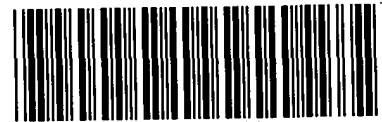


Serco-IAL Limited

Annual Report and Financial Statements
for the Year Ended 31 December 2014

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A company registered in England and Wales, number: 00427272

Serco-IAL Limited

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Serco-IAL 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-IAL 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:

R C McGuinness (resigned 2 March 2015)

S Bartley (resigned 10 July 2014)

DJ Burke (resigned 2 March 2015)

Serco Corporate Services Limited (appointed 10 July 2014)

The following directors were appointed after the year end:

PJ Mohring (appointed 2 March 2015)

SM Ashby (appointed 2 March 2015)

DJ Greer (appointed 2 March 2015)

Employment of disabled persons

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

Employee involvement

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

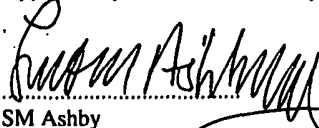
Disclosure of information to the auditors

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

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 auditors annually are currently in force.

Approved by the Board on 22 September 2015 and signed on its behalf by:


SM Ashby
Director

Serco-IAL 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 principal activity of the company is the provision of management services for airports and air traffic control through branches operating in the Middle East. It also supplies, installs and maintains air traffic and related equipment in the communications and security fields through these branches. The financial statements have been prepared using pound sterling as the reporting currency.

Business review

The Company's turnover of £79.7m showed a 9% decline from 2013 level (2013: £87.6m remained consistent with 2012). Whilst there remains a solid core of Aviation contracts in the UAE (Dubai and Sharjah), of which revenue increased in line with the growth at the airports; the business with the General Civil Aviation Authority in the UAE and Erbil International Airport came to an end late 2014. Business margin reduced to 9.5% (2013: 13.8%) due to various contract provisions following the completion of the Serco Group's Contract and Balance Sheet Review in the last quarter of the year. The Company paid a dividend of £1.2m in the year (2013: £10.0m).

Subsequent to the year end, the Baghdad contract ended mid January 2015; however, the Company has signed an agreement for a 12 month contract extension with the customer.

The directors consider the results for the year to be satisfactory given the challenging environment the business is under and expect performance improvement in 2015.

Principal risks and uncertainties

The Company has receivable balances from long-term contracts with third party customers. The directors do not consider that the Company is exposed to significant credit risk due to the nature and size of the contracts. The Company has no significant external borrowings and so the directors do not consider that the Company is exposed to interest risk or liquidity risk.

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

Risk - Contract non-compliance and contract performance

Our success depends on our ability to write contracts which balance risk and reward and meet the contractual requirements into which we have entered with our customers, which could be through direct delivery of services or through the use of sub-contractors. We are subject to risks associated with bidding for and entering into contracts (most of which are multi-year and/or fixed price contracts), including correctly assessing and agreeing pricing terms that provide for a level of return on the contract appropriate to the risks involved, accurately anticipating the costs of strict performance conditions, employee requirements and other obligations, correctly evaluating contractual and operational risks, and the risks of potential early termination or change of scope of contracts by customers. Failure to bid and negotiate performance criteria and contract provision that can be operationally delivered at the price estimated can result in losses. Unclear, ambiguous, misread, misinterpreted contract obligations and expectations of contract performance can result in perceived or actual contract non-compliance and/or poor performance. The same is true if we, or our sub-contractors do not have the right expertise, tools and resources adequately to manage and monitor compliance with contract obligations and expectations. These potential failures could result in the cancellation of a contract, claims for loss, or compensation arrangements under the contract being triggered, as well as reputational damage leading to a decrease in business being undertaken with one or several customers, and an adverse effect on our financial condition, or operating or financial results and on our ability to win new business.

Serco-IAL Limited

Strategic Report for the Year Ended 31 December 2014

We have undertaken a reappraisal of Company policies for bidding, contract management and a review of compliance has been undertaken as well as improving the review and governance of bids. The resulting refreshed policies clarify our expectations of contract management and provide for enhanced contract management training. Contract performance monitoring tools are being developed to assist in providing clarity on contract performance targets, contractual obligations and commitments. Stronger management accounting systems are in the process of being put in place to report monthly the status of contracts up to management more accurately.

