, no allocation is necessary as the full transaction price is allocated to the single performance obligation.

Notes to the Financial Statements (continued)
for the Year Ended 31 December

2 Accounting policies (continued)

Revenue (continued)

Where there is more than one performance obligation, the Company looks at each performance obligation separately to see if there is an observable price available, however due to the bespoke nature of the services provided by the Company there is normally no observable stand-alone selling price and the expected cost-plus margin approach is used. All bid models for new contracts are built up and negotiated with the customers on a cost-plus margin basis and therefore this approach most accurately reflects the commercial reality and the value of the benefits transferred to the customer.

The Company enters into contracts which contain extension periods where either the customer or both parties can choose to extend the contract or there is an automatic annual renewal and/or termination clauses that could impact the actual duration of the contract. Judgement is applied to assess the impact that these clauses have when determining the appropriate contract term. The term of the contract impacts both the period over which revenue from performance obligations may be recognised and the period over which contract fulfilment assets and capitalised bid and phase in costs are expensed.

Further details on revenue recognition for specific contract types are shown below.

Revenue recognition: Repeat service-based contracts

The majority of the Company's contracts are repeat service-based contracts where value is transferred to the customer over time as the core services are delivered. Therefore, in most cases revenue will be recognised on the output basis, based on direct measurements of the value to the customer of the services transferred to date relative to the remaining services under the contract. This is a faithful depiction of the transfer of services since the service delivered to the customer is unchanged. Where the output method is used, the Company often uses a method of time elapsed which requires minimal estimation. Certain repeat service-based contracts use output methods based upon user numbers; service activity levels; or fees collected. Where any price reductions within output-based contracts are contractual, but the level of service is not decreasing, revenue will be deferred from initial years to subsequent years in order for revenue to be recognised on a consistent basis.

There are certain contracts where a separate performance obligation has been identified for services where the pattern of delivery differs to the core services and which are capable of being distinct, such as asset construction or asset maintenance. In these instances, where the transfer of control is most closely aligned to our efforts in delivering the service, the input method is used to measure progress and revenue is recognised in direct proportion to costs incurred. In limited circumstances, other methods are used to measure progress under the input method, including resources consumed, time elapsed or labour hours expended. This is a faithful depiction of the transfer of services because costs (or other inputs) most accurately reflect the incremental benefits received by the customer from efforts to date.

Where deemed appropriate, the Company will utilise the practical expedient within IFRS 15, allowing revenue to be recognised at the amount which the Company has the right to invoice, where that amount corresponds directly with the value to the customer of the Company's performance completed to date.

Notes to the Financial Statements (continued)

for the Year Ended 31 December

2 Accounting policies (continued)

Revenue (continued)

Revenue recognition: Repeat service-based contracts (continued)

Under IFRS 15, unless upfront fees received from customers including transition payments can be clearly attributable to a distinct service the customer is obtaining, then such payments do not constitute a separate performance obligation and instead are deferred and spread over the life of the core services.

In general, the timing of satisfaction of performance obligations is consistent with when payment becomes due, other than in instances where up front win fees or transition payments are received, where in most instances these are deferred.

Any changes to the enforceable rights and obligations with customers and/or an update to the transaction price will not be recognised as revenue until there is evidence of customer agreement in line with the Company's policies.

Revenue recognition: Variable revenue

The Company has a number of contracts where at least an element of the revenue generated is variable in nature. Variability in revenue recognised can arise from a number of factors, including usage related volumes, graduated performance against contractual performance indicators, indexation linked pricing, profit sharing elements and customer decisions related to the provision of goods or services. Any variable amounts will only be recognised where it is highly probable that a significant reversal will not occur.

Revenue recognition: Long-term project-based contracts

The Company has a limited number of project-based long-term contracts. Revenue associated with these contracts is recognised at the point in time when control over the deliverable is passed to the customer.

Revenue recognition: Contract modifications

When a modification to an existing contract is approved, the Company first assesses whether it adds distinct goods or services to the existing contract that are priced commensurate with the stand-alone selling prices for those goods or services. If this is the case, then the modification is accounted for prospectively as a separate contract. If the pricing is not commensurate with the stand-alone selling prices for the goods or services and the new goods or services are not distinct from those in the original contract, then this is considered to form part of the original contract. Pricing is updated for the entirety of the revised contract and any historic adjustments recorded as a result are recognised as a cumulative adjustment to revenue in the period of the modification. If the pricing is not commensurate with the stand-alone selling prices for the goods or services and the new goods or services are distinct from those in the original contract, then this is considered to represent the termination of the original contract and the creation of a new contract which is accounted for prospectively from the date of modification.

Revenue recognition: Other

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

2 Accounting policies (continued)

Revenue (continued)

Revenue recognition: Other
The Company has a limited number of pass through arrangements in respect of goods or services procured by the Company on behalf of customers where it assesses whether it is acting as a principal or as an agent. The Company is acting as principal if it is in control of a good or a service prior to transferring to the customer and gross revenue and costs are recognised. More commonly, the Company is acting as agent where it is arranging for those goods or services to be provided to the customer without obtaining control, for example, where the Company is engaged to manage operations for a customer but procures goods or services on behalf and at the instructions of the customer in order to deliver the operation. When acting as an agent, only the fee or commission is recognised as revenue and the costs represent only the direct costs of facilitating the transaction.

Interest income is accrued for 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.

Dividend income from investments is recognised when the right to receive payments has been established.

The Company has no material exposure to returns or refunds.

Tax
The tax expense represents the sum of current tax expense and deferred tax expense.

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 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, it affects neither the tax profit nor the accounting profit.

Notes to the Financial Statements (continued)
for the Year Ended 31 December

2 Accounting policies (continued)

Tax (continued)
Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, 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.

Retirement benefit costs
Payments to defined contribution pension schemes are charged as an expense as they fall due.

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.

Both current and past service costs are the amounts recognised in the profit and loss account, reflecting the expense associated with the individuals. 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. Gains and losses on curtailments or settlements are recognised in the profit and loss account 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 reduced by the fair value of scheme assets. Any asset resulting from this calculation is limited to the present value of available refunds (which is only recognised to the extent that the Group has an unconditional right to receive it) and reductions in future contributions to the scheme. To the extent that an economic benefit is available as a reduction in future contributions and there is a minimum funding requirement required of the Company, the economic benefit available as a reduction in contributions is calculated as the present value of the estimated future service cost in each year, less the estimated minimum funding contributions required in respect of the future accrual and benefits in that year.

Notes to the Financial Statements (continued)
for the Year Ended 31 December

2 Accounting policies (continued)

Multi-employer pensions
Multi-employer pension schemes are classified as either a defined contribution pension scheme or a defined benefit pension scheme under 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.

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. 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 equity through the statement of comprehensive income (SOCI). Income and expense for overseas operations are translated at the average exchange rates for the period.

Goodwill
Goodwill is measured as the excess of the fair value of purchase consideration over the fair value of the net assets acquired and is recognised as an intangible asset when control is achieved. Negative goodwill is recognised immediately in the profit and loss account. Fair value measurements are based on provisional estimates and may be subject to amendment within one year of the acquisition, resulting in an adjustment to goodwill.

Goodwill itself does not generate independent cash flows and therefore, in order to perform required tests for impairment, it is allocated at inception to the specific cash generating units (CGUs) or groups of CGUs which are expected to benefit from the acquisition.

On the disposal of a business which includes all or part of a CGU, any attributable goodwill is included in the determination of the profit or loss on disposal.

The fair values associated with material business combinations are valued by external advisers and any amount of consideration which is contingent in nature is evaluated at the end of each reporting period, based on internal forecasts.

Other intangible assets
Material intangible assets are grouped into classes of similar nature and use and separately disclosed. Other intangible assets are amortised from the date of completion.

Customer relationships can arise on the acquisition of subsidiaries and represent the incremental value expected to be gained as a result of existing contracts in the purchased business. These assets are amortised over a period that does not exceed the average length of the related contracts.

Licences comprise premiums paid for the acquisition of licences, while franchises represent costs incurred in obtaining franchise rights arising on the acquisition of franchises. These are amortised on a straight-line basis over the life of the respective licence or franchise.

Notes to the Financial Statements (continued)

for the Year Ended 31 December

2 Accounting policies (continued)

Other intangible assets (continued)

Software and IT represent computer systems and processes used by the Company in order to generate future economic value through normal business operations. The underlying assets are amortised over the average length of the related contracts.

Development expenditure is capitalised as an intangible asset only if all of certain conditions are met, with all research costs and other development expenditure being expensed when incurred. The period of expected benefit, and therefore period of amortisation, is typically between three and eight years. The capitalisation criteria are as follows:

- an asset is created that can be separately 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.

