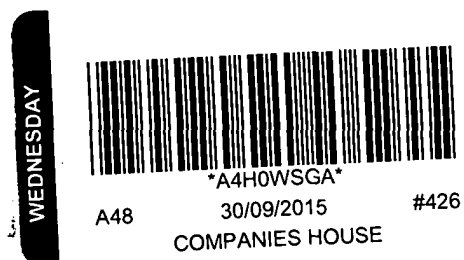


# Serco Holdings Limited

Annual Report and Financial Statements

for the Year Ended 31 December 2014



A company registered in England and Wales, number: 03970268

# **Serco Holdings Limited**

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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

## **Serco Holdings Limited**

### **Directors' Report for the Year Ended 31 December 2014**

The directors present their report and the financial statements for the year ended 31 December 2014. As set out in note 2 to the financial statements, the directors consider it appropriate to prepare the financial statements 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 (resigned 5 January 2015)

The following director was appointed after the year end:

N Crossley (appointed 18 September 2015)

#### **Important non adjusting events after the financial period**

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 for the proceeds to be used primarily to reduce the Group's indebtedness. This was launched on 12 March 2015 and received shareholder approval on 30 March 2015. The equity rights issue successfully completed in April 2015 raising approximately £555m of gross proceeds, with trading in new shares commencing on 17 April 2015. On 30 April 2015 the Group then concluded a refinancing with its lending banks and US private placement noteholders. This refinancing included the reduction of gross indebtedness by £450m. The Group's committed revolving credit facility was reduced in size from £730m to £480m and the maturity date increased by two years to April 2019. Financial covenants across the Group's funding arrangements were kept the same as before, reflecting the strengthening of the Group's balance sheet by the Rights Issue.

Following the rights issue and debt refinancing the net assets of Serco Group plc increased by approximately £497m, representing the gross proceeds received of approximately £555m, less the fees relating to the rights issue of approximately £25m and the fees and expenses relating to the repayment of the group's borrowings and amendments to the existing finance agreements of approximately £33m, which included a premium of £25m on the prepayment of US private placement notes.

#### **Capital reduction**

Following the completion of the Contract and Balance Sheet Review, a significant impairment of investments of £1,137.5m was charged in the year resulting in a loss after tax of £1,115.2m for the year ended 31 December 2014. The opening distributable reserve of £204.9m, therefore, has been fully utilised in the year; and the closing distributable reserve has moved to a substantial deficit totalling £910.3m. In the year, the amount held in the share premium account has increased by £1,143.7m as a result of the new shares allotted in December 2014 at a premium to their nominal value.

A share premium account is an undistributable reserve and, accordingly, the purposes for which the Company can use it are extremely restricted. In particular, it cannot be used for paying dividends. Therefore, in June 2015, the directors proposed a plan for a capital reduction, in which a proportion of the amount held in the share premium account be reduced and transferred to the Company's profit and loss account to create a positive distributable reserve of over £200m and thereby provide the directors with the flexibility to distribute future profits to the shareholder as dividends.

## **Serco Holdings Limited**

### **Directors' Report for the Year Ended 31 December 2014**

#### **New shares allotted**

In June 2015, new ordinary shares were allocated by the Company for an aggregate consideration of £150.0m and the Company subscribed for new shares in Serco Limited for an aggregate consideration of £150.0m.

#### **Disposal of subsidiaries**

On 1 January 2015, a subsidiary undertaking of the Company, NPL Management Limited was disposed for £12.0m resulting in a profit on disposal of £12.0m.

On 30 March 2015, the Group had agreed the sale of its Australian Rail business, an indirect subsidiary undertaking of the Company. The sale was completed on 29 May 2015.

On 10 June 2015, another subsidiary undertaking of the Company, Serco India Private Limited was also disposed for £1.0m and no gain or loss on disposal was recognised.

#### **Agreed sale of offshore private sector BPO operations not yet completed**

On 16 September 2015, the sale of offshore private sector Business Process Outsourcing operations to private equity funds managed by Blackstone was agreed for approximately £250m, comprising of £220m cash and a £30m loan note. The transaction is expected to complete around the end of 2015, subject to customary closing conditions and regulatory approvals.

