

# Serco Holdings Limited

Annual Report and Financial Statements

for the Year Ended 31 December 2013



A company registered in England and Wales, number 03970268

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## **Serco Holdings Limited**

### **Contents**

Company Information	1
Directors' Report	2 to 3
Strategic Report	4
Directors' Responsibilities Statement	5
Independent Auditor's Report to the Members of Serco Holdings Limited	6 to 7
Profit and Loss Account	8
Statement of Changes in Equity	9
Balance Sheet	10
Notes to the Financial Statements	11 to 22

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## **Serco Holdings Limited**

### **Company Information**

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

**Auditor** Deloitte LLP  
London  
United Kingdom

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## **Serco Holdings Limited**

### **Directors' Report for the Year Ended 31 December 2013**

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

#### **Directors of the Company**

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

J Hickey

G Leach

A Crawshaw

#### **Post balance sheet events**

##### **Contract & Balance Sheet reviews**

A review of the Group's 30 September 2014 Balance Sheet was undertaken by management in the fourth quarter of 2014 in the context of the likely future strategy. These Contract and Balance Sheet reviews were undertaken across the Serco Group and involved a re-assessment of the Group's assets and liabilities in light of current and latest forecast trading expectations. They identified likely impairments and onerous contract provisions together with potential impairments of goodwill. These reviews are still being finalised and the amounts have not yet been audited. An initial estimate of the likely impact on Serco Holdings Limited's 2014 results is a charge to operating profit in relation to an expected impairment of its investments of approximately £680m, which includes approximately £400m in respect of its investment in Serco Limited.

##### **New shares allotted**

In December 2014 new ordinary shares were allotted by Serco Holdings Limited for an aggregate consideration of £1,143.7m, additionally in December 2014 Serco Holdings Limited subscribed for new shares in Serco Limited for an aggregate consideration of £452.2m and new shares in Serco Group plc for an aggregate consideration of A\$100.0m.

##### **Serco Group plc rights issue and debt refinancing**

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

## **Serco Holdings Limited**

### **Directors' Report for the Year Ended 31 December 2013**

#### **Going Concern**

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

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

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

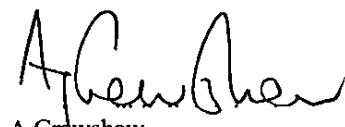
#### **Disclosure of information to the auditor**

Each director has taken steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information. The directors confirm that there is no relevant information that they know of and of which they know the auditor is unaware.

#### **Auditor**

Elective resolutions to dispense with holding annual general meetings, the laying of accounts before the Company in general meeting and the reappointment of the auditor annually are currently in force.

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



A Crawshaw  
Director

## Serco Holdings Limited

### Strategic Report for the Year Ended 31 December 2013

The directors present their strategic report for the year ended 31 December 2013

#### **Principal activity**

The Company is a holding company, which operates via its subsidiaries and its joint ventures to provide facilities management, systems management and equity investment management

#### **Business review**

During the year, the Company acquired and disposed of shares in a number of companies, encompassing business in the United Kingdom and overseas. The net decrease in the carrying amount of investments in the year amounted to £0.9m (2012: £140.2m increase).

The profit on ordinary activities before taxation has decreased by £111.8m from the previous year. This was primarily due to the impairment of investments during the year of £107.3m (2012: £1.3m), a reduction in the dividends received from subsidiary companies of £19.1m, offset by a £19.8m favorable movement in proceeds on disposal of investments.

Net assets have increased by £1.8m, this is primarily as a result of a decrease in short-term creditors of £14.7m, offset by a decrease in short-term debtors of £9.6m, and an increase in long-term creditors of £3.0m. The Company paid a dividend of £70.0m to its parent company, Serco Group plc, in respect of the year ended 31 December 2013 (year ended 31 December 2012: £150.0m).

The directors consider the results for the year to be satisfactory and the Company will continue to hold investments on behalf of Serco Group plc.