Property, plant and equipment

Assets held for use in the rendering of services, or for administrative purposes, are stated in the balance sheet at cost, net of accumulated depreciation and any provision for impairment. Assets are grouped into classes of similar nature and use and separately disclosed except where this is not material.

Depreciation is provided on a straight-line basis at rates designed to reduce the assets to their residual value over their estimated useful lives.

Depreciation

Depreciation is charged so as to write off the cost of assets, other than land and properties under construction over their estimated useful lives, as follows:

Asset class	*Depreciation method and rate*
Freehold buildings	2.5%
Short-leasehold assets	The higher of 10% or the rate produced by the lease term
Machinery	15% - 20%
Motor vehicles	10% - 50%
Furniture	10%
Office equipment	20% - 33%
Right-of-use assets	Equally over the lease term from inception or equally over the remainder of the lease term from the date of a reassessment of the lease end date

2 Accounting policies (continued)

Depreciation (continued)

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the profit and loss account. Given that there is limited history of material gains or losses on disposal of fixed assets, the level of judgement involved in determining the depreciation rates is not considered to be significant.

Leases

On entering into a lease, a lease liability is recorded equal to the value of future lease payments discounted at the appropriate incremental borrowing rate and, simultaneously, a right-of use-asset is created representing the right conferred to control the manner of use of the leased asset. The Company typically uses an appropriate incremental borrowing rate, based on the lease location and duration, as it typically does not have access to the interest rate implicit in the lease.

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 to the profit and loss account and corresponding assets are depreciated on a straight-line basis over the lease term.

The lease term is measured as the non-cancellable period of a lease, together with periods covered by an option to extend the lease if it is reasonably certain that the option will be exercised and periods covered by an option to terminate the lease if it is reasonably certain that the option will not be exercised. The lease term is reassessed if an event occurs which causes either the non-cancellable period to change, or another event occurs which changes the assessment of the likelihood of exercising an option included in the lease.

All changes to leases are accounted for on a prospective basis from the point at which the change is triggered.

Where, on inception, the term of a lease is less than twelve months or the value of the leased asset is less than £5,000, or both, rentals payable under the lease are charged to the profit and loss account on a straight-line basis over the term of the relevant lease.

Investments

Fixed asset investments

Investments held as fixed assets are stated at cost less provision for any impairment in value.

Investments in joint ventures

A joint venture is an arrangement whereby the owning parties have joint control and rights over the net assets of the arrangement. The Company's investments in joint ventures are incorporated using the equity method of accounting.

Notes to the Financial Statements (continued)
for the Year Ended 31 December

2 Accounting policies (continued)

Investments (continued)

Investments in joint ventures (continued)
Goodwill is included within the carrying value amount of the investment and is assessed for impairment as part of that investment. Any excess of the Company's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss. Where the Company transacts with a joint venture, profits and losses are eliminated to the extent of the Company's interest in that arrangement.

Determining whether joint control exists requires a level of judgement, based upon specific facts and circumstances which exist at the year end.

Where the Company enters into financial guarantee contracts to guarantee the indebtedness of other companies within its group, the Company considers these to be insurance arrangements and accounts for them as such. In this respect, the Company treats the guarantee contract as a contingent liability until such time as it becomes probable that the Company will be required to make a payment under the guarantee.

Asset impairment
The Company reviews the carrying amounts of its tangible and intangible assets (including goodwill) at each reporting period, together with any other assets under the scope of IAS 36 *Impairment of Assets*, in order to assess whether there is any indication that those assets have suffered an impairment loss. As the impairment of assets has been identified as both a key source of estimation uncertainty and a critical accounting judgement, further details around the specific judgements and estimates can be seen in note 3.

If any indication of impairment exists, the recoverable amount of the asset is estimated in order to determine if there is any impairment loss. Goodwill is assessed for impairment annually, irrespective of whether there are any indicators of impairment. Where the asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the CGU to which the asset belongs.

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 with reference to pre-tax discount rates that reflect the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount is estimated to be less than the carrying amount of the asset, the carrying amount is impaired to its recoverable amount. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then to reduce the carrying amount of the other assets in the CGU on a pro-rata basis.

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 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 in prior years.

Notes to the Financial Statements (continued)
for the Year Ended 31 December

2 Accounting policies (continued)

Asset impairment (continued)
At each reporting date, the Company assesses whether there is an indication that a previously recognised impairment loss has reversed because of a change in the estimates used to determine the impairment loss. If there is such an indication, and the recoverable amount of the impaired asset, or CGU, subsequently increases, then the impairment loss is generally reversed.

Impairment losses and reversals are recognised immediately within administrative expenses within the profit and loss account unless it is considered to be an exceptional item.

Stocks
Stocks are stated at the lower of cost and net realisable value and comprise service spares, parts awaiting installation and work in progress for projects undertaken for customers where payment is received on completion. Cost comprises direct materials and, where applicable, direct labour costs that have been incurred in bringing the inventories to their present location and condition.

Trade receivables
Trade receivables are recognised initially at cost (being the same as fair value) and subsequently at amortised cost less any provision for impairment, to ensure that amounts recognised represent the recoverable amount.

A provision for impairment arises where there is evidence that the Company will not be able to collect amounts due, which is achieved by creating an allowance for doubtful debts recognised in the profit and loss account within administrative expenses.

Determining whether a trade receivable is impaired requires judgement to be applied based on the information available at each reporting date. Key indicators of impairment include disputes with customers over commercial positions, or where debtors have significant financial difficulties such as historic default of payments or information that suggests bankruptcy or financial reorganisation are a reasonable possibility. The majority of contracts entered into by the Company are with government organisations and therefore historic levels of default are relatively low and as a result the risks associated with this judgement are not considered to be significant.

When a trade receivable is expected to be uncollectible, it is written off against the allowance for doubtful debts. Subsequent recoveries of amounts previously provided for or written off are credited against administrative expenses.

Cash and cash equivalents
Cash and cash equivalents comprise cash in hand and balances with banks and similar institutions, which are readily convertible to known amounts of cash and which are subject to insignificant changes in value and have a maturity of three months or less from the date of acquisition.

Notes to the Financial Statements (continued)
for the Year Ended 31 December

2 Accounting policies (continued)

Financial instruments
Where financial assets are not measured at fair value through profit and loss (FVTPL), there is a requirement to assess the carrying value of the assets by reference to the expected credit loss (ECL) associated with the asset. Under the ECL model, the Company calculates the allowance for credit losses by considering, on a discounted basis, the shortfall in cash receipts it would incur in various default scenarios and multiplying the shortfalls by the probability of each scenario occurring. The allowance is the sum of the probability weighted outcomes.

The primary financial assets carried by the Company which are not measured at FVTPL are trade receivables and intercompany receivables. Owing to the nature of counterparties in intercompany arrangements, and a detailed review of the ability of those counterparties to settle obligations as they fall due, there is no material ECL risk associated with intercompany balances. The Company's customer base is predominantly Government or Government-backed, and as a result, the Company's ECL at any given point in time across the entirety of the customer base is immaterial.

Trade payables
Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are recognised initially at the transaction price and subsequently measured at amortised cost using the effective interest method.

Loans
Loans are stated at amortised cost using the effective interest-rate method. Accrued interest is recorded separately from the associated borrowings within current liabilities.

Loans are described as-non recourse loans and classified as such only if no Group company other than the relevant borrower has an obligation, under a guarantee or other arrangement, to repay the debt.

Borrowing costs
Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised as an expense in the period in which they are incurred.

Provisions
Provisions are recognised when the Company has an obligation to make a cash outflow as a result of a past event. Provisions are measured at the best estimate of the expenditure required to settle the obligation at the balance sheet date when settlement is considered to be likely.

Notes to the Financial Statements (continued)
for the Year Ended 31 December

2 Accounting policies (continued)

Provisions (continued)
Onerous contract provisions (OCPs) arise when the unavoidable costs of meeting contractual obligations exceed the remuneration expected to be received. Unavoidable costs include total contract costs together with a rational allocation of shared costs that can be directly linked to fulfilling contractual obligations which have been systematically allocated to OCPs on the basis of key cost drivers except where this is impracticable, where contract revenue is used as a proxy to activity. The provision is calculated as the lower of termination costs payable for an early exit and the expected loss over the remaining contract period. Where a customer has an option to extend a contract and it is likely that such an extension will be made, any loss expected to be made during the extension period, is included within the calculation. However, where a profit can be reasonably expected in the extension period, no credit is taken on the basis that such profits are uncertain given the potential for the customer to either not extend or offer an extension under lower pricing terms.