#### **Going Concern**

The Directors consider that the Company is a going concern.

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 up to 12 months from the date of the accounts. 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.

Furthermore, after making enquiries 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 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.

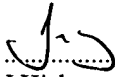
## **Serco Holdings Limited**

### **Directors' Report for the Year Ended 31 December 2014**

#### **Auditor**

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

Approved by the Board on 28 September 2015 and signed on its behalf by:

  
.....  
J Hickey  
Director

## Serco Holdings Limited

### Strategic Report for the Year Ended 31 December 2014

The directors present their strategic report for the year ended 31 December 2014.

#### **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**

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. The review was undertaken across the Group and involved a re-assessment of the Group's assets and liabilities in light of current and latest forecast trading expectations. The impact on the Company was an impairment of £1,137.5m with regards to its investments, of which £786.9m related to investment in Serco Limited. During the year, the Company also 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 £631.4m (2013: £0.9m).

The profit on ordinary activities before taxation has decreased by £1,189.6m from the previous year to a loss of £1,119.3m. This was primarily due to the impairment of investments during the year of £1,137.5m (2013: £107.3m) as explained above, a reduction in the dividends received from subsidiary companies of £156.7m and an increase in interest payable and similar charges of £3.0m.

Net assets have increased by £28.5m, this is primarily as a result of the new shares allotted in December 2014 for £1,143.7m, offset by the loss after tax for the year of £1,115.2m. The Company paid a dividend of £nil to its parent company, Serco Group plc, in respect of the year ended 31 December 2014 (2013: £70.0m).

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**

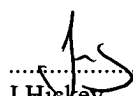
The Company's principal financial instruments are its intercompany receivables and payables. The Directors do not consider that the Company is exposed to significant interest rate or liquidity risk because the interest payments on its intercompany payables are expected to be funded by investment returns. 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.

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 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 28 September 2015 and signed on its behalf by:

  
.....  
J Hickey  
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 2014 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 6), 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 2014 and of its loss for the year then ended;
- have been properly prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

## **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

28 September 2015

## Serco Holdings Limited

### Profit and Loss Account for the Year Ended 31 December 2014

|   | Note | 2014<br>£ 000             | 2013<br>£ 000        |
|---|------|---------------------------|----------------------|
| Administrative expenses                     |      | (1,108)                   | (1,373)              |
| Transaction-related costs                   |      | <u>-</u>                  | <u>(1,153)</u>       |
| <b>Operating loss</b>                       |      | <b>(1,108)</b>            | <b>(2,526)</b>       |
| (Loss)/Profit on disposal of investments    | 11   | (782)                     | 396                  |
| Investment income                           | 6    | 50,835                    | 207,508              |
| Amounts written off fixed asset investments | 11   | (1,137,476)               | (107,284)            |
| Interest payable and similar charges        | 7    | (30,794)                  | (27,834)             |
| Gain on hedging instruments                 |      | 1,895                     | 2,378                |
| Loss on hedged items                        |      | <u>(1,895)</u>            | <u>(2,378)</u>       |
| <b>(Loss)/profit before tax</b>             |      | <b>(1,119,325)</b>        | <b>70,260</b>        |
| Tax on (loss)/profit on ordinary activities | 8    | <u>4,130</u>              | <u>1,513</u>         |
| <b>(Loss)/profit for the financial year</b> |      | <b><u>(1,115,195)</u></b> | <b><u>71,773</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 2014

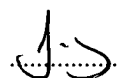
|                                      | Called up share<br>capital<br>£ 000 | Share premium<br>£ 000 | Profit and loss<br>account<br>£ 000 | Total<br>£ 000 |
|--------------------------------------|-------------------------------------|------------------------|-------------------------------------|----------------|
| At 1 January 2013                    | -                                   | 762,900                | 203,092                             | 965,992        |
| Profit for the year                  | -                                   | -                      | 71,773                              | 71,773         |
| Equity dividends paid                | -                                   | -                      | (70,000)                            | (70,000)       |
| <b>At 1 January 2014</b>             | <b>-</b>                            | <b>762,900</b>         | <b>204,865</b>                      | <b>967,765</b> |
| Loss for the year                    | -                                   | -                      | (1,115,195)                         | (1,115,195)    |
| Premium on issue of shares -<br>paid | -                                   | 1,143,706              | -                                   | 1,143,706      |
| <b>At 31 December 2014</b>           | <b>-</b>                            | <b>1,906,606</b>       | <b>(910,330)</b>                    | <b>996,276</b> |