#### **Principal risks and uncertainties**

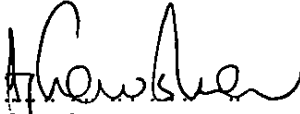
The Company's principal financial instruments are its intercompany receivables and payables. The directors do not consider that the Company is exposed to significant interest rate or liquidity risk because the interest payments on its intercompany payables are expected to be funded by returns from investments. Further discussion of the financial risk management is included in the consolidated Annual Report and Accounts of Serco Group plc.

#### **Going Concern**

The company is financed and supported by its Parent and from dividend income from its subsidiaries. The level of dividend income is in turn reliant upon the future successful trading of its subsidiaries who, for certain subsidiaries, may rely on the support of Serco Group plc to operate as going concerns.

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

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

  
A. Crawshaw  
Director

## **Serco Holdings Limited**

### **Directors' Responsibilities Statement**

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

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

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

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

## **Serco Holdings Limited**

### **Independent Auditor's Report to the Members of Serco Holdings Limited**

We have audited the financial statements of Serco Holdings Limited for the year ended 31 December 2013 which comprise the profit and loss account, the statement of changes in Equity, the balance sheet, and the related notes 1 to 19. The financial reporting framework that has been applied in their preparation is applicable law and Financial Reporting Standard 101 Reduced Disclosure Framework.

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

#### **Respective responsibilities of directors and auditor**

As explained more fully in the Directors' Responsibilities Statement (set out on page 5), the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

#### **Scope of the audit of the financial statements**

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

#### **Opinion on the financial statements**

In our opinion the financial statements

- give a true and fair view of the state of the Company's affairs as at 31 December 2013 and of its profit for the year then ended,
- have been properly prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

#### **Emphasis of matter - Going Concern**

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



## **Serco Holdings Limited**

### **Independent Auditor's Report to the Members of Serco Holdings Limited**

#### **Opinion on other matter prescribed by the Companies Act 2006**

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

#### **Matters on which we are required to report by exception**

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

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



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

23  
~~22~~ December 2014

## Serco Holdings Limited

### Profit and Loss Account for the Year Ended 31 December 2013

	Note	2013 £ 000	2012 £ 000
Administrative expenses		(1,373)	(1,130)
Other operating income		-	2,498
Transaction-related costs		<u>(1,153)</u>	<u>(1,371)</u>
<b>Operating loss</b>		<b>(2,526)</b>	<b>(3)</b>
Profit/(loss) on disposal of investments		396	(19,425)
Investment income	6	207,508	226,590
Amounts written off fixed asset investments	12	(107,284)	(1,290)
Interest receivable and similar income	7	-	2,028
Interest payable and similar charges	8	(27,834)	(25,843)
Gain on hedging instruments		2,378	10,282
Loss on hedged items		<u>(2,378)</u>	<u>(10,282)</u>
<b>Profit before tax</b>		<b>70,260</b>	<b>182,057</b>
Tax on profit on ordinary activities	9	<u>1,513</u>	<u>-</u>
<b>Profit for the financial year</b>		<b><u>71,773</u></b>	<b><u>182,057</u></b>

The above results were derived from continuing operations

There were no items of other comprehensive income, and accordingly no statement of comprehensive income is shown

## Serco Holdings Limited

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

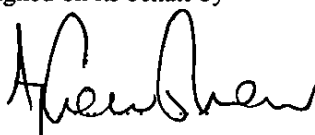
	Called up share capital £ 000	Share premium £ 000	Profit and loss account £ 000	Total £ 000
At 1 January 2012	-	762,900	171,035	933,935
Profit for the year	-	-	182,057	182,057
Equity dividends paid	-	-	(150,000)	(150,000)
<b>At 1 January 2013</b>	<b>-</b>	<b>762,900</b>	<b>203,092</b>	<b>965,992</b>
Profit for the year	-	-	71,773	71,773
Equity dividends paid	-	-	(70,000)	(70,000)
<b>At 31 December 2013</b>	<b>-</b>	<b>762,900</b>	<b>204,865</b>	<b>967,765</b>