Share capital
Ordinary shares are classified as equity. Equity instruments are measured at the fair value of the cash or other resources received or receivable, net of the direct costs of issuing the equity instruments. If payment is deferred and the time value of money is material, the initial measurement is on a present value basis.

Defined benefit obligations arising from contractual obligations
Where the Company takes on a contract and assumes the obligation to contribute variable amounts to the defined benefit pension scheme throughout the period of the contract, the Company's share of the scheme assets and liabilities is calculated by reducing the scheme assets and liabilities with a franchise adjustment. The franchise adjustment represents the estimated amount of scheme deficit that will be funded outside the contract period. Subsequent actuarial gains and losses in relation to the Company's share of pension obligations are recognised in the statement of comprehensive income (SOCI).

Share based payments
Where the fair value of share options requires the use of a valuation model, fair value is measured by use of Binomial Lattice, Black Scholes or Monte Carlo Simulation models depending on the type of scheme, as set out in note 34 of Serco Group plc Annual Report and Accounts. 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 behavioural considerations. Where relevant, the value of the option has also been adjusted to take account of market conditions applicable to the option.

Derivative financial instruments and hedging activities
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. Further details of derivative financial instruments are given in note 29 of Serco Group plc Annual Report and Accounts.

Notes to the Financial Statements (continued)

for the Year Ended 31 December

2 Accounting policies (continued)

Derivative financial instruments and hedging activities (continued)

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently re-measured to their fair value at each balance sheet date. 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 (fair value hedges), hedges of highly probable forecast transactions or hedges of firm commitments (cash flow hedges).

At the inception of the hedge relationship, the Company documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Both at the inception of the hedge and on a periodic basis, the Company assesses whether the hedging instrument that is used in a hedging relationship is highly effective in offsetting changes in fair values or cash flows of the hedged item.

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. Derivatives, which mature within 12 months, are presented as current assets or current liabilities.

Details of the fair values of the derivative instruments used for hedging purposes and movements in the hedging and translation reserve in equity are detailed in the statement of comprehensive income and described in note 28.

Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in profit or loss immediately, together with any changes in the fair value of the hedged item that is attributable to the hedged risk. The change in the fair value of the hedging instrument and the change in the hedged item attributable to the hedged risk are recognised in the line of the profit and loss account relating to the hedged item.

Hedge accounting is discontinued when the Company de-designates the hedging relationship, the hedging instrument expires or is sold, terminated, exercised, or no longer qualifies for hedge accounting. The adjustment to the carrying amount of the hedged item arising from the hedged risk is amortised to profit or loss from that date.

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 accumulated in equity are reclassified 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.

Notes to the Financial Statements (continued)

for the Year Ended 31 December

2 Accounting policies (continued)

Derivative financial instruments and hedging activities (continued)

Cash flow hedges (continued)

Hedge accounting is discontinued when the Company de-designates 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.

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.

Dividends payable

Dividends are recorded in the Company's financial statements in the period in which they are declared, appropriately authorized and no longer at the discretion of the Company.

3 Critical accounting judgements and key sources of estimation uncertainty

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

Key sources of estimation uncertainty

Provisions for onerous contracts

Determining the carrying value of onerous contract provisions requires assumptions and complex judgements to be made about the future performance of the Company's contracts. The level of uncertainty in the estimates made, either in determining whether a provision is required, or in the calculation of a provision booked, is linked to the complexity of the underlying contract and the form of service delivery. Due to the level of uncertainty and combination of variables associated with those estimates there is a significant risk that there could be material adjustments to the carrying amounts of onerous contract provisions within the next financial year.

Notes to the Financial Statements (continued)
for the Year Ended 31 December

3 Critical accounting judgements and key sources of estimation uncertainty (continued)

Provisions for onerous contracts (continued)
During the year, the Company's existing OCPs have continued to be utilised with the closing balance being significantly lower than at the prior year-end. The Company does not expect to enter into new OCPs, however given the nature of the Company's operations, there is an inherent risk that a contract can become onerous. The Company operates a large number of long-term contracts at different phases of their contract life cycle.

Major sources of uncertainty which could result in a material adjustment within the next financial year are:

- The ability of the Company to maintain or improve operational performance to ensure costs or performance related penalties are in line with expected levels;
- Volume driven revenue and costs being within the expected ranges;
- The outcome of open claims made by or against a customer regarding contractual performance or contractual negotiations taking place where there is expected to be a positive outcome from the Company's perspective;
- The ability of suppliers to deliver their contractual obligations on time and on budget; and
- The potential impact of any longer term impacts of Covid-19 on contract performance such as the higher waste collection volumes or staff costs as a result of absenteeism, and the risk that this may be impacted by any future wave of the virus which requires a subsequent lock down period, or as-yet unknown shifts in customer behaviours, in the absence of any customer support.

In the current year, an amount of £1.0m was charged to historic provisions (2020: £0.1m), and releases of £1.8m (2020: £5.9m) have been made. No charges have been made to material new onerous contract provisions during the current year. Further details are provided in the Finance Review within the Strategic Report of Serco Group Plc financial statements. All of these revisions have resulted from triggering events in the current year, either through changes in contractual positions or changes in circumstances which could not have been reasonably foreseen at the previous balance sheet date. To mitigate the level of uncertainty in making these estimates Management regularly compares actual performance of the contracts against previous forecasts and considers whether there have been any changes to significant judgements. A detailed bottom up review of the provisions is performed as part of the Group's formal annual budgeting process.

The future range of possible outcomes in respect of those assumptions and significant judgements made to determine the carrying value of onerous contracts could result in either a material increase or decrease in the value of onerous contract provisions in the next financial year. The extent to which actual results differ from estimates made at the reporting date depends on the combined outcome and timing of a large number of variables associated with performance across multiple contracts.

Separation of profit and loss account items from underlying results
IAS 1 requires material items to be disclosed separately in a way that enables users to assess the quality of a Company's profitability. In practice, these are commonly referred to as "exceptional" items, but this is not a concept defined by IFRS and therefore there is a level of judgement involved in determining what to include in underlying profit. We consider items which are material and outside of the normal operating practice of the Company to be suitable for separate presentation. Further details can be seen in notes 5 and 6.

3 Critical accounting judgements and key sources of estimation uncertainty (continued)

Impairment of goodwill

A key area of focus in recent years has been in the impairment testing of goodwill, though no impairment indicators were noted in the year ended 31 December 2021. At each reporting period an assessment is performed in order to determine whether there are any such indicators, which involves considering the performance of our business and any significant changes to the markets in which we operate.

Determining whether goodwill requires an actual impairment involves an estimation of the expected value in use of the asset (or cash generating unit (CGU) to which the asset relates). The value in use calculation involves an estimation of future cash flows and also the selection of appropriate discount rates, both of which involve considerable judgement. The future cash flows are derived from latest approved forecasts, with the key assumptions being revenue growth, margins and cash conversion rates. As was the case at the end of 2020, the budgeting process is required to estimate the ongoing impact of Covid-19, and whilst this remains a source of uncertainty, the Company's understanding of the potential impacts continues to improve. As a result of known and anticipated impacts of Covid-19 being included in Management's forecasts, no additional specific adjustments have been made to the cash flows used in assessing the value in use of assets.

Discount rates are calculated with reference to the specific risks associated with the assets and are based on advice provided by external experts. Our calculation of discount rates is performed based on a risk free rate of interest appropriate to the geographic location of the cash flows related to the CGU being tested, which is subsequently adjusted to factor in local market risks and risks specific to Serco. For the purpose of impairment testing in accordance with IAS 36 *Impairment of Assets*, Management estimates pre-tax discount rates based on the post-tax weighted average cost of capital which is used for internal purposes.

There continues to be significant headroom across all CGUs and as detailed in note 17 of Serco Group plc financial statements, sufficient headroom remains even when reasonably possible changes to discount rates occur. However, a high degree of judgement remains in estimating future cash flows, particularly those relating to the terminal year of the value in use calculation.

Retirement benefit obligations

Identifying whether the Company has a retirement benefit obligation as a result of contractual arrangements entered into requires a level of judgement, largely driven by the legal position held between the Company, the customer and the relevant pension scheme. The Group's retirement benefit obligations are covered in note 30 of the Serco Group plc financial statements. Information relating specifically to the pension schemes in which the Company participates can be found in note 25.

The calculation of retirement benefit obligations is dependent on material key assumptions including discount rates, mortality rates, inflation rates and future contribution rates.

