

Registration number: 00427272

Serco-IAL Limited

Annual Report and Financial Statements

for the Year Ended 31 December 2019

TUESDAY



A9DNMKKR

A12

15/09/2020

#46

COMPANIES HOUSE

Serco-IAL Limited

Contents

Company Information	1
Strategic Report	2 to 9
Directors' Report	10 to 12
Statement of Directors' Responsibilities	13
Independent Auditor's Report to the Members of Serco-IAL Limited	14 to 16
Profit and Loss Account	17
Statement of Comprehensive Income	18
Balance Sheet	19
Statement of Changes in Equity	20
Notes to the Financial Statements	21 to 35

Serco-IAL Limited

Company Information

Directors P J Mohring
A F Kasmani
Serco Corporate Services Limited

Company secretary Serco Corporate Services Limited

Registration number 00427272

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

Auditors KPMG LLP
15 Canada Square
London
E14 5GL

Strategic Report for the Year Ended 31 December 2019

The directors present their strategic report for the year ended 31 December 2019.

Principal Activity

The principal activity of Serco-IAL Limited (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 £61.9m (2018: £69.4m) is lower than the prior year due to the loss of the contract in Bahrain. The Company has a number of ongoing Aviation contracts in the UAE (Dubai and Sharjah) and Iraq (Baghdad). The slight decline in profit before tax in the year of £7.9m compared with a profit before tax of £8.2m in the prior year was mainly due to the loss of the Bahrain contract offset by improved profitability amongst the existing contracts.

The Company did not pay a dividend in the year which is consistent with 2018.

The directors consider the results for the year to be satisfactory.

Principal risks and uncertainties

The Company's principal financial instruments are amounts receivable from Company's ultimate parent. The directors do not consider that the Company is exposed to significant liquidity risk as any repayment of this loan would likely be distributed by the Company since the cash resources are not required to be held.

Risk management for all Serco Group entities is undertaken by Serco Group plc. The Group risk register is updated at least quarterly, reviewed bi-monthly by the Risk Oversight Group and discussed at quarterly board meetings of Serco Group plc. Risk management is fundamental to how the business is managed. Risk management policies, systems and processes form part of the Serco Management System (SMS). Risks identified at Group level also apply to the Company and procedures are put in place within the Company to manage these risks with guidance from the Risk Oversight Group. Further discussion of risk management is included in the consolidated Annual Report and Accounts of Serco Group plc.

The directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future, as stated in the Business review, and therefore the going concern basis of accounting continues to be adopted in preparing the financial statements.

Risks associated with the coronavirus outbreak

Coronavirus (COVID-19) was originally identified as a disease in China late in 2019. Following global transmission of the disease early in 2020, Europe and other continents began identifying cases which continued to rise in number such that on 12 March 2020 the World Health Organisation characterised the outbreak of COVID-19 as a global pandemic. As the impact of COVID-19 arose subsequent to the Company's year-end it is considered to be a non-adjusting post Balance Sheet event. It is not possible to reliably estimate the length and severity of these developments nor the impact on the financial position and financial results of the Company in future periods. The Company has seen a reduction in services provided within its air traffic control and airport services contracts, however the full impact on these is dependent on how long airports continue to run at a reduced service, which is unknown, hence no amounts related to the impact of COVID-19 have been included in these financial statements, nor have any amendments been made to the carrying value of items on the Balance Sheet.

Strategic Report

for the Year Ended 31 December 2019 (continued)

Brexit

The Company makes specific reference below to the UK's proposed withdrawal from the European Union ("Brexit") and the current assessment of its impact on the Company. The UK formally left the European Union on 31 January 2020. The transition period is expected to end on 31 December 2020 and the current shape of the economic and political partnership between the UK and EU is not known. Notwithstanding this, the Company's direct exposure to Brexit is small as the Company, and the Group of which it is a subsidiary of, neither exports nor imports to any significant degree; the Group of which the Company is a subsidiary of has a business in continental Europe which is conducted through long-established local subsidiaries; and employs relatively few continental European citizens in the UK. The Group continues to monitor the potential implications of the UK's withdrawal from the European Union and its impact and continues to believe that Brexit will not impact the Group to a material extent. This is based on regular assessment and review of the UK and EU contracts, supply chain, workforce requirements and regulatory obligations. By operating many contracts across diverse geographies outside of Europe, the Group has a natural hedge from material Brexit risks that may arise.