# Serco Holdings Limited

## Balance Sheet as at 31 December 2013

	Note	2013 £ 000	2012 £ 000
<b>Fixed assets</b>			
Investments	12	1,631,395	1,632,268
<b>Current assets</b>			
Debtors amounts due within one year	13	14,079	23,652
Debtors amounts falling due after more than one year	13	1,513	650
Derivative financial instruments	11	-	76
Cash at bank and in hand		-	35
		<u>15,592</u>	<u>24,413</u>
<b>Current liabilities</b>			
Creditors amounts falling due within one year	14	(2,779)	(17,514)
Derivative financial instruments	11	<u>(265)</u>	<u>-</u>
<b>Net current assets</b>		<u>12,548</u>	<u>6,899</u>
<b>Total assets less current liabilities</b>		<b>1,643,943</b>	<b>1,639,167</b>
<b>Creditors' amounts falling due after more than one year</b>			
Creditors amounts due after more than one year	15	<u>(676,178)</u>	<u>(673,175)</u>
<b>Net assets</b>		<u><b>967,765</b></u>	<u><b>965,992</b></u>
<b>Capital and reserves</b>			
Called up share capital	16	-	-
Share premium		762,900	762,900
Profit and loss account		<u>204,865</u>	<u>203,092</u>
<b>Shareholder's funds</b>		<u><b>967,765</b></u>	<u><b>965,992</b></u>

The financial statement (registered number 03970268) were approved by the Board on 22 December 2014 and signed on its behalf by

  
A Crawshaw  
Director

## **Serco Holdings Limited**

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

#### **1 General information**

Serco Holdings Limited is a Company incorporated in the United Kingdom under the Companies Act. The address of the registered office is given on page 1. The nature of the Company's operations and its principal activities are set out in the Strategic Report set out on page 4.

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

#### **2 Accounting policies**

##### **Summary of significant accounting policies and key accounting estimates**

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

##### **Basis of preparation**

The Company meets the definition of a qualifying entity under FRS 100 (Financial Reporting Standard 100) issued by the Financial Reporting Council. The financial statements have therefore been prepared in accordance with FRS 101 (Financial Reporting Standard 101) 'Reduced Disclosure Framework' as issued by the Financial Reporting Council.

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to financial instruments, capital management, presentation of comparative information in respect of certain assets, presentation of a cash flow statement, standards not yet effective, impairment of assets and related party transactions. This is because the Company is included within the consolidated financial statements of Serco Group plc which are available from the address provided in note 19.

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

##### **Adoption of new and revised Standards**

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

- IAS 1 (amended) Presentation of Financial Statements increases the required level of disclosure within the statement of comprehensive income. The impact of this amendment has been to analyse items within the statement of comprehensive income between items that will not be reclassified subsequently to profit or loss and items that will be reclassified subsequently to profit or loss in accordance with the respective IFRS standard to which the item relates. The application of the amendments to IAS 1 did not result in any impact on profit or loss, comprehensive income and total comprehensive income.
- IFRS 13 Fair Value Measurement (IFRS 13) establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS. IFRS 13 defines fair value as an exit price. As a result of the guidance in IFRS 13, the Company re-assessed its policies for measuring fair values, in particular, its valuation inputs such as non-performance risk for fair value measurement of liabilities. IFRS 13 also requires additional disclosures. Application of IFRS 13 has not materially impacted the fair value measurements of the Company.

## **Serco Holdings Limited**

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

- IAS 36 (revised) Impairment of assets (IAS 36) The amendments to IAS 36 enhance the disclosure requirements arising when recoverable amounts have been determined on the basis of fair value less costs of disposal. They also limit the requirement to disclose the recoverable amount of an asset to periods in which an impairment loss has been recognised or reverses. We have chosen to adopt the amendments early, as allowed by the standard, with effect from 1 January 2013.

#### **Going concern**

The company is financed and supported by its Parent and from dividend income from its subsidiaries. The level of dividend income is in turn reliant upon the future successful trading of its subsidiaries who, for certain subsidiaries, may rely on the support of Serco Group plc to operate as going concerns.