Notes to the Financial Statements (continued)
for the Year Ended 31 December

3 Critical accounting judgements and key sources of estimation uncertainty (continued)

Retirement benefit obligation (continued)
In accounting for the defined benefit schemes, the Company has applied the following principles:

- The asset recognised for the Serco Pension and Life Assurance Scheme is equal to the full surplus that will ultimately be available to the Company as a future refund.
- No pension assets are invested in the Company's own financial instruments or property.
- Pension annuity assets are remeasured to fair value at each reporting date based on the share of the defined benefit obligation covered by the insurance contract.

Going concern

As noted on pages 33 to 34, the impact of Covid-19 on the ability of the Company to continue as a going concern has been considered by Management. It has further been noted that, in their assessment, the Directors have relied upon the assessment of going concern performed by the Directors of Serco Group plc, the Company's ultimate parent company. The critical judgements are focused on the economic recovery of certain sectors in which the Group operates, as well as the potential impacts of future actions taken by governments globally. The judgements made represent severe but plausible scenarios that could occur within the going concern assessment period. The conclusion drawn by Management based on these judgements is that no material uncertainties exist in respect of the ability for the Group to continue as a going concern.

Onerous contract provisions

The calculation of onerous contract provisions is a key source of estimation uncertainty. Within the calculation of onerous contract provisions judgements have been made by Management regarding the recovery of global economies from the impacts of Covid-19, particularly in the sectors in which the Company operates. In particular, the short-term impacts of Covid-19 have been estimated specific to each of the Company's contracts and these impacts have been included in budgets used to identify any contracts which require an onerous contract provision to be recognised. Judgements related to Covid-19 include the potential for further lock-downs, the length of any such lock-downs and the scale and speed of future recoveries. Should this be incorrect then this could lead to onerous contract provisions being recognised in future periods.

Impairment of assets

The impairment of assets is a key source of estimation uncertainty. When looking at future cash flows as at 31 December 2021, Management has made judgements regarding the impact of Covid-19 over the same timeframe as the cash flows used to calculate value in use. During this timeframe, Management has considered the impact of Covid-19 specific to each existing contract, as well as opportunities in the Company's pipeline and this judgement is included in budgeted cash flows. Should this be incorrect then this could lead to impairments being recognised in future periods.

Notes to the Financial Statements (continued)
for the Year Ended 31 December

3 Critical accounting judgements and key sources of estimation uncertainty (continued)

Recoverability of trade receivables

At 31 December 2021, the Company's trade receivables balance is recorded at the carrying value of trade receivables less an allowance for bad or doubtful debts. Due to the global impact of the Covid-19 pandemic, Management has reassessed the judgement made in previous periods that any expected credit losses associated with trade receivables is immaterial. Management remain confident that as the Company's customers are predominantly sovereign in nature, there remains limited risk to the recoverability of the trade receivables balances at the end of the year as a result of expected credit losses. Should this be incorrect, a charge associated with irrecoverable debts could be recognised in future periods.

4 Turnover

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

	2021 *£ m*	*2020* *£ m*
Turnover as disclosed in the profit and loss account	2,111.2	1,792.1

The Company manages its business on an operating segment basis and these segments are the basis on which the Company reports its segment information. The Company's reportable operating segments are as follows:

- UK & Europe. Services for sectors including Citizen Services, Defence, Health, Justice & Immigration and Transport delivered to UK Government, UK devolved authorities and other public sector customers in the UK and Europe; and
- Middle East. Frontline services for sectors including Defence, Transport and Health in the Middle East region.

The analysis of the Company's turnover for the year by operating segment is as follows:

	2021 *£ m*	*2020* *£ m*
UK & Europe	2,004.8	1,653.0
Middle East	106.4	139.1
	2,111.2	1,792.1

Notes to the Financial Statements (continued)
for the Year Ended 31 December

4 Turnover (continued)

The analysis of the Company's turnover for the year by geographical location is as follows:

	2021 £ m	2020 £ m
United Kingdom	1,977.1	1,625.0
Other	134.1	167.1
	2,111.2	1,792.1

Turnover is shown by geographical origin. Turnover analysed by geographical destination is not materially different. The majority of turnover in the Company is recognised over time.

Transaction price allocated to remaining performance obligations

The following table shows the transaction price allocated to remaining performance obligations. This represents revenue expected to be recognised in subsequent periods arising on existing contractual arrangements.

	2021 £ m	2020 £ m
Less then 1 year	1,469.1	1,279.5
Between 1 - 5 years	3,603.6	3,485.1
More than 5 years	3,307.5	3,734.6
	8,380.2	8,499.2

Notes to the Financial Statements (continued)
for the Year Ended 31 December

5 Exceptional net gain on disposal of operations

	2021 *£ m*	*2020* *£ m*
Profit on disposal of subsidiary	-	11.0

On 31 May 2020, the Company disposed of its 33% interest in Viapath Analytics LLP, Viapath Services LLP and Viapath Group LLP (together "Viapath"). As part of the transaction, the Company received an amount of £11.0m for its share in the net assets of the joint venture.

	2021 *£ m*	*2020* *£ m*
Consideration	-	11.0
Less:		
Investment in joint venture disposed of	-	-
Profit and loss account impact of disposal	-	11.0

The net cash inflow arising on the disposal of Viapath is as follows:

	2021 *£ m*	*2020* *£ m*
Consideration	-	11.0
Less:		
Costs associated with the disposal	-	-
Net cash flow on disposal	-	11.0

Notes to the Financial Statements (continued)
for the Year Ended 31 December

6 Other exceptional operating items

Exceptional items are non-recurring items of financial performance that are outside of normal practice and 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.

	2021 *£ m*	*2020* *£ m*
Costs associated with the UK Government review	(0.3)	1.0
Restructuring costs	(0.1)	(0.1)
Increase in onerous lease provision	0.6	-
Disposal of goodwill	0.1	-
Exceptional operating items	0.3	0.9

The Company recognised the final costs associated with the Strategy Review during 2019 and, on review, final costs were charged to exceptional operating items resulting in a credit to exceptional items of £0.1m during 2021 (2020: £0.1m).

There were exceptional credits totalling £0.3m (2020: costs totalling £1.0m) associated with the UK Government reviews, and the associated programme of corporate renewal.

Serco Limited has recorded an additional £0.6m property provision related to the onerous lease of a building to cover the expected loss until March 2025. The building was vacated following the strategy review completed in 2014 and therefore the associated cost is treated as exceptional.

7 Income from joint ventures

	2021 *£ m*	*2020* *£ m*
Dividends from joint ventures	-	2.9

In 2020, the Company received a dividend of £2.9m from Viapath as part of the disposal.

On 31 May 2020, the Group disposed of its 33% interest in Viapath Analytics LLP, Viapath Services LLP and Viapath Group LLP (together "Viapath"). As part of the transaction, the Company received an amount of £11.0m for its share in the net assets of the joint venture. At the same time as disposing of the Company's interest in Viapath, the Company recovered a loan into the joint venture of £1.2m and £2.9m of profit share which was previously considered to be irrecoverable.

8 Operating profit

Operating profit is stated after (crediting)/charging:

	2021 £ m	2020 £ m
Research and development costs	(0.1)	(0.1)
Operating lease expense* - property	0.3	0.4
Operating lease expense* - plant and machinery	0.2	0.3
Staff costs (note 9)	773.3	680.1
Amortisation of other intangible assets (note 15)	8.5	12.3
Depreciation of tangible fixed assets - owned (note 16)	8.6	6.9
Depreciation of tangible fixed assets - leased (note 16)	75.1	62.7
Net gain on disposal of operations (note 5)	-	(11.0)
Other exceptional operating items (note 6)	0.3	0.9
Net foreign exchange gain	-	(1.0)

The Group's Audit Committee limits the non-audit work undertaken by the External Auditor and monitors the non-audit fees paid during the year. Amounts payable to KPMG LLP and their associates by the Company in respect of non-audit services are shown within the group financial statements. The audit fees were £480,000 (2020: £480,000).

* Operating lease expense relates to short term leases under IFRS 16.

9 Staff costs

The average number of persons employed by the Company (including Directors) during the year was 23,418 (2020: 22,098). The aggregate payroll costs (including Directors' remuneration) were as follows:

	2021 £ m	2020 £ m
Wages and salaries	677.9	599.7
Social security costs	58.7	50.4
Staff pensions	31.1	29.7
Share-based payment expenses	5.6	0.3
	773.3	680.1

Notes to the Financial Statements (continued)
for the Year Ended 31 December

9 Staff costs (continued)

Under the Performance Share Plan ("PSP"), eligible employees have been granted options or conditional share awards with an exercise price of two or zero pence. Awards vest after the performance period of two to three years and are subject to the achievement of certain performance measures, with the exception of non-performance awards. These non-performance awards are only subject to continued employment on vesting dates which vary from two to three years after the grant dates.