Section 172 (1) Statement

Board Engagement with Stakeholders

The Board is committed to enhancing engagement with all our stakeholders, and as well as acting in the best interests of the Company, the Board looks to the activities undertaken by the Board of Directors of Serco Group plc (the 'Serco Group plc Board'), the Company's ultimate parent company, in engaging with the Group's wider stakeholders. In addition to the methods of engagement described below, the interests of the Company's stakeholder groups are considered for the Serco Group as a whole by the Serco Group plc Board through a combination of:

- Regular reports and presentations at scheduled Serco Group plc Board and Committee meetings, including operational reports presented by the Chief Executive and updates from senior management on health and safety, ethics and compliance, people matters (including employee engagement) and investor feedback.
- A rolling agenda of matters to be considered by the Serco Group plc Board and Committees throughout the year, including a strategy review which considers the purpose of the Company and strategy to be followed by the Group, which is supported by a budget for the following year and a medium-term financial plan.
- Formal consideration of large bids and other matters, including any factors which are relevant to major decisions taken by the Serco Group plc Board through the year in line with the regularly reviewed Delegation of Authority and Terms of Reference for each Serco Group plc Board Committee.
- The risk management process and other routine agenda items of the Serco Group plc Audit Committee, Corporate Responsibility Committee, Group Risk Committee and Remuneration Committee, as described in the Serco Group plc 2019 Annual Report and Accounts.

As with other large and complex companies, the Directors of the Company fulfil their duties partly through a governance framework that delegates day-to-day decision-making. The Serco Group plc Board recognises that such delegation needs to be much more than simple financial authorities. Presented in the Serco Group plc 2019 Annual Report and Accounts is a summary of the governance structure which covers the values and behaviours expected of our employees; the standards they must adhere to; how the Group as a whole engages with stakeholders; and how the Serco Group plc Board looks to ensure that we have a robust system of control and assurance processes (see pages 76 to 95 of the Serco Group plc 2019 Annual Report and Accounts).

Strategic Report

for the Year Ended 31 December 2019 (continued)

The Group's Corporate Responsibility (CR) framework, of which the Company forms part, is structured around our key stakeholders and progress and performance in delivering the Group's CR agenda is set out in the CR section of Serco Group plc 2019 Annual Report and Accounts. The following disclosure describes how the Board has had regard to the matters set out in section 172(1) (a) to (f), and forms the Directors' statement required under section 414CZA of the Companies Act 2006.

Stakeholder group - Our owners

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

Stakeholder concerns

The Serco Group plc shareholders are concerned with a broad range of issues, including operational and financial performance, developments in our markets for public services, the execution and delivery of our strategy, the sustainability of our business, and the impact Serco has on the communities we serve and the environment in which we operate. Performance developments are comprehensively assessed in the Strategic Report of the Serco Group plc 2019 Annual Report and Accounts more widely, including the Key Performance Indicators section and the broader discussion and analysis.

How the Board engages with stakeholders

- The financial results of the components making up the Company are reviewed according to delegated authorities on a monthly basis.
- The Group Chief Executive and Group Chief Financial Officer and other members of the Serco senior management team, including directors of the Company, attend monthly divisional performance reviews and divisional executive management team meetings to discuss financial and operational developments in the business.
- The Investor Relations team provide regular reports to the Serco Group plc Board, which includes activities within the Company.

Key topics of engagement

- The Company's performance against the strategy of the wider Group.
- Developments in our customer markets and the competitive landscape.
- Opportunities for acquisitions.
- Capital allocation considerations.

How stakeholder interests influence Board discussions and principal decisions

- The Serco Group plc shareholders' opinions were, and continue to be, taken into consideration by the Serco Group plc when developing and reviewing the Group's strategy and performance and these guiding principles are reflected in the strategy of the Company.

Strategic Report

for the Year Ended 31 December 2019 (continued)

Stakeholder group - Our people

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

Stakeholder concerns

Through the annual Group-wide Viewpoint survey and other dialogue with our colleagues, we know that our people feel passionately about the place they work and the services that they deliver. As you would expect for a business as diverse as that of the Group, our colleagues express their opinions across a very wide range of areas. However, there are currently three main areas of concern raised by colleagues on a regular basis: connection and collaboration within Serco, individual recognition, and having a voice in the decision making within the business. The Group's People Report, available on our website, sets out the work being undertaken to make Serco a better, safer and more inclusive place to build a career.