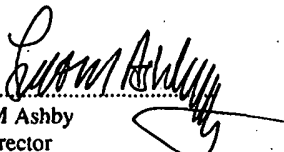
Risk - Failure to win material bids or rebids

We depend and will continue to depend heavily on large contracts with a relatively limited number of major government customers and other public sector bodies and agencies for a substantial proportion of our revenue. If such customers decrease the amount of business they undertake with us for any reason, or if the relationship with such customers were impaired, or we sustain damage to our reputation, or we are subject to negative publicity, we could lose business across our customer base and face significant economic damage. Such damage could also include losing renewals and extensions of existing contracts. The realisation of the pipeline of opportunities for new bids and rebidding for existing contracts can involve a lengthy and costly bidding process. Bid and rebid success rates determine how much of the pipeline of opportunities is realised and turned into profitable business and how much existing business is retained. Contracts with national and local governments and public sector bodies and agencies or major commercial customers may contain unfavourable or onerous provisions. Furthermore, as a supplier to public sector bodies and agencies and government regulated customers, we are subject to procurement rules and regulations and procurement delays that may increase our bidding, performance and compliance costs and could have an adverse impact on our business, financial condition, results of operations or prospects.

We have put in place improved bid management policies, strengthened the criteria, processes and level of scrutiny for Company level management review of all bids and rebids, especially those that are critical to our success. We have ensured stronger risk management earlier in the bid process to help identify potential onerous performance criteria and contract provisions as well as, transition and operational concerns.

We invest in appointing high calibre people for our key bids; train our bidding teams to improve competency and performance; and monitor our results through effective management reporting.

Approved by the Board on 22 September 2015 and signed on its behalf by:


SM Ashby
Director

Serco-IAL Limited

Statement of Directors' Responsibilities

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

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

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

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

Serco-IAL Limited

Independent Auditor's Report to the Members of Serco-IAL Limited

We have audited the financial statements of Serco-IAL Limited for the year ended 31 December 2014, which comprise the profit and loss account, the statement of comprehensive income, the statement of changes in equity, the balance sheet and the related notes 1 to 20 on pages 8 to 22. The financial reporting framework that has been applied in their preparation is applicable law and Financial Reporting Standard 101 Reduced Disclosure Framework.

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

Respective responsibilities of directors and auditor

As explained more fully in the Statement of Directors' Responsibilities (set out on page 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 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 Strategic Report and Directors' Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on the financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2014 and of its profit for the year then ended;
- have been properly prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

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

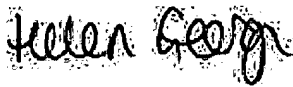
Serco-IAL Limited

Independent Auditor's Report to the Members of Serco-IAL Limited

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.



.....
Helen George (Senior Statutory Auditor)
For and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor

London
United Kingdom

22 September 2015

Serco-IAL Limited

Profit and Loss Account for the Year Ended 31 December 2014

	Note	2014 £ 000	2013 £ 000
Turnover		79,679	87,593
Cost of sales		<u>(70,581)</u>	<u>(73,137)</u>
Gross profit		9,098	14,456
Administrative expenses		<u>(1,551)</u>	<u>(2,336)</u>
Operating profit		7,547	12,120
Interest receivable and similar income	7	83	82
Interest payable and similar charges	8	<u>(763)</u>	<u>(563)</u>
Profit before tax		6,867	11,639
Tax on profit on ordinary activities	10	<u>(753)</u>	<u>(1,279)</u>
Profit for the financial year		<u>6,114</u>	<u>10,360</u>

The above results were derived from continuing operations.