On the performance related awards, the performance measures are Earnings per Share (EPS), Total Shareholder Return (TSR) and Return on Invested Capital (ROIC).

There were no new awards granted under the Performance Share Plan in the year.

10 Directors' remuneration

The Directors' remuneration for the year was as follows:

	2021 *£ m*	*2020* *£ m*
Directors' remuneration	2.3	2.7

Retirement benefits are accruing to the following number of Directors under:

	2021 *No.*	*2020* *No.*
Long term incentive schemes	1	3
Defined benefit schemes	-	-

The number of Directors who exercised share options was:

	2021 *No.*	*2020* *No.*
Exercised share options	1	1

The aggregate of remuneration and amounts receivable under long term incentive schemes of the highest paid Director was £0.9m (2020: £1.5m), and Company pension contributions of £nil (2020: £nil) were made to a money purchase scheme on his behalf.

During the year, the highest paid Director exercised share options and received shares under a long term incentive scheme.

Notes to the Financial Statements (continued)
for the Year Ended 31 December

11 Interest receivable and similar income

	2021 £ m	2020 £ m
Interest receivable from group undertakings	0.1	0.2
Net interest receivable on retirement benefit assets	1.2	1.2
	1.3	1.4

12 Interest payable and similar charges

	2021 £ m	2020 £ m
Other interest payable	0.1	0.2
Interest payable to group undertakings	1.1	5.8
Interest payable under finance leases	3.5	3.8
	4.7	9.8

13 Tax

Tax credited in the profit and loss account:

	2021 £ m	2020 £ m
Current taxation		
UK corporation tax	3.1	0.4
Adjustments in respect of prior years	(0.1)	(0.2)
	3.0	0.2
Deferred taxation		
Arising from origination and reversal of temporary differences	(130.7)	(12.1)
Impact of change in deferred tax rate	(10.8)	(2.4)
Total deferred taxation	(141.5)	(14.5)
Tax credited in the profit and loss account	(138.5)	(14.3)

Notes to the Financial Statements (continued)
for the Year Ended 31 December

13 Tax (continued)

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 of 19% (2020: lower than the standard rate of corporation tax in the UK of 19%).

The differences are reconciled below:

	2021 *£ m*	*2020* *£ m*
Profit before tax	54.6	37.3
Corporation tax at standard rate	10.4	7.1
Expenses not deductible for tax purposes	7.1	2.5
Group relief with no consideration	(0.1)	(4.8)
Unrelieved tax losses	1.6	1.5
Adjustment in respect of deferred tax on pensions	-	(5.9)
Unprovided deferred tax	-	(4.0)
Other non taxable income	(9.4)	(1.8)
Adjustment in respect of prior years	(0.1)	(0.2)
Overseas rate differences	0.1	(0.1)
Recognition of previously unrecognised tax losses	(137.3)	(6.2)
Impact of change in deferred tax rate	(10.8)	(2.4)
Total tax credit	(138.5)	(14.3)

14 Deferred tax

The movement in the deferred tax asset in the year is as follows:

	2021 *£ m*	*2020* *£ m*
At 1 January	29.6	20.9
Deferred tax credited to profit and loss account	141.5	14.5
Items taken directly to equity - retirement benefit obligations reserve	(22.2)	(5.9)
Tax taken directly to reserves - share based payments	0.7	-
Tax taken directly to reserves - hedge reserve	(0.1)	0.1
	149.5	29.6

Notes to the Financial Statements (continued)
for the Year Ended 31 December

14 Deferred tax (continued)

	2021 £ m	2020 £ m
Difference between accumulated depreciation and amortisation and capital allowances	20.4	10.2
Share based payments and employee benefits	6.5	1.9
Movement in retirement benefit obligations	(36.5)	(14.8)
Tax losses	155.0	29.5
Other temporary differences	4.1	2.7
Derivative financial instruments	-	0.1
	149.5	29.6

Factors affecting future tax rate

A UK corporation rate of 25% (effective 1 April 2023) was substantively enacted on 24 May 2021. This will increase the Company's future current tax charge accordingly. It will have no effect on the deferred tax asset provided at 31 December 2021 as this has already been recognised at the tax rate applicable at the time the temporary differences are expected to reverse.

Unprovided deferred tax

	2021 £ m	2020 £ m
Temporary differences on assets/liabilities	0.3	12.5
Share based payments and employee benefits	0.1	4.3
Other temporary differences	3.4	93.6
	3.8	110.4

As noted above, the deferred tax asset provided at 31 December 2021 has been recognised at the tax rate applicable at the time the temporary differences are expected to reverse. The unrecognised deferred tax asset at 31 December 2021 has arisen where the temporary differences are expected to reverse before 1 January 2024 and so the tax rate is expected to be less than 25% of the gross temporary difference.

Notes to the Financial Statements (continued)
for the Year Ended 31 December

15 Goodwill and other intangible assets

	Goodwill £ m	Software £ m	Development expenditure £ m	Customer relationships £ m	Total £ m
Cost					
At 1 January 2021	239.2	86.4	52.4	12.7	390.7
Additions	-	4.5	0.1	-	4.6
Reclassification	-	(0.9)	-	-	(0.9)
Disposals	(0.1)	(10.4)	(1.0)	(0.2)	(11.7)
Foreign exchange	-	0.1	0.1	-	0.2
At 31 December 2021	239.1	79.7	51.6	12.5	382.9
Amortisation					
At 1 January 2021	232.4	64.9	52.0	2.8	352.1
Amortisation charge	-	7.4	0.4	0.7	8.5
Disposals	-	(9.2)	(0.9)	(0.2)	(10.3)
Reclassification	-	(0.5)	-	-	(0.5)
Foreign exchange	-	0.1	0.1	-	0.2
At 31 December 2021	232.4	62.7	51.6	3.3	350.0
Net book value					
At 31 December 2021	6.7	17.0	-	9.2	32.9
At 31 December 2020	6.8	21.5	0.4	9.9	38.6

There has been a reclassification in the year of £0.9m between intangible assets and property, plant and equipment.

Notes to the Financial Statements (continued)
for the Year Ended 31 December

16 Property, plant and equipment

	Land and buildings owned £ m	*Land and buildings leased £ m*	*Furniture, fittings and equipment owned £ m*	*Furniture, fittings and equipment leased £ m*	*Motor vehicles owned £ m*	*Motor vehicles leased £ m*	*Total £ m*
Cost or valuation							
At 1 January 2021	4.1	361.7	44.2	8.7	33.6	69.8	522.1
Additions	0.4	167.5	12.1	-	4.1	19.3	203.4
Disposals	(0.5)	(97.3)	(5.2)	(2.2)	(23.0)	(10.4)	(138.6)
Reclassifications	-	-	(5.5)	(0.2)	14.4	(7.8)	0.9
Foreign exchange movements	-	(0.1)	-	-	-	-	(0.1)
At 31 December 2021	4.0	431.8	45.6	6.3	29.1	70.9	587.7

Notes to the Financial Statements (continued)
for the Year Ended 31 December

16 Property, plant and equipment (continued)

	Land and buildings owned £ m	*Land and buildings leased £ m*	*Furniture, fittings and equipment owned £ m*	*Furniture, fittings and equipment leased £ m*	*Motor vehicles owned £ m*	*Motor vehicles leased £ m*	*Total £ m*
Depreciation							
At 1 January 2021	2.5	85.8	27.3	6.7	26.3	42.7	191.3
Reclassifications	-	-	0.7	(0.2)	7.8	(7.8)	0.5
Charge for the year	0.2	65.7	5.7	0.6	2.7	8.8	83.7
Eliminated on disposal	(0.1)	(26.3)	(5.0)	(2.2)	(17.0)	(10.4)	(61.0)
Impairment	-	-	0.3	-	-	-	0.3
Foreign exchange movements	-	(0.1)	-	-	-	-	(0.1)
At 31 December 2021	2.6	125.1	29.0	4.9	19.8	33.3	214.7
Carrying amount							
At 31 December 2021	1.4	306.7	16.6	1.4	9.3	37.6	373.0
At 31 December 2020	1.6	275.9	16.9	2.0	7.3	27.1	330.8

There has been a reclassification in the year of £0.9m between intangible assets and property, plant and equipment.

Notes to the Financial Statements (continued)
for the Year Ended 31 December

17 Investments

Details of undertakings
The companies listed below are the subsidiaries 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.