How the Board engages with stakeholders

- Feedback is sought from our people annually through the Group-wide engagement survey, Viewpoint, supplemented with more frequent 'pulse' surveying in selected parts of the business.
- Kirsty Bashforth, Non-Executive Director of Serco Group plc, was appointed as the Group's lead representative on the Board for Employee Voice and reports to the Serco Group plc Board the feedback received from our people at engagement activities attended throughout the year as part of the Employee Voice and Colleague ConneXions initiatives.
- The Serco Inclusion Hub was introduced in across the Group during the year to provide a platform for our employee networks, Serco Inspire, Serco Unlimited, Serco Embrace and In@Serco, to better coordinate and collaborate. Regular reports on the activities of each network are provided to the Serco Group plc Board through the regular People reports provided by the Group HR Director. Operational people matters are considered at monthly divisional executive management team meetings attended by the directors of the Company during the year.
- Members of the Company's Board and the Executive Directors of Serco Group plc meet with employees during contract visits and with senior management monthly at divisional performance review and divisional executive management team meetings.

Key topics of engagement

- Global focus areas for diversity and inclusion: Gender, Disability, Multicultural and LGBT+.
- Matters impacting employees on the frontline of our contracts.
- Talent and leadership succession.
- Review of pension provisions.
- Feedback received from employees through the Viewpoint survey and the actions proposed by management in response.

Strategic Report

for the Year Ended 31 December 2019 (continued)

How stakeholder interests influence Board discussions and principal decisions

- The Serco Group plc Board considered the impact to employees of the Company of restructuring activities that have taken place during the year, such as the IT and Procurement Transformation programmes, the development opportunities that potential acquisitions and contract bids would afford our employees, and the impact on the Company's ability to attract and retain staff.
- Discussions of the Company Board and the Serco Group plc Board have been better informed due to the deeper understanding of the work undertaken by our employees, which has been developed during contract visits undertaken in each Division, at these contract visits and events, the directors meet and hear directly from Serco employees on a variety of topics.

Stakeholder group - Our customers

As an international B2G business our customers are many and varied, consisting of local, regional, national governments and agencies, those receiving our services at a contract level versus those procuring the services, and those who use the services we provide on behalf of our customers. Our business is built on our ability to retain existing and win new customers. As such, understanding, engaging with, and responding to customer needs is a critical priority.

Stakeholder concerns

While the demands vary significantly, at the most basic level our customers seek to procure from us quality public service delivery, at a price they feel represents value for money. This requires us to have both deep understanding of their sector specific needs, as well as technical and commercial nous as to how to deliver public services most efficiently. In addition, there are significant regional and sector specific priorities, that vary enormously and also change over time. For example, the increasing demand for the employment of nationals in the Middle East and the increasing drive for social value outcomes in the UK. It is critical that we maintain a detailed appreciation of these so that we can respond accordingly.

How the Board engages with stakeholders

- The Group Chief Executive and Group Chief Financial Officer meet directly with different customers across all our regions on a regular basis.
- Members of the Serco Group plc Board regularly, and throughout the year, visit our different international operations and contracts where they engage directly with customers.
- Our Group-wide 'Operational Report' gives updates and feedback on our markets, customers, and operational performance to the Serco Group plc Board at every meeting. The Company's directors present regularly to the Serco Group plc Board on the same. Other colleagues also present regularly on operations, customer satisfaction and Business Development.
- The annual Strategy Planning process is a bottom-up exercise including every part of the business, taking into account both existing and future customer needs and trends over the next 5 years. This process culminates in a day-long Group-wide Board Strategy Day during which the Serco Group plc Board debate current and future customer requirements at length.
- Attendance by the Serco Group plc directors at Serco-led and other industry events, including events run by the Serco Institute on public policy priorities such as Social Value, which customers both attend and speak at.