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

- In reviewing whether the Company has adequate financial resources to continue in operation there has been a review of the investment forecasts of the Company, which included a review of the expected financial consequences of items identified as post balance sheet events. The Directors note that the Contract & Balance Sheet Reviews are not yet complete and have not been audited. Accordingly the outcome of these reviews and its impact on the forecast trading and future cash flows of the Company's investments may be materially different from the forecast position that the management have considered to date.
- There has been a recapitalisation of Serco Holdings Limited which involved the issue of new shares to the value of £1,143.7m. This was undertaken in December 2014 to ensure the Company retains a financially strong balance sheet position.
- The receipt of a letter of support from Serco Group plc to Serco Holdings limited. Serco Group plc provided this letter having considered its plans to undertake debt refinancing and rights issue.

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

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

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

## **Serco Holdings Limited**

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

#### **Exemption from preparing group accounts**

These financial statements present information about the Company as an individual undertaking and not about its group. Consolidated financial statements have not been prepared as the Company is a wholly owned subsidiary of a company incorporated in the United Kingdom and registered in England and Wales and is therefore exempt, by virtue of section 400 of the Companies Act 2006, from the requirement to prepare and deliver group accounts. The only group company for which consolidated financial statements are also prepared is Serco Group plc.

#### **Dividend income**

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

#### **Interest income**

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

#### **Tax**

The tax expense for the period comprises current tax. Tax is recognised in profit or loss, except that a change attributable to an item of income or expense recognised as other comprehensive income is also recognised directly in other comprehensive income.

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.

## **Serco Holdings Limited**

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

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

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

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

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

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

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

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



## **Serco Holdings Limited**

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

#### **Foreign currency transactions and balances**

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

#### **Investments**

Investments are stated at cost, and adjusted for the gain or loss attributable to the hedged foreign exchange risk, in accordance with IAS 39 Financial Instruments: Recognition and Measurement.

Investments are reviewed annually for impairment and written down when the directors consider the carrying amount of the investment to be greater than the recoverable amount of the investment.

#### **Financial instruments**

##### **Hedge accounting**

The Company designates certain hedging instruments, which include non-derivatives in respect of foreign currency risk, as fair value hedges or hedges of net investments in foreign operations.

At the inception of the hedge relationship, the entity documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Company documents whether the hedging instrument is highly effective in offsetting changes in fair values of the hedged item.

##### **Fair value hedges**

Changes in the fair value are recognised in profit or loss immediately, together with any changes in the fair value of the hedged asset or liability that are attributed 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 or loss account relating to the hedged item.

Hedge accounting is discontinued when the Company revokes the hedging relationship. The fair value adjustment to the carrying amount of the hedged item arising from the hedged risk is amortised to profit or loss from that date.

#### **Critical accounting judgements and key sources of estimation uncertainty**

##### **Critical judgements in applying the Company's accounting policies**

##### ***Going Concern basis of accounting in preparing the financial statements***

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

##### **Key sources of estimation uncertainty**

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

## Serco Holdings Limited

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

#### Impairment of investments

Determining whether an investment is impaired requires the Company to make an estimation of the future cash flows expected to be generated by the investment and the selection of appropriate discount rates, which involves judgement, to calculate present values. The carrying value of investments is £1,631.4m (2012 £1,632.3m) at the balance sheet date.

#### 3 Particulars of employees

The Company had no employees during either the current or preceding financial year.

#### 4 Directors' remuneration

No director received remuneration for their services to the Company in either the current or preceding year.

#### 5 Auditor's remuneration

Auditor's remuneration of £10,000 (2012 £10,000) for the audit of the Company's annual accounts was borne by another group company in both the current and preceding financial years. There have been no non-audit fees incurred by the Company and payable to Deloitte during the year (2012 £nil).