					Proportion of voting rights and shares held	
Undertaking	***Activity***	***Address***	***Country of incorporation***	***Class of shares held***	***2021***	***2020***
Serco Geografix Limited	Design, Manufacture, sale and leasing of electronic tagging equipment (no activities pursued during the current year)	Serco House, 16 Bartley Wood Business Park, Bartley Way, Hook, Hampshire, RG27 9UY, United Kingdom	United Kingdom	Ordinary	100%	100%
Serco Environmental Services Limited	Provision of environmental cleaning services (no activities pursued during the current year)	Serco House, 16 Bartley Wood Business Park, Bartley Way, Hook, Hampshire, RG27 9UY, United Kingdom	United Kingdom	Ordinary	100%	100%

Notes to the Financial Statements (continued)
for the Year Ended 31 December

18 Stocks

	2021 £ m	2020 £ m
Service spares, supplies & consumables	8.8	9.4

The categorisation of inventory has been updated in the year in order to better present the nature of the inventory held by the Company.

19 Debtors

	2021 £ m	2020 £ m
Debtors: amounts falling due within one year		
Amounts owed by group companies	27.7	25.2
Trade debtors	91.2	102.8
Other debtors	5.9	4.7
Prepayments	31.8	34.8
Contract assets	88.8	95.5
	245.4	263.0

All amounts owed by group companies are due within 30 days of the balance sheet date and do not bear interest.

Deferred bid and phase in costs are held within contract assets as due within one year. These assets represent up-front investment in contracts which are recoverable and expected to provide benefits over the life of those contracts. Bid costs are capitalised only when they relate directly to a contract and are incremental to securing the contract. Any costs which would have been incurred whether or not the contract is actually won are not considered to be capitalised bid costs.

The trade debtors balance is stated after an allowance for doubtful debts of £0.6m (2020: £3.6m). Movements on the Company's allowance for doubtful debts are as follows:

	2021 £ m	2020 £ m
At 1 January	3.6	2.7
Charged to profit and loss account	-	0.9
Utilised	(3.0)	-
	0.6	3.6

Notes to the Financial Statements (continued)
for the Year Ended 31 December

19 Debtors (continued)

Contract assets

	2021 £ m	2020 £ m
Accrued income and unbilled receivables	82.9	86.3
Capitalised bid costs	0.3	0.4
Capitalised mobilisation and phase in costs	5.6	8.8
	88.8	95.5

Deferred bid and phase in costs are held within contracts assets as due within one year as they are realised as part of the normal operating cycle of the Company.

	2021 £ m	2020 £ m
Debtors: amounts falling due after more than one year		
Amounts owed by group companies	348.4	211.5
Other debtors	0.3	1.2
	348.7	212.7

In 2017 a loan of £150.0m was made with Serco Holdings Limited, and during 2019 this was novated to Serco Group Plc, which has no fixed repayment date and bears interest based on LIBOR plus 2%. All other amounts owed by group companies have no fixed repayment date and bear interest based on LIBOR minus 0.2%.

	2021 £ m	2020 £ m
Debtors: amounts falling due within one year	245.4	263.0
Debtors: amounts falling due after more than one year	348.7	212.7
	594.1	475.7

20 Cash and cash equivalents

	2021 £ m	2020 £ m
Cash at bank	-	9.1

Cash and cash equivalents (which are presented as a single class of assets on the face of the balance sheet) comprise cash at bank and other short-term highly liquid investments with a maturity of three months or less.

Notes to the Financial Statements (continued)

for the Year Ended 31 December

21 Creditors: Amounts falling due within one year

	2021 £ m	2020 £ m
Trade creditors	48.0	58.9
Other taxes and social security	53.6	40.8
Other creditors	5.3	24.5
Accruals	118.4	132.9
Contract liability	33.9	14.8
Lease liabilities	89.1	75.0
	348.3	346.9

22 Bank overdrafts

	2021 £ m	2020 £ m
Bank overdrafts	17.1	-

23 Creditors: Amounts falling due after more than one year

	2021 £ m	2020 £ m
Amounts owed to group companies	154.8	109.4
Contract liabilities	33.1	35.7
Lease liabilities	249.3	221.3
	437.2	366.4

Amounts owed to group companies have no fixed repayment date and bear interest based on 1 month LIBOR plus 2%.

	2021 £ m	2020 £ m
Creditors: amounts falling due within one year	348.3	346.9
Creditors: amounts falling due after more than one year	437.2	366.4
	785.5	713.3

Notes to the Financial Statements (continued)
for the Year Ended 31 December

24 Provisions

	Property £ m	Contract £ m	Employee benefits £ m	Other provisions £ m	Total £ m
At 1 January 2021	10.5	1.8	18.5	16.4	47.2
Charged to the profit and loss account	2.2	1.0	5.3	10.9	19.4
Charged to the profit and loss account - Exceptional item	0.6	-	-	-	0.6
Released to the profit and loss account	(3.2)	(1.8)	(0.6)	(4.2)	(9.8)
Released to the profit and loss account - one time item	-	-	-	(2.5)	(2.5)
Released to the profit and loss account - Exceptional item	-	-	(0.1)	(0.3)	(0.4)
Utilised	(1.1)	0.2	(14.4)	(2.7)	(18.0)
Transfer to payables	-	-	0.7	13.9	14.6
Cost of dilapidation provisions booked to right of use assets	3.1	-	-	-	3.1
At 31 December 2021	12.1	1.2	9.4	31.5	54.2
Non-current liabilities	9.9	0.2	0.2	0.8	11.1
Current liabilities	2.2	1.0	9.2	30.7	43.1

Total provisions held by the Company at 31 December 2021 amount to £54.2m (2020: £47.2m).

Contract provisions relate to onerous contracts which will be utilised over the life of each individual contract, up to a maximum of 2 years from the balance sheet date. The present value of the estimated future cash outflows required to settle the contract obligations as they fall due over the respective contracts has been used in determining the provision. The individual provisions are discounted where the impact is assessed to be material.

Discount rates used are calculated based on the estimated risk free rate of interest for the region in which the provision is located and matched against the ageing profile of the provision. In 2021, additional charges have been made in respect of future losses totalling £1.0m (2020: £0.1m) all of which related to existing OCPs.

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

Notes to the Financial Statements (continued)
for the Year Ended 31 December

24 Provisions (continued)

Property provisions relate to leased properties which are either underutilised or vacant and where the unavoidable costs associated with the lease exceed the economic benefits expected to be generated in the future, and it also includes dilapidations in occupied properties. The provision has been calculated based on the discounted cash outflows required to settle the lease obligations as they fall due, with the longest running lease ending in November 2035.

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

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. They will be utilised with reference to the specific facts and circumstances, with the majority expected to be settled by 30 September 2026.

Notes to the Financial Statements (continued)
for the Year Ended 31 December

25 Pension and other schemes

Defined benefit pension schemes

i) Characteristics and risks

The Company contributes to defined benefit schemes for qualifying employees in the UK. The normal contributions expected to be paid during the financial year ending 31 December 2022 are £6.3m (2021: £6.5m).

Among our non-contract specific schemes, the largest is the Serco Pension and Life Assurance Scheme (SPLAS). The most recent full actuarial valuation was April 2021 and completed in June 2022. The actuarially assessed deficit under technical provision was £70.0m, an increase from £26.0m in 2018. There has been a negative impact of RPI reform of £67.7m partially offset by improvements in mortality.

Pension obligations are valued separately for accounting and funding purposes and there is often a material difference between these valuations. The accounting valuation resulted in an asset of £166.2m (2020: £114.6m). The primary reason a difference arises is due to pension scheme accounting requiring the valuation be performed on the basis of a best estimate whereas the funding valuation used by the trustees takes more prudent assumptions.

The schedule of contributions for SPLAS was agreed during 2022, with 43.3% of pensionable salaries due to be paid from 1 June 2022. The schedule of contributions also determined that additional shortfall contributions were required. A total of £6.6m of these have already been made, with further amounts of £6.6m for the years 2022 to 2030.

SPLAS operates under UK trust law and is managed and administered on behalf of its members in accordance with the terms of the trust deed, the scheme rules and UK legislation (principally the Pension Schemes Act 1993, the Pensions Act 1995 and the Pensions Act 2004).

Under UK legislation a defined benefit pension scheme is required to meet the statutory funding objective of having sufficient and appropriate assets to cover its liabilities. Pension fund trustees are required to: prepare a statement of funding principles; obtain regular actuarial valuations and reports; put in place a recovery plan addressing any funding shortfall; and send regular summary funding statements to members of the scheme.