Strategic Report

for the Year Ended 31 December 2019 (continued)

Key topics of engagement

- Customer and Serco strategy and operational performance.
- The procurement processes employed by key customers, such as the Outsourcing Playbook in the UK.
- New and future customer requirements and trends, such as focus on environmental, social, and governance matters.
- Specific business development opportunities.
- The overall performance of the sector.
- Serco innovations in response to customer trends and needs.

How stakeholder interests influence Board discussions and principal decisions

- The Serco Group plc Board deployed their customer insight to positive effect in decisions relating to our submission of our largest bids over the year and the nature of our proposals, which they scrutinise.
- Following customer engagement and insight gathered from the annual strategy process, the Serco Group plc Board provided guidance on our strategy, strategic decisions, as well as resource allocation, and prioritisation across our markets and customers in 2019-20.
- The Serco Group plc Board continued to drive the Executive Directors of Serco Group plc and in turn the directors of the Company to act on new customer trends and priorities as a result of engagement in 2019. For example, our plans on sustainability, social value, and voluntary, community, and social enterprise organisations.

Stakeholder group - Our suppliers

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

Stakeholder concerns

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

How the Board engages with stakeholders

- Direct engagement via the Group Chief Executive and Group Chief Financial Officer.
- Regular reports to the Serco Group plc Board from senior management and discussion at monthly divisional performance review and divisional executive management team meetings attended by the directors of the Company concerning operational matters on specific business units.
- Regular reports to the Serco Group plc Board from the Group Director, Enterprise Risk, the Group Director, Business Compliance and Ethics, and the Director of Procurement concerning management and assessment of suppliers.
- Regular reports from individual business units, including creditor payable days.

Strategic Report

for the Year Ended 31 December 2019 (continued)

Key topics of engagement

- Due diligence processes.
- Supplier relationships.
- Supply chain management.
- Fair payment practices.

How stakeholder interests influence Board discussions and principal decisions

- The management of suppliers has been discussed at the Serco Group plc Board level and the Procurement Transformation programme was endorsed by the Serco Group plc Board in recognition of the need to improve supplier management processes.
- Key risks in relation to the supply chain were considered by the Serco Group plc Board when approving the approach to due diligence of suppliers, which was revised during the year.
- Feedback on the financial performance of key suppliers was considered periodically during the year, with performance being discussed at the Group Audit and Group Risk Committees, and feedback provided to the Serco Group plc Board concerning the discussions.

Stakeholder group - Our communities and environment

Our communities comprise those living and working in close geographic proximity to our operations, those for whom we provide services on behalf of our government customers, and those who represent the needs of our communities, including charities and local government. Operating amongst and on behalf of our communities, we strive to maintain a deep understanding of the complex social challenges that impact them, whilst recognising our responsibility to contribute to the sustainability and well-being of society and the economy wherever we operate. We are also committed to limiting the impact of our operations on the environment through more sustainable business practices for our customers and stakeholders, including our communities.

Stakeholder concerns

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

How the Board engages with stakeholders

- The Serco Group plc Board receives regular operational reports from the Group Chief Executive.
- Regular reports to the Serco Group plc Board from senior management and discussion at monthly divisional performance review and divisional executive management team meetings attended by the directors of the Company concerning operational matters on specific business units.
- Meetings with users of the services we provide on behalf of our customers during contract visits by the Serco Group plc Board.
- Attendance by the Serco Group plc Board at Serco Institute events.

Strategic Report

for the Year Ended 31 December 2019 (continued)

Key topics of engagement

- Further information on our engagement concerning Corporate Responsibility (CR) matters is provided in the CR Report within the Group's Annual Report.
- Political environment.
- Impact to the community of pursuing business development opportunities.

How stakeholder interests influence Board discussions and principal decisions

- The Serco Group plc Board gave careful consideration was to issues under our immigration contracts in the UK, including asylum seekers who are housed under the Home Office COMPASS contract and the situation of managing those individuals that overstay beyond the permitted terms of their asylum application.
- The Serco Group plc Board had regular discussion during the year on the issues in prisons under our justice contracts in the UK, including physical assaults, violence and impact on communities.
- Meeting with users of the services we provide on behalf of our customers during contract visits by the directors of the Company and the directors of Serco Group plc facilitates a deeper discussion of operational matters. In considering business development proposals from senior management, this also enables the directors to better assess service user needs and the ability to provide the services under the contract to the standards expected and identify any gaps in capabilities.