#### 6 Investment income

	2013 £ 000	2012 £ 000
Dividends from subsidiaries	159,833	169,488
Dividends from joint ventures	47,675	57,102
	<u>207,508</u>	<u>226,590</u>

#### 7 Interest receivable and similar income

	2013 £ 000	2012 £ 000
Interest receivable from group undertakings	-	2,028

#### 8 Interest payable and similar charges

	2013 £ 000	2012 £ 000
Interest payable to group undertakings	27,757	25,454
Other interest payable	77	389
	<u>27,834</u>	<u>25,843</u>

## Serco Holdings Limited

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

#### 9 Taxation

##### Tax on profit on ordinary activities

	2013 £ 000	2012 £ 000
<b>Current tax</b>		
Consortium relief	(1,513)	-
UK corporation tax	<u>-</u>	<u>-</u>
Tax credit in the profit and loss account	<u>(1,513)</u>	<u>-</u>

##### Factors affecting current tax charge for the year

The tax on profit before tax for the year is lower than the standard rate of corporation tax in the UK (2012 - lower than the standard rate of corporation tax in the UK) of 23.25% (2012 24.5%)

The differences are reconciled below

	2013 £ 000	2012 £ 000
Profit before tax	<u>70,260</u>	<u>182,057</u>
Corporation tax at 23.25% (2012 24.5%)	16,335	44,604
Tax exempt income	(48,572)	(56,125)
Expenses not deductible for tax purposes	29,431	1,001
Current year temporary differences not recognised	(6)	(28)
Non-deductible loss on disposal	-	4,759
Group relief for no consideration	<u>1,299</u>	<u>5,789</u>
<b>Total tax charge</b>	<u>(1,513)</u>	<u>-</u>

##### Unrecognised deferred tax asset

The Company has an unrecognised deferred tax asset of £61,268 (2012 £95,336) in relation to short-term temporary differences

## Serco Holdings Limited

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

#### 10 Dividends

	2013 £ 000	2012 £ 000
Equity dividend of £4,375,000 (2012 £9,375,000) per ordinary share	<u>70,000</u>	<u>150,000</u>

#### 11 Derivative financial instruments

	2013 £ 000	2012 £ 000
Non-designated forward contracts held as (liabilities)/assets	<u>(265)</u>	<u>76</u>

#### 12 Investments held as fixed assets

	Subsidiaries £ 000	Joint Ventures £ 000	Total investments £ 000
<b>Cost or net book value</b>			
At 1 January 2013	1,552,260	80,008	1,632,268
Additions	149,142	-	149,142
Disposals	(40,353)	-	(40,353)
Impairment of investments	(20,784)	-	(20,784)
Impairment of investments against dividend income	(86,500)	-	(86,500)
Retranslation of hedged item	<u>(2,378)</u>	<u>-</u>	<u>(2,378)</u>
At 31 December 2013	<u>1,551,387</u>	<u>80,008</u>	<u>1,631,395</u>

#### Additions

During the year the Company invested a further £149.1m in its wholly owned subsidiaries

The Company invested £92.4m in Serco International Sàrl, £50.0m in its main operating subsidiary, Serco Limited and £6.5m in Serco India Private Limited. The remaining £0.2m of additions relate to smaller investments made in the Company's subsidiaries.

#### Disposals

As part of the Company's ongoing exercise to rationalise its legal entity structure and liquidate entities which are no longer required, the Company liquidates and dissolves its investment as necessary.

During the year, the investment in Serco Investments Limited, valued at £40.1m, was disposed on the liquidation of the company, realising a profit on disposal of £0.4m.

Additionally, the investment in ER Consultants, valued at £0.3m, was disposed on the liquidation of the company.

## Serco Holdings Limited

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

#### Impairments

The Directors review the investments of the Company for indications of impairment on an annual basis. During the year, £20.8m was charged in relation to the impairment of such investments where the carrying value exceeded the recoverable amount of that investment.

In addition, an amount of £86.5m was charged in relation to the write down of the Serco International Sàrl investment.

A review of the 30 September 2014 Balance Sheet was undertaken by the Group in fourth quarter of 2014 in the context of the likely future strategy and further details are provided in note 18.