# Serco Holdings Limited

## Balance Sheet as at 31 December 2014

|  | Note | 2014<br>£ 000         | 2013<br>£ 000         |
|--|------|-----------------------|-----------------------|
| <b>Fixed assets</b>  |      |                       |                       |
| Investments  | 11   | 1,000,015             | 1,631,395             |
| <b>Current assets</b>  |      |                       |                       |
| Debtors: amounts due within one year                           | 12   | 9,001                 | 14,079                |
| Debtors: amounts falling due after more than one year          | 12   | <u>504,064</u>        | <u>1,513</u>          |
|  |      | 513,065               | 15,592                |
| <b>Current liabilities</b>                                     |      |                       |                       |
| Creditors: amounts falling due within one year                 | 13   | (444)                 | (2,779)               |
| Derivative financial instruments                               | 10   | <u>(97)</u>           | <u>(265)</u>          |
| <b>Net current assets</b>                                      |      | <u>512,524</u>        | <u>12,548</u>         |
| <b>Total assets less current liabilities</b>                   |      | <b>1,512,539</b>      | <b>1,643,943</b>      |
| <b>Creditors: amounts falling due after more than one year</b> |      |                       |                       |
| Creditors: amounts due after more than one year                | 14   | <u>(516,263)</u>      | <u>(676,178)</u>      |
| <b>Net assets</b>  |      | <u><b>996,276</b></u> | <u><b>967,765</b></u> |
| <b>Capital and reserves</b>                                    |      |                       |                       |
| Called up share capital  | 15   | -                     | -                     |
| Share premium  |      | 1,906,606             | 762,900               |
| Profit and loss account  |      | <u>(910,330)</u>      | <u>204,865</u>        |
| <b>Shareholder's funds</b>                                     |      | <u><b>996,276</b></u> | <u><b>967,765</b></u> |

The financial statement (registered number: 03970268) were approved by the Board on 28 September 2015 and signed on its behalf by:

 .....

J Hickey

Director

## **Serco Holdings Limited**

### **Notes to the Financial Statements for the Year Ended 31 December 2014**

#### **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 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 17.

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:

- IAS 32 Financial Instruments - Presentation affects the offsetting of financial assets and liabilities and was amended to clarify certain requirements on offsetting to make application more consistent. Historically, financial assets and financial liabilities have not been offset within the Company financial statements as there has been limited ability to do so. Therefore, the impact of the amendments are not expected to have a material impact on future transactions and no adjustment is needed for the required retrospective application.
- IAS 39 Financial Instruments - Recognition and Measurement was amended to clarify that there is no need to discontinue hedge accounting if a hedging derivative is novated (provided certain criteria are met). In order to apply the amendments and continue hedge accounting, novation to a central counterparty must happen as a consequence of laws or regulations or the introduction of laws or regulations. As the novation of derivatives instruments has not been performed at the Company recently, the application of the amendments did not impact on the Company financial statements when applied retrospectively. There is no expectation to novate any currently held derivatives and therefore there is no future impact anticipated as a result of this change.

## **Serco Holdings Limited**

### **Notes to the Financial Statements for the Year Ended 31 December 2014**

#### **Going concern**

The Company is financed and supported by its parent and from dividend income from its subsidiaries and joint ventures. The level of dividend income is in turn reliant upon the future successful trading of its subsidiaries and joint ventures 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.
- There was a recapitalisation of the Company 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 a 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 up to 12 months from the date of the accounts. 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.

Furthermore, 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.

#### **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 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.

## **Serco Holdings Limited**

### **Notes to the Financial Statements for the Year Ended 31 December 2014**

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 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.

#### **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.

## **Serco Holdings Limited**

### **Notes to the Financial Statements for the Year Ended 31 December 2014**

#### **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**

##### **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.

##### **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 £1,000.0m (2013: £1,631.4m) 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 (2013: £10,000) for the audit of the Company's financial statements 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 (2013: £nil).