Serco-IAL Limited

Statement of Comprehensive Income for the Year Ended 31 December 2014

	2014	2013
	£ 000	£ 000
Profit for the year	<u>6,114</u>	<u>10,360</u>
Other comprehensive income for the year:		
Items that may be reclassified subsequently to profit or loss:		
Net exchange gain/(loss) on translation of foreign operations	<u>1,530</u>	<u>(881)</u>
Total comprehensive income for the year	<u>7,644</u>	<u>9,479</u>

Serco-IAL Limited

Statement of Changes in Equity for the Year Ended 31 December 2014

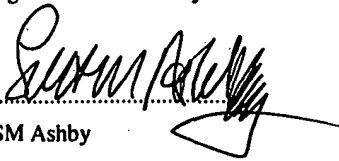
	Called up share capital £ 000	Share premium £ 000	Share-based payments reserve £ 000	Profit and loss account £ 000	Total £ 000
At 1 January 2013	11,500	2,670	798	14,717	29,685
Total comprehensive income	-	-	-	9,479	9,479
Equity dividends paid	-	-	-	(10,000)	(10,000)
Charge in relation to share-based payments	-	-	129	-	129
At 1 January 2014	11,500	2,670	927	14,196	29,293
Total comprehensive income	-	-	-	7,644	7,644
Equity dividends paid	-	-	-	(1,158)	(1,158)
Charge in relation to share-based payments	-	-	52	-	52
At 31 December 2014	11,500	2,670	979	20,682	35,831

Serco-IAL Limited

Balance Sheet as at 31 December 2014

	Note	2014 £ 000	2013 £ 000
Fixed assets			
Intangible fixed assets	11	6	7
Property, plant and equipment	12	99	145
Investments	13	58	-
		<u>163</u>	<u>152</u>
Current assets			
Debtors: amounts due within one year	14	29,528	17,968
Debtors: amounts falling due after more than one year	14	15,707	11,826
Cash at bank and in hand		2,371	14,020
		<u>47,606</u>	<u>43,814</u>
Creditors: Amounts falling due within one year	15	(7,483)	(11,289)
Net current assets		<u>40,123</u>	<u>32,525</u>
Total assets less current liabilities		<u>40,286</u>	<u>32,677</u>
Creditors: amounts falling due after more than one year			
Creditors: amounts due after more than one year	16	(34)	-
Provisions for liabilities	17	(4,421)	(3,384)
		<u>(4,455)</u>	<u>(3,384)</u>
Net assets		<u>35,831</u>	<u>29,293</u>
Capital and reserves			
Called up share capital	19	11,500	11,500
Share premium		2,670	2,670
Share-based payment reserve		979	927
Profit and loss account		20,682	14,196
Shareholder's funds		<u>35,831</u>	<u>29,293</u>

The financial statements (registered number: 00427272) were approved by the Board on 22 September 2015 and signed on its behalf by:


 SM Ashby
 Director

Serco-IAL Limited

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

1 General information

Serco-IAL 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 pages 3 to 4.

2 Accounting policies

Summary of significant accounting policies and key accounting estimates

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

Basis of preparation

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

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to share-based payments, financial instruments, standards not yet effective, presentation of a cash flow statement 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 20.

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, no adjustment is needed for the required retrospective application. The impact of the amendments are not expected to have a material impact on future transactions.

Going concern

The financial statements have been prepared on the going concern basis.

The directors have acknowledged the guidance on going concern and financial reporting published by the Financial Reporting Council in October 2009 and the consultation on draft guidance issued in November 2013. Whilst the current economic environment continues to be uncertain, with 90% of the Company's customers being government bodies, the Company is well placed to manage its business risks successfully, including those arising from the failure of customers to meet contractual obligations.

Despite termination of the Erbil Air Traffic Control contract in Iraq and the Emirates Flight Information Region (GCAA) Contract in UAE during the year, the Company continues to derive its revenue from long-term contracts with governments which are critical to the infrastructure thus unaffected by changes in the general economy. The Company also has secure and highly visible future revenue streams as income is based on long-term contracts. Based on detailed projections management believe that the Company has adequate resources to continue in operational existence for the foreseeable future, and as a result these accounts have been drawn up on the going concern basis.

Serco-IAL Limited

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

Turnover

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

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

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

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

Interest income

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

Tax

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

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

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

Deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition of an asset and liability in a transaction other than a business combination and, at the time of the transaction, affects neither the 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-IAL Limited

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

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.

Property, plant and equipment

Property, plant and equipment is stated at cost, net of depreciation and any provision for impairment.