#### Details of undertakings

The companies listed below are, in the opinion of the directors, the principal subsidiary and joint venture undertakings of Serco Holdings Limited. The percentage of equity capital directly or indirectly held by the Company is shown below.

Full listings of related undertakings will be attached to the Company's Annual Return to be filed with the Registrar of Companies.

Undertaking	Country of incorporation	Holding	Proportion of voting rights and shares held	
			2013	2012
Subsidiary undertakings				
Serco Limited	United Kingdom	Ordinary shares	100%	100%
NPL Management Limited	United Kingdom	Ordinary shares	100%	100%
Serco Australia Pty Limited	Australia	Ordinary shares	100%	100%
Serco Inc	USA	Ordinary shares	100%	100%
Serco BPO Private Limited	India	Ordinary shares	100%	100%
Joint ventures				
AWE Management Limited	United Kingdom		33%	33%
Northern Rail Holdings Limited	United Kingdom		50%	50%

## Serco Holdings Limited

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

#### 13 Debtors

##### a) Amounts falling due within one year

	2013 £ 000	2012 £ 000
Amounts owed by group companies	12,344	19,704
Prepayments and accrued income	2	-
Interest receivable	65	2,289
Other receivables	1,668	1,659
	<u>14,079</u>	<u>23,652</u>

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

##### b) Amounts falling due after more than one year

	2013 £ 000	2012 £ 000
Amounts owed by group companies	-	650
Consortium relief	1,513	-
	<u>1,513</u>	<u>650</u>

Amounts owed by group companies have no fixed repayment date and bear interest based at LIBOR minus 0.2%

#### 14 Creditors. Amounts falling due within one year

	2013 £ 000	2012 £ 000
Trade creditors	2	2
Amounts owed to group companies	196	8,682
Accruals and deferred income	1,235	935
Other creditors	1,346	7,895
	<u>2,779</u>	<u>17,514</u>

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

## Serco Holdings Limited

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

#### 15 Creditors: Amounts falling due after more than one year

	2013 £ 000	2012 £ 000
Amounts owed to group companies	664,773	662,216
Loans and borrowings	11,405	10,254
Other creditors	-	705
	<u>676,178</u>	<u>673,175</u>

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

#### Analysis of loan repayments

	2013 £ 000	2012 £ 000
Between two to five years	<u>11,405</u>	<u>10,254</u>

#### 16 Called up share capital

##### Allotted, called up and fully paid shares

	No.	2013 £	No.	2012 £
Ordinary share capital of £1 each	<u>16</u>	<u>16</u>	<u>16</u>	<u>16</u>

#### 17 Commitments

The Company, together with its ultimate parent and certain other subsidiaries, is included within interest pooling arrangements involving cross guarantee structures. The maximum overdraft permitted by these arrangements is £5 0m (2012: £5 0m). The overdraft was undrawn at 31 December 2013.

## **Serco Holdings Limited**

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

#### **18 Non adjusting events after the balance sheet date**

##### **Contract & Balance Sheet reviews**

A review of the Group's 30 September 2014 Balance Sheet was undertaken by management in the fourth quarter of 2014 in the context of the likely future strategy. These Contract and Balance Sheet reviews were undertaken across the Serco Group and involved a re-assessment of the Group's assets and liabilities in light of current and latest forecast trading expectations. They identified likely impairments and onerous contract provisions together with potential impairments of goodwill. These reviews are still being finalised and the amounts have not yet been audited. An initial estimate of the likely impact on Serco Holdings Limited's 2014 results is a charge to operating profit in relation to an expected impairment of its investments of approximately £680m, which includes approximately £400m in respect of its investment in Serco Limited.

##### **New shares allotted**

In December 2014 new ordinary shares were allotted by Serco Holdings Limited for an aggregate consideration of £1,143.7m, additionally in December 2014 Serco Holdings Limited subscribed for new shares in Serco Limited for an aggregate consideration of £452.2m and new shares in Serco Group plc for an aggregate consideration of A\$100.0m.

##### **Serco Group plc rights issue and debt refinancing**

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

#### **19 Control**

The Company's immediate parent and ultimate 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.