## Serco Holdings Limited

### Notes to the Financial Statements for the Year Ended 31 December 2014

#### 6 Investment income

|                               | 2014<br>£ 000 | 2013<br>£ 000  |
|-------------------------------|---------------|----------------|
| Dividends from subsidiaries   | 18,251        | 159,833        |
| Dividends from joint ventures | 32,584        | 47,675         |
|                               | <u>50,835</u> | <u>207,508</u> |

#### 7 Interest payable and similar charges

|  | 2014<br>£ 000 | 2013<br>£ 000 |
|--|---------------|---------------|
| Interest payable to group undertakings | 30,794        | 27,757        |
| Other interest payable                 | -             | 77            |
|  | <u>30,794</u> | <u>27,834</u> |

#### 8 Taxation

##### Tax on loss on ordinary activities

|   | 2014<br>£ 000  | 2013<br>£ 000  |
|---|----------------|----------------|
| <b>Current tax</b>                        |                |                |
| Consortium relief                         | (2,821)        | (1,513)        |
| Adjustments in respect of prior years     | (1,309)        | -              |
| Tax credit in the profit and loss account | <u>(4,130)</u> | <u>(1,513)</u> |

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

The tax on (loss)/profit before tax for the year is lower than the standard rate of corporation tax in the UK (2013 - lower than the standard rate of corporation tax in the UK) of 21.5% (2013: 23.25%).

The differences are reconciled as below:

|   | 2014<br>£ 000      | 2013<br>£ 000  |
|---|--------------------|----------------|
| (Loss)/profit before tax                          | <u>(1,119,325)</u> | <u>70,260</u>  |
| Corporation tax at 21.5% (2013: 23.25%)           | (240,655)          | 16,335         |
| Tax exempt income                                 | (10,930)           | (48,572)       |
| Expenses not deductible for tax purposes          | 246,713            | 29,431         |
| Current year temporary differences not recognised | -                  | (6)            |
| Group relief for no consideration                 | 1,871              | 1,299          |
| Unrelieved tax losses                             | 180                | -              |
| Adjustments in respect of prior years             | <u>(1,309)</u>     | <u>-</u>       |
| <b>Total tax credit</b>                           | <u>(4,130)</u>     | <u>(1,513)</u> |

## Serco Holdings Limited

### Notes to the Financial Statements for the Year Ended 31 December 2014

#### Unrecognised deferred tax asset

The Company has an unrecognised deferred tax asset of £40,950 in relation to short term timing differences (2013: £60,717), £167,184 of unused tax losses (2013 - £Nil) and £551 of capital allowance in excess of depreciation (2013 - £551).

#### 9 Dividends

|   | 2014<br>£ 000 | 2013<br>£ 000 |
|---|---------------|---------------|
| Equity dividend of £nil (2013: £4,375,000) per ordinary share | <u>-</u>      | <u>70,000</u> |

#### 10 Derivative financial instruments

|   | 2014<br>£ 000 | 2013<br>£ 000 |
|---|---------------|---------------|
| Non-designated forward contracts held as (liabilities)/assets | <u>(97)</u>   | <u>(265)</u>  |

#### 11 Investments held as fixed assets

|                               | Subsidiaries<br>£ 000 | Joint Ventures<br>£ 000 | Total<br>investments<br>£ 000 |
|-------------------------------|-----------------------|-------------------------|-------------------------------|
| <b>Cost or net book value</b> |                       |                         |                               |
| At 1 January 2014             | 1,551,387             | 80,008                  | 1,631,395                     |
| Additions                     | 514,496               | 2                       | 514,498                       |
| Disposals                     | (6,507)               | -                       | (6,507)                       |
| Impairment of investments     | (1,137,476)           | -                       | (1,137,476)                   |
| Retranslation of hedged item  | <u>(1,895)</u>        | <u>-</u>                | <u>(1,895)</u>                |
| At 31 December 2014           | <u>920,005</u>        | <u>80,010</u>           | <u>1,000,015</u>              |

#### Additions

During the year the Company invested a further £514.5m in its wholly owned subsidiaries.