Approved by the Board on 26 June 2020 and signed on its behalf by:



.....
P J Mohring
Director

Directors' Report

for the Year Ended 31 December 2019

The directors present their report and the financial statements for the year ended 31 December 2019.

Directors of the company

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

S M Ashby (resigned 31 December 2019)

P J Mohring

Serco Corporate Services Limited

The following director was appointed after the year end:

A F Kasmani (appointed 23 June 2020)

The directors benefited from qualifying third party indemnity provisions in place during the financial year and at the date of this report.

Going concern

The Company has net current assets of £87,217k as at 31 December 2019 (2018: £84,656k) and a profit for the year that ended of £7,008k (2018: £7,181k). The Company's financial forecasts for the period of going concern, indicate that the Company has sufficient financial resources to meet its financial obligations as they fall due during the period of assessment, considered to be twelve months from the signing date of these financial statements. In light of the COVID-19 pandemic, the Company has considered the potential impact on the financial forecasts which indicate that it will continue to have sufficient resources to meet its financial obligations as they fall due, however given the uncertainties in respect of the pandemic and the potential loss of revenue from its aviation services, which have been impacted and the importance of the intercompany receivable to the solvency of the Company, the Company has obtained a letter of support from the Group's ultimate parent, Serco Group plc.

Serco Group plc has indicated its intention to continue to make available such funds as are needed by the Company for the period covered by the forecasts.

The directors of the Company have been made aware of the Going Concern assessment which has been performed in respect of the Group. The directors believe they are able to place reliance on this letter of support for the following reasons.

Most of the Group's contracts deliver critical services to Governments and the delivery requirements of these have not been impacted by COVID-19. However, a small number of contracts within the Group have been impacted by; lower volumes within its UK transport business; higher levels of absenteeism and increased service performance in its UK Health contracts; closure of operations including leisure centres in the UK and the Driver Examination Services contract in Canada; and delays in project work such as the delivery of the Antarctic Supply Research Vessel in Australia. The negative impact from these contracts has been offset to some extent by additional services being delivered to assist Governments with their management and recovery from the COVID-19 pandemic, and financial support from its customers. It is evident that the most significant impact on the Group's operations has been within the UK. In order to model severe but plausible scenarios to stress test the potential impact of COVID-19 on the Group's forecast, the Group have considered, amongst other scenarios, lower passenger volumes on the Group's train operating contracts, higher costs within the Health portfolio and prolonged closure of leisure centres in the UK, without mitigations such as the Coronavirus Job Retention Scheme and Emergency Measures Agreements within the rail contracts being in place. The Group has reviewed the impact on overseas operations and considered the impact of a second wave in Australia which may impact the ability to deliver operations within contact centres, or drive higher absenteeism in the delivery of its larger operations such as the Fiona Stanley Hospital or Department of Immigration and Border Protection contracts.

Directors' Report

for the Year Ended 31 December 2019 (continued)

After considering these severe but plausible scenarios and with the mitigations available to the Group, the forecasts indicate sufficient capacity in the Group's financing facilities and associated covenants to support the Group. In order to satisfy themselves that they have adequate resources for the future, the Group have reviewed its existing debt levels, the committed funding and liquidity positions under its debt covenants, and its ability to generate cash from trading activities and working capital requirements. The Group's current principal debt facilities as at 31 May 2020 comprised a £250m revolving credit facility, a 3 year term acquisition facility of £45m and £222m of US private placement notes. As at 31 May 2020, the Group had £517m of committed credit facilities and committed headroom of £230m. In undertaking this review the Group have considered the business plans which provide financial projections for the foreseeable future. For the purposes of this review for the Group, the assessment period is considered that to be the period ending 31 December 2021.

As with any company placing reliance on other group entities for financial support, the directors acknowledge that there can be no certainty that this support will continue although at the date of approval of these financial statements, they have no reason to believe that it will not do so. Consequently, the directors are confident that the Company will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements and therefore have prepared the financial statements on a going concern basis.

Political contribution

The Company made no political donations or incurred any political expenditure during the year (2018: £nil).

Employment of disabled persons

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

Employee involvement

Managers are tasked with developing employees' awareness of factors affecting business and matters concerning them as employees and noting employees' views so that they can be taken in to account when making decisions that may affect them or the business.