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

Depreciation

Asset class	Depreciation rate
Machinery	15% - 20%
Motor vehicles	10% - 50%
Furniture	10%
Office equipment	20% - 33%
Leased equipment	The higher of the rate produced by either the lease term or useful life

Other intangible assets

Licences and software are measured initially at purchase costs and development expenditure is capitalised as an intangible asset only if all of the following conditions are met:

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

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

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

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

Serco-IAL Limited

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

Pre-contract costs

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

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

Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the group will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the reporting date and are discounted to present value where the effect is material.

Defined benefit pension obligation

The Company contributes to a Group defined benefit scheme. The structure of the benefit scheme does not enable any of the Group companies to identify their share of the schemes' underlying assets or liabilities, and consequently the scheme has been treated in the same way as defined contribution schemes in the Company's financial statements (see below).

Defined contribution pension obligation

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

Share-based payments

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

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

Serco-IAL Limited

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

3 Critical accounting judgments and key sources of estimation uncertainty

Critical judgements in applying the Company's accounting policies

In the process of applying the Company's accounting policies, which are described in note 2 above, management has made the following judgment that had the most significant effect on the amounts recognised in the financial statements:

Capitalisation of internally generated intangible assets

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

Key sources of estimation uncertainty

No key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date have been noted that would have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

4 Operating profit

Operating profit is stated after charging:

	2014 £ 000	2013 £ 000
Amortisation expense (note 10)	3	10
Foreign exchange (gains)/losses	(609)	164
Loss on disposal of property, plant and equipment	6	13
Depreciation expense (note 12)	62	48
Bad debt write off	1,140	92
	<u>1,140</u>	<u>92</u>

5 Directors' emoluments and staff costs

No director received any remuneration for services to the Company during the year to 31 December 2014 (2013: £nil).

The average number of persons employed by the Company (including directors) during the year was 518 (2013: 562).

The aggregate payroll costs were as follows:

	2014 £ 000	2013 £ 000
Wages and salaries	44,188	45,694
Social security costs	3	308
Other pension costs	1,028	1,141
Redundancy costs	23	-
	<u>45,242</u>	<u>47,143</u>

Serco-IAL Limited

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

6 Auditor's remuneration

Auditor's remuneration of £5,000 (2013: £5,000) 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 £9,000 of non-audit fees incurred by the Company and payable to Deloitte during the year (2013: £nil).

7 Interest receivable and similar income

	2014 £ 000	2013 £ 000
Interest receivable from group undertakings	<u>83</u>	<u>82</u>

8 Interest payable and similar charges

	2014 £ 000	2013 £ 000
Bank loans and overdrafts	-	1
Interest payable to group undertakings	<u>763</u>	<u>562</u>
	<u>763</u>	<u>563</u>

9 Dividends

	2014 £ 000	2013 £ 000
Equity dividend of £0.10 (2013: £0.87) per ordinary share	<u>1,158</u>	<u>10,000</u>

Serco-IAL Limited

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

10 Taxation

Tax on profit on ordinary activities

	2014 £ 000	2013 £ 000
Current tax		
Foreign tax	<u>753</u>	<u>1,279</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 (2013: lower than the standard rate of corporation tax in the UK) of 21.5% (2013: 23.25%).

The differences are reconciled below:

	2014 £ 000	2013 £ 000
Profit before tax	<u>6,867</u>	<u>11,639</u>
Corporation tax at 21.5% (2013: 23.25%):	1,476	2,706
Statutory tax benefits	(1,458)	(2,774)
Foreign tax	753	1,279
Group relief with no consideration	<u>(18)</u>	<u>68</u>
Total tax charge for the year	<u>753</u>	<u>1,279</u>

Unprovided deferred tax asset

The Company has an unprovided deferred tax asset of £15,143 (2013: £15,143) in relation to short-term temporary differences.