The Company invested £452.2m in its main operating subsidiary, Serco Limited, in relation to its recapitalisation on 18 December 2014. A further £54.5m was also invested in Serco Group Pty Limited recapitalisation on the same date. There was an additional £3.0m investment in Serco Nederland BV during the year.

In relation to new acquisitions, on 2 January 2014, the Company acquired 70% of MENA Business Services LLC's share capital for £3.1m initial cash consideration and a further deferred consideration at provisional fair value of £0.5m is payable from 2015 to 2016 contingent on the financial performance of the acquired business. On 12 August 2014, 60% of ANTAB Operation and Maintenance Establishment LLC's share capital was also acquired for £1.2m cash consideration.

## Serco Holdings Limited

### Notes to the Financial Statements for the Year Ended 31 December 2014

#### 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.

On 10 March 2014, the Company disposed of its Braintree Community Hospital business, an investment held at £nil carrying value, to the Mid Essex Clinical Hospital Trust, realising no gain nor loss on disposal.

On 19 June 2014, the Company disposed of its debt collection business, Collectica Limited, for £5.7m net proceeds. Carrying value of the investment at the disposal date was £6.5m. As a result, a loss on disposal of £0.8m was recognised.

#### Impairments

The Directors perform an impairment review of the Company's investments on an annual basis or when any impairment indicators presented.

During the year, 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. This review identified impairments and onerous contract provisions together with impairments of goodwill across the Group.

As a result of the above review, £1,137.5m impairment loss was charged in relations to such investments where carrying value exceeds the recoverable amount of that investment. In particular, investment in Serco Limited was impaired by £786.9m. The remaining impairment relates to investments in Serco Inc, the Global Services private sector and BPO business.

#### 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 other undertakings are provided in Note 19.

| Undertaking                    | Country of incorporation | Proportion of voting rights and shares held |      |
|--------------------------------|--------------------------|---|------|
|                                |                          | 2014  | 2013 |
| <b>Subsidiary undertakings</b> |                          |   |      |
| Serco Limited                  | United Kingdom           | 100%  | 100% |
| Serco Australia Pty Limited    | Australia                | 100%  | 100% |
| Serco Inc                      | USA                      | 100%  | 100% |
| Serco BPO Private Limited*     | India                    | 100%  | 100% |
| <b>Joint ventures</b>          |                          |   |      |
| AWE Management Limited         | United Kingdom           | 33%   | 33%  |
| Northern Rail Holdings Limited | United Kingdom           | 50%   | 50%  |

*\*As part of the Strategic Review of Serco Group, this business has been designated as non-core and is disclosed as held for sale in the consolidated financial statements of Serco Group plc.*

# Serco Holdings Limited

## Notes to the Financial Statements for the Year Ended 31 December 2014

### 12 Debtors

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

|                                 | 2014         | 2013          |
|---------------------------------|--------------|---------------|
|                                 | £ 000        | £ 000         |
| Amounts owed by group companies | 8,683        | 12,344        |
| Prepayments and accrued income  | 2            | 2             |
| Interest receivable             | 146          | 65            |
| Other receivables               | 170          | 1,668         |
|                                 | <u>9,001</u> | <u>14,079</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

|                                 | 2014           | 2013         |
|---------------------------------|----------------|--------------|
|                                 | £ 000          | £ 000        |
| Amounts owed by group companies | 500,597        | -            |
| Consortium relief               | 3,467          | 1,513        |
|                                 | <u>504,064</u> | <u>1,513</u> |

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

### 13 Creditors: Amounts falling due within one year

|                                 | 2014       | 2013         |
|---------------------------------|------------|--------------|
|                                 | £ 000      | £ 000        |
| Trade creditors                 | -          | 2            |
| Amounts owed to group companies | 74         | 196          |
| Accruals and deferred income    | 69         | 1,235        |
| Provisions                      | 50         | -            |
| Other creditors                 | 251        | 1,346        |
|                                 | <u>444</u> | <u>2,779</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 2014

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

|                                 | 2014<br>£ 000  | 2013<br>£ 000  |
|---------------------------------|----------------|----------------|
| Amounts owed to group companies | 505,374        | 664,773        |
| Loans and borrowings            | 10,638         | 11,405         |
| Other creditors                 | 251            | -              |
|                                 | <u>516,263</u> | <u>676,178</u> |