25 Pension and other schemes (continued)

Defined benefit pension schemes (continued)

i) Characteristics and risks (continued)

The assets of funded schemes are held independently of the Company's assets in separate trustee administered schemes. The trustees of each pension scheme are required by law to act in the interest of the scheme and of all relevant stakeholders in the scheme. The trustees of the pension schemes are responsible for the investment policy with regard to the assets of the scheme. The Company's major schemes are valued by independent actuaries annually using the projected unit credit actuarial cost method for accounting purposes. This reflects service rendered by employees to the dates of valuation and incorporates actuarial assumptions including discount rates to determine the present value of benefits, projected rates of salary growth and life expectancy of pension plan members. Discount rates are based on the market yields of high-quality corporate bonds in the country concerned. Pension assets and liabilities in the different defined benefit schemes are not offset.

The schemes typically expose the Company to risks that impact the financial performance and position of the Company and may affect the amount and timing of future cash flows. The key risks are set out below:

- Investment risk. The schemes hold assets with which to discharge the future liabilities of these schemes. Any decline in the value of these investments directly impacts on the ability of the scheme to meet its commitments and could require the Company to fund this shortfall in future years. As a result of the SPLAS's investment strategy, which aims to reduce volatility risk by better matching assets to liabilities, 42% of the scheme's assets are annuity policies, 25% are Liability Driven Investments (LDIs) and the remainder is split between equities, bonds, pooled investment funds and cash or cash equivalents. The annuity policies result in an insurer funding the future benefit payments to the relevant members and therefore eliminate the risk of changes in the future value of the benefits to the scheme. The main asset classes that make up the LDI investments are gilts and corporate bonds with inflation and interest swap overlays and are therefore linked to the key drivers of the scheme's liabilities. SPLAS previously identified an investment strategy consisting of Multi-Asset Absolute Return (MAAR), Buy and Maintain credit (B&M) and LDI. SPLAS previously transferred assets to a passive LDI portfolio managed by BlackRock, over the course of late 2016 and early 2017. This ensures that the scheme remains protected against changes to interest rates and long-term inflation expectations, with the funding level therefore being relatively stable. The Buy and Maintain credit implementation comprised of four tranches, the last of which completed during 2020.
- Interest risk. The present value of the defined benefit schemes' liabilities are calculated using a discount rate determined by reference to high quality corporate bond yields and therefore a decrease in the bond interest rate will increase the scheme's liabilities. This will be partially offset by an increase in the return of the schemes' debt investments.
- Longevity risk. The present value of the defined benefit scheme' liabilities are calculated by reference to the best estimate of the mortality of the schemes' participants, both during and after their employment. An increase in the life expectancy of the schemes' participants will increase the schemes' liabilities.
- Salary risk. The present value of the defined benefit schemes' liabilities are calculated by reference to the future salaries of the schemes' participants, as such, an increase in the salary of the schemes' participants will increase the schemes' liabilities.

Notes to the Financial Statements (continued)
for the Year Ended 31 December

25 Pension and other schemes (continued)

Defined benefit pension schemes (continued)

i) Characteristics and risks (continued)
The defined benefit schemes are grouped together as follows:

- Contract specific. These are pre-funded defined benefit schemes.

  Under contractual arrangements the Company makes contributions under Admitted Body status to a number of sections of the Local Government Pension Scheme for the period to the end of the relevant customer contracts. The Company will only participate in the Local Government Pension Schemes for a finite period up to the end of the contracts. The Company is required to pay regular contributions as decided by the respective Scheme Actuary and as detailed in each scheme's Schedule of Contributions. In addition, the Company may be required to pay some or all of any deficit (as determined by the respective Scheme Actuary) that is remaining at the end of the contract. In respect of this, the Company recognises a sufficient level of provision in these financial statements based on the IAS 19 valuation at the reporting date and contractual obligations.

- Non-contract specific. These do not relate to any specific contract and consist of two pre-funded defined benefit schemes. The funding policy for the pre-funded schemes is to contribute such variable amounts, on the advice of the actuary, as will achieve 100% funding on a projected salary basis. One of these schemes is SPLAS and the other is a non-contract specific section of the Railways Pension Scheme (RPS). There is no residual liability to fund a deficit of the RPS at the end of the franchise period and any costs are shared 60% by the employer and 40% by the members.

ii) Events in the year
On 30 June 2021, the 31 December 2019 formal actuarial valuation report was issued for the RPS. This resulted in a reduction of the pension obligation on the non-contract specific section of the RPS as a result of a change in demographic assumptions.

Notes to the Financial Statements (continued)

for the Year Ended 31 December

25 Pension and other schemes (continued)

iii) Value recognised in total comprehensive income in the year

The amounts recognised in the financial statements for the year are analysed as follows:

	Contract specific	*Non contract specific*	*Total*
	2021	*2021*	*2021*
	£m	*£m*	*£m*
Recognised in the profit and loss account			
Current service cost - employer	0.1	3.7	3.8
Past service credit	-	-	-
Administrative expenses and taxes	-	1.4	1.4
Recognised in arriving at operating profit	0.1	5.1	5.2
Interest income on scheme assets - employer	(0.1)	(21.8)	(21.9)
Interest cost on scheme liabilities - employer	0.1	20.6	20.7
Finance income	-	(1.2)	(1.2)

	Contract specific	*Non contract specific*	*Total*
	2021	*2021*	*2021*
	£m	*£m*	*£m*
Included within the SOCI			
Actual return on scheme assets	0.7	39.7	40.4
Less: interest income on scheme assets	(0.1)	(21.8)	(21.9)
Effect of changes in financial assumptions	-	19.9	19.9
Effect of experience adjustments	-	23.3	23.3
Effect of changes in demographic assumptions	-	3.4	3.4
Total pension gain recognised in the SOCI	0.6	64.5	65.1

Notes to the Financial Statements (continued)
for the Year Ended 31 December

25 Pension and other schemes (continued)

	Contract specific	*Non contract specific*	*Total*
	2020	*2020*	*2020*
	£m	*£m*	*£m*
Recognised in the profit and loss account			
Current service cost - employer	0.2	3.5	3.7
Past service credit	-	-	-
Administrative expenses and taxes	-	1.5	1.5
Recognised in arriving at operating profit	0.2	5.0	5.2
Interest income on scheme assets - employer	(0.1)	(29.1)	(29.2)
Interest cost on scheme liabilities - employer	0.1	27.9	28.0
Finance income	-	(1.2)	(1.2)

	Contract specific	*Non contract specific*	*Total*
	2020	*2020*	*2020*
	£m	*£m*	*£m*
Included within the SOCI			
Actual return on scheme assets	(0.6)	216.8	216.2
Less: interest income on scheme assets	(0.1)	(29.1)	(29.2)
Effect of changes in financial assumptions	-	(170.0)	(170.0)
Effect of experience adjustments	(0.3)	4.6	4.3
Effect of changes in demographic assumptions	0.1	-	0.1
Total pension gain recognised in the SOCI	(0.9)	22.3	21.4

Notes to the Financial Statements (continued)
for the Year Ended 31 December

25 Pension and other schemes (continued)

iv) Balance sheet values

The assets and liabilities of the schemes at 31 December are:

	Contract specific 2021 £m	*Non contract specific* 2021 £m	*Total* 2021 £m
Equities	5.7	40.8	46.5
Bonds except LDI	3.2	364.9	368.1
Pooled investment funds (Audax, Golub and Ares)	-	107.6	107.6
Liability driven investments (LDI)	-	390.0	390.0
Property	1.0	0.2	1.2
Cash and other	2.0	2.0	4.0
Annuity policies	-	662.3	662.3
Fair value of scheme assets	11.9	1,567.8	1,579.7
Present value of scheme liabilities	(13.1)	(1,417.1)	(1,430.2)
Net retirement benefit asset	(1.2)	150.7	149.5
Net pension liability	(1.2)	(15.5)	(16.7)
Net pension asset	-	166.2	166.2
Net retirement benefit asset	(1.2)	150.7	149.5

25 Pension and other schemes (continued)

	Contract specific *2020* *£m*	*Non contract specific* *2020* *£m*	*Total* *2020* *£m*
Equities	5.1	44.3	49.4
Bonds except LDI	3.3	426.0	429.3
Liability driven investments (LDI)	-	408.3	408.3
Property	0.7	-	0.7
Cash and other	2.2	10.5	12.7
Annuity policies	-	690.2	690.2
Fair value of scheme assets	11.3	1,579.3	1,590.6
Present value of scheme liabilities	(13.0)	(1,497.6)	(1,510.6)
Net retirement benefit asset	(1.7)	81.7	80.0
Net pension liability	(1.7)	(32.9)	(34.6)
Net pension asset	-	114.6	114.6
Net retirement benefit asset	(1.7)	81.7	80.0

The SPLAS Trust Deed gives the Group an unconditional right to a refund of surplus assets, assuming the full settlement of plan liabilities in the event of a plan wind-up. Pension assets are deemed to be recoverable and there are no adjustments in respect of minimum funding requirements as economic benefits are available to the Company either in the form of future refunds or in the form of possible reductions in future contributions.