Serco-IAL Limited

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

11 Intangible fixed assets

	Software and development costs £ 000
Cost	
At 1 January 2014	21
Foreign exchange movements	2
At 31 December 2014	23
Accumulated amortisation	
At 1 January 2014	14
Amortisation charge	3
At 31 December 2014	17
Net book value	
At 31 December 2014	6
At 31 December 2013	7

12 Property, plant and equipment

	Machinery, motor vehicles, furniture and equipment £ 000
Cost	
At 1 January 2014	507
Additions	18
Disposals	(183)
Foreign exchange movements	21
At 31 December 2014	363
Depreciation	
At 1 January 2014	363
Charge for the year	62
Eliminated on disposal	(177)
Foreign exchange movements	16
At 31 December 2014	264
Net book value	
At 31 December 2014	99
At 31 December 2013	145

Serco-IAL Limited

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

13 Investments held as fixed assets

	Subsidiaries £ 000
Cost or valuation	
At 1 January 2014	-
Additions	58
At 31 December 2014	58

Details of undertakings

On 12 August 2014, the Company acquired 36,000 ordinary shares (5%) in Serco Saudi Arabia LLC, a company incorporated in Saudi Arabia, for a cash consideration of £58k. Serco Saudi Arabia LLC used the cash consideration for the acquisition of ANTAB Operation and Maintenance Establishment LLC. ANTAB is a provider of estates management and support services in the healthcare market, based in Saudi Arabia.

14 Debtors

a) Amounts falling due within one year

	2014 £ 000	2013 £ 000
Trade debtors	13,032	9,173
Prepayments and accrued income	6,093	5,756
Amounts owed by group companies	8,621	-
Other debtors	1,782	3,039
	<u>29,528</u>	<u>17,968</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 £ 000	2013 £ 000
Amounts owed by group companies	15,679	11,604
Amounts owed by joint ventures	-	150
Other debtors	28	72
	<u>15,707</u>	<u>11,826</u>

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

Serco-IAL Limited

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

15 Creditors: Amounts falling due within one year

	2014 £ 000	2013 £ 000
Trade creditors	207	799
Corporation tax liability	313	277
Accruals and deferred income	4,934	1,862
Amounts owed to group companies	1	6,867
Other creditors	2,028	1,484
	<u>7,483</u>	<u>11,289</u>

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

16 Creditors: Amounts falling due after more than one year

	2014 £ 000	2013 £ 000
Amounts owed to group companies	<u>34</u>	<u>-</u>

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

17 Provisions

	Employee related £ 000
At 1 January 2014	3,384
Charged to profit and loss account	1,019
Utilised during the year	(236)
Foreign exchange	<u>254</u>
At 31 December 2014	<u>4,421</u>

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

Serco-IAL Limited

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

18 Pension and other schemes

Defined contribution scheme

The Company operates a defined contribution scheme. The pension cost charge for the year represents contributions payable by the Company to the scheme amounted to £267,000 (2013: £259,000).

Contributions totaling £nil (2013: £nil) were payable to the scheme at the end of the year and are included in creditors.

Defined benefit pension schemes

The Company paid employer contributions of £90,000 (2013: £89,000) into UK defined benefit schemes. Contributions totaling £nil (2013: £nil) were payable to the scheme at the end of the year and are included in creditors.

As stated in note 2, the Company contributes to a Group defined benefit scheme. The structure of the defined benefit scheme does not enable any of the Group companies to identify their share of the schemes' underlying assets or liabilities, and consequently the scheme has been treated in the same way as defined contribution schemes in the Company's financial statements.

The total net pension asset on this Group defined benefit scheme at 31 December 2014 was £143.9m (2013: £64.2m asset).

The Group's major schemes are valued by independent actuaries annually using the projected unit credit method. This reflects services rendered by employees to the dates of valuation and incorporates actuarial assumptions primarily regarding discount rates used in determining the present value of benefits, projected rates of salary growth, and long-term expected rates of return of scheme assets. Discount rates are based on the market yields of high-quality corporate bonds in the country concerned. Further details on this Group defined benefit scheme can be found in note 34 of the consolidated Annual Review and Accounts of the Company's ultimate parent, Serco Group plc, under the heading 'non contract specific'.

19 Called up share capital

Authorised, allotted, called up and fully paid shares

	2014		2013	
	No. 000	£ 000	No. 000	£ 000
Ordinary share capital of £1 each	11,500	11,500	11,500	11,500

20 Control

The Company's immediate parent is Serco Holdings Limited.

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