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

#### Analysis of loan repayments

|                           | 2014<br>£ 000 | 2013<br>£ 000 |
|---------------------------|---------------|---------------|
| Between two to five years | <u>10,638</u> | <u>11,405</u> |

#### 15 Called up share capital

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

|                                   | No.       | 2014<br>£ | No.       | 2013<br>£ |
|-----------------------------------|-----------|-----------|-----------|-----------|
| Ordinary share capital of £1 each | <u>32</u> | <u>32</u> | <u>16</u> | <u>16</u> |

##### New shares allotted

During the year, 16 Ordinary share capital of £1 each having an aggregate nominal value of £16 were allotted to its parent Serco Group plc for an aggregate consideration of £1,143,706,000. This gives rise to share premium of £1,143,705,984.

#### 16 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 (2013: £5.0m). The overdraft was undrawn at 31 December 2014.

#### 17 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.

## **Serco Holdings Limited**

### **Notes to the Financial Statements for the Year Ended 31 December 2014**

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

##### **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 for the proceeds to be used primarily to reduce the Group's indebtedness. This was launched on 12 March 2015 and received shareholder approval on 30 March 2015. The equity rights issue successfully completed in April 2015 raising approximately £555m of gross proceeds, with trading in new shares commencing on 17 April 2015. On 30 April 2015 the Group then concluded a refinancing with its lending banks and US private placement noteholders. This refinancing included the reduction of gross indebtedness by £450m. The Group's committed revolving credit facility was reduced in size from £730m to £480m and the maturity date increased by two years to April 2019. Financial covenants across the Group's funding arrangements were kept the same as before, reflecting the strengthening of the Group's balance sheet by the Rights Issue.

Following the rights issue and debt refinancing the net assets of Serco Group plc increased by approximately £497m, representing the gross proceeds received of approximately £555m, less the fees relating to the rights issue of approximately £25m and the fees and expenses relating to the repayment of the group's borrowings and amendments to the existing finance agreements of approximately £33m, which included a premium of £25m on the prepayment of US private placement notes.

##### **Capital reduction**

Following the completion of the Contract and Balance Sheet Review, a significant impairment of investments of £1,137.5m was charged in the year resulting in a loss after tax of £1,115.2m for the year ended 31 December 2014. The opening distributable reserve of £204.9m, therefore, has been fully utilised in the year; and the closing distributable reserve has moved to a substantial deficit totalling £910.3m. In the year, the amount held in the share premium account has increased by £1,143.7m as a result of the new shares allotted in December 2014 at a premium to their nominal value.

A share premium account is an undistributable reserve and, accordingly, the purposes for which the Company can use it are extremely restricted. In particular, it cannot be used for paying dividends. Therefore, in June 2015, the directors proposed a plan for a capital reduction, in which a proportion of the amount held in the share premium account be reduced and transferred to the Company's profit and loss account to create a positive distributable reserve of over £200m and thereby provide the directors with the flexibility to distribute future profits to the shareholder as dividends.

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

In June 2015, new ordinary shares were allocated by the Company for an aggregate consideration of £150.0m and the Company subscribed for new shares in Serco Limited for an aggregate consideration of £150.0m.

## **Serco Holdings Limited**

### **Notes to the Financial Statements for the Year Ended 31 December 2014**

#### **Disposal of subsidiaries**

On 1 January 2015, a subsidiary undertaking of the Company, NPL Management Limited was disposed for £12.0m resulting in a profit on disposal of £12.0m.

On 30 March 2015, the Group had agreed the sale of its Australian Rail business, an indirect subsidiary undertaking of the Company. The sale was completed on 29 May 2015.

On 10 June 2015, another subsidiary undertaking of the Company, Serco India Private Limited was also disposed for £1.0m and no gain or loss on disposal was recognised.

#### **Agreed sale of offshore private sector BPO operations not yet completed**

On 16 September 2015, the sale of offshore private sector Business Process Outsourcing operations to private equity funds managed by Blackstone was agreed for approximately £250m, comprising of £220m cash and a £30m loan note. The transaction is expected to complete around the end of 2015, subject to customary closing conditions and regulatory approvals.