As required by IAS 19 *Employee Benefits*, the Group has considered the extent to which the pension plan assets should be classified in accordance with the fair value hierarchy of IFRS 13 F*air Value Measurement*.

- Equity and Bonds all virtually have quoted prices in active markets and are classified as level 1.
- LDIs are valued at fair value which is typically the Net Asset Value provided by the fund administrator and are classified as level 2.
- Property assets are valued at fair value and are classified as level 3.
- Annuity policies are valued at fair value based on the share of the defined benefit obligation covered by the insurance contract and can be classified as level 3.

Notes to the Financial Statements (continued)
for the Year Ended 31 December

25 Pension and other schemes (continued)

Changes in the fair value of scheme liabilities are analysed as follows:

	Contract specific	*Non contract specific*	*Total*
	£m	*£m*	*£m*
At 1 January 2020	12.6	1,353.0	1,365.6
Current service cost - employer	0.2	3.5	3.7
Scheme participants' contributions	-	0.2	0.2
Interest cost- employer	0.1	27.9	28.0
Benefits paid	(0.1)	(52.4)	(52.5)
Effect of changes in financial assumptions	-	170.0	170.0
Effect of changes in demographic assumptions	(0.1)	-	(0.1)
Effect of experience adjustments	0.3	(4.6)	(4.3)
At 31 December 2020	13.0	1,497.6	1,510.6
Current service cost - employer	0.1	3.7	3.8
Scheme participants' contributions	-	0.3	0.3
Interest cost - employer	0.1	20.6	20.7
Benefits paid	-	(58.5)	(58.5)
Effect of changes in financial assumptions	-	(19.9)	(19.9)
Effect of changes in demographic assumptions	-	(3.4)	(3.4)
Effect of experience adjustments	(0.1)	(23.3)	(23.4)
At 31 December 2021	13.1	1,417.1	1,430.2

Notes to the Financial Statements (continued)

for the Year Ended 31 December

25 Pension and other schemes (continued)

Changes in the fair value of scheme assets are analysed as follows:

	Contract specific	*Non contract specific*	*Total*
	£m	*£m*	*£m*
At 1 January 2020	11.8	1,408.4	1,420.2
Interest income on scheme assets - employer	0.1	29.1	29.2
Administrative expenses and taxes	-	(1.5)	(1.5)
Employer contributions	0.1	7.8	7.9
Contributions by employees	-	0.3	0.3
Benefits paid	(0.1)	(52.4)	(52.5)
Return on scheme assets less interest income	(0.7)	187.7	187.0
At 31 December 2020	11.2	1,579.4	1,590.6
Interest income on scheme assets - employer	0.1	21.7	21.8
Administrative expenses and taxes	-	(1.4)	(1.4)
Employer contributions	-	8.4	8.4
Contributions by employees	-	0.3	0.3
Benefits paid	-	(58.5)	(58.5)
Return on scheme assets less interest income	0.6	17.9	18.5
At 31 December 2021	11.9	1,567.8	1,579.7

Notes to the Financial Statements (continued)
for the Year Ended 31 December

25 Pension and other schemes (continued)

v) Actuarial assumptions

The assumptions set out below are for SPLAS, which reflects 92% of total liabilities and 94% of total assets of the defined benefit pension scheme in which the Company participates. The significant actuarial assumptions with regards to the determination of the defined benefit obligation are set out below.

The Company continued to set RPI inflation in line with the market break-even expectations less an inflation risk premium. The inflation risk premium has remained at 0.3% at 31 December 2020 and at 31 December 2021.

The average duration of the benefit obligation at the end of the reporting period is 16.3 years (2020: 17.4 years).

	2021	*2020*
	%	*%*
Rate of salary increases	2.95	2.50
Rate of increase in pensions in payment	2.75 (CPI) and 3.05 (RPI)	2.40 (CPI) and 2.75 (RPI)
Rate of increase in deferred pensions	2.00 (CPI) and 2.90 (RPI)	2.20 (CPI) and 2.80 (RPI)
Inflation assumption – pre-retirement	2.45 (CPI) and 3.35 (RPI)	2.00 (CPI) and 2.90 (RPI)
Inflation assumption – post-retirement	2.75 (CPI) and 3.05 (RPI)	2.40 (CPI) and 2.75 (RPI)
Discount rate	1.80	1.40

Post retirement mortality

	2021	*2020*
	Years	*Years*
Current pensioners at 65 - male	21.7	21.6
Current pensioners at 65 - female	24.3	24.2
Future pensioners at 65 - male	23.9	23.9
Future pensioners at 65 - female	26.4	26.3

Notes to the Financial Statements (continued)
for the Year Ended 31 December

25 Pension and other schemes (continued)

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 2021 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 2021 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.

	2021	*2020*
	£m	*£m*
Discount rate - 0.5% increase	(116.0)	(113.0)
Discount rate - 0.5% decrease	124.1	128.2
Inflation - 0.5% increase	80.5	89.8
Inflation - 0.5% decrease	(89.5)	(84.3)
Rate of salary increase - 0.5% increase	2.3	2.0
Rate of salary increase - 0.5% decrease	(2.1)	(1.9)
Mortality - one year age rating	53.3	55.1

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.

Assumptions in respect of the expected return on scheme assets are required when calculating the franchise adjustment for the contract specific plans. These assumptions are based on market expectations of returns over the life of the related obligation. Due consideration has been given to current market conditions as at 31 December 2021 in respect to inflation, interest, bond yields and equity performance when selecting the expected return on assets assumptions.

The expected yield on bond investments with fixed interest rates is derived from their market value. The yield on equity investments contains an additional premium (an 'equity risk premium') to compensate investors for the additional anticipated risks of holding this type of investment, when compared to bond yields. The Company applies and equity risk premium of 4.6% (2020: 4.6%).

The overall expected return on assets is calculated as the weighted average of the expected returns for the principal asset categories held by the scheme.

Notes to the Financial Statements (continued)
for the Year Ended 31 December

25 Pension and other schemes (continued)

Defined contribution pension scheme

The Company paid employer contributions of £27.5m (2020: £24.9m) into UK and other defined contribution schemes and foreign state pension schemes.

The Company 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.

26 Share capital

Allotted, called up and fully paid shares

		2021		*2020*
	No.	*£*	*No.*	*£*
Ordinary share capital of £1 each	800,766	800,766	800,766	800,766

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 overdraft balance was £17.1m at 31 December 2021 (2020: £nil).

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 2021, the total facility amounts were £250m (2020: £250m) for the Revolving Credit Facility, £120m (2020: £45m) for a bank term loan facility and £259m (2020: £347m) for the US private placements.

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

In April 2021, the Group entered into a £75m term loan facility in order to fund the purchase of WBB. The facility matures in February 2024.

Notes to the Financial Statements (continued)
for the Year Ended 31 December

27 Contingent liabilities (continued)

In October 2020 the group issued $200m of US private loan notes with various tenors of between five and twelve years. $50m maturing in 2025, $80m Maturing in 2027, $37m maturing in 2030 and $33m maturing in 2032.

In May 2019, the Group entered into a £45m term loan facility in order to fund the purchase of Naval Systems Business Unit. The facility matures in August 2022.

In December 2018 the Group entered into a £250m revolving credit facility with a maturity date of December 2023.

The Company is a cross-guarantor on both the revolving credit facility and the term loan facility.

28 Derivatives financial instruments

The following table provides a reconciliation by risk category of components of equity and analysis of other comprehensive income items (net of tax) resulting from hedge accounting:

	Assets 2021 £m	*Liabilities 2021 £m*	*Assets 2020 £m*	*Liabilities 2020 £m*
Forward foreign exchange contracts	-	(0.1)	-	(0.2)

	Assets 2021 £m	*Liabilities 2021 £m*	*Assets 2020 £m*	*Liabilities 2020 £m*
Analysed as				
Non-current	-	-	-	(0.1)
Current	-	(0.1)	-	(0.1)
	-	(0.1)	-	(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 arising in the year (2020: loss of £0.2m) has been deferred in equity.

Notes to the Financial Statements (continued)
for the Year Ended 31 December

29 Parent and ultimate parent undertaking

The Company's immediate parent is Serco Holdings Limited.

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

30 Post balance sheet events

There were no post balance sheet events affecting the Company since the year end.