Post balance sheet events

Coronavirus (COVID-19) was originally identified as a disease in China late in 2019. Following global transmission of the disease early in 2020, Europe and other continents began identifying cases which continued to rise in number such that on 12 March 2020 the World Health Organisation characterised the outbreak of COVID-19 as a global pandemic. As the impact of COVID-19 arose subsequent to the Company's year-end it is considered to be a non-adjusting post Balance Sheet event. It is not possible to reliably estimate the length and severity of these developments nor the impact on the financial position and financial results of the Company in future periods, hence no amounts related to the impact of COVID-19 have been included in these financial statements, nor have any amendments been made to the carrying value of items on the Balance Sheet. The Company has seen a reduction in services provided within its air traffic control and airport services contracts, however the full impact on these is dependent on how long airports continue to operate at a reduced service, which is unknown, and may have a material impact on the Company's revenue and profit projections.

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.

Serco-IAL Limited

Directors' Report

for the Year Ended 31 December 2019 (continued)

Reappointment of auditors

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

Approved by the Board on 26 June 2020 and signed on its behalf by:



.....
P J Mohring
Director

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

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

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with United Kingdom Accounting Standards and applicable law (United Kingdom Generally Accepted Accounting Practice), including FRS 101 'Reduced Disclosure Framework' ('FRS 101').

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 year. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant and reliable;
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

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

Opinion

We have audited the financial statements of Serco-IAL Limited (the 'Company') for the year ended 31 December 2019, which comprise Profit and Loss Account, Statement of Comprehensive Income, Balance Sheet, Statement of Changes in Equity, and related notes, including the accounting policies in note 2.

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 101 *Reduced Disclosure Framework*; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

Going concern

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

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements. In our evaluation of the directors' conclusions, we considered the inherent risks to the company's business model, including the impact of Brexit, and analysed how those risks might affect the company's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the company will continue in operation.

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

Strategic report and directors' report

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

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

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

Matters on which we are required to report by exception

Under the Companies Act 2006, we are required to report to you if, in our opinion:

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

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 13, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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

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

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

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

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



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

15 Canada Square
London
E14 5GL

Date: 26 June 2020

Serco-IAL Limited

Profit and Loss Account

for the Year Ended 31 December 2019

	<i>Note</i>	<i>2019</i> <i>£ 000</i>	<i>2018</i> <i>£ 000</i>
Turnover	4	61,923	69,423
Cost of sales		<u>(54,341)</u>	<u>(61,347)</u>
Gross profit		7,582	8,076
Administrative expenses		<u>(695)</u>	<u>(708)</u>
Operating profit	5	6,887	7,368
Interest receivable and similar income	6	1,044	803
Interest payable and similar charges	7	<u>(17)</u>	<u>(13)</u>
Profit before tax		7,914	8,158
Tax on profit on ordinary activities	11	<u>(906)</u>	<u>(977)</u>
Profit for the year		<u><u>7,008</u></u>	<u><u>7,181</u></u>

The above results were derived from continuing operations.

The notes on pages 21 to 35 form an integral part of these financial statements.

Statement of Comprehensive Income

for the Year Ended 31 December 2019

	<i>2019</i>	<i>2018</i>
	<i>£ 000</i>	<i>£ 000</i>
Profit for the year	7,008	7,181
Items that may be reclassified subsequently to profit or loss		
Foreign currency translation (losses)/gains	<u>(2,498)</u>	<u>3,638</u>
Total comprehensive income for the year	<u><u>4,510</u></u>	<u><u>10,819</u></u>

The notes on pages 21 to 35 form an integral part of these financial statements.

Serco-IAL Limited

Balance Sheet

as at 31 December 2019

Registration number: 00427272

	Note	2019 £ 000	2018 £ 000
Fixed assets			
Property, plant and equipment	12	26	-
Investments	13	58	58
		<u>84</u>	<u>58</u>
Current assets			
Debtors: amounts falling due within one year	14	76,195	85,131
Cash at bank and in hand	15	14,380	5,596
		<u>90,575</u>	<u>90,727</u>
Current liabilities			
Creditors: amounts falling due within one year	16	(3,053)	(5,694)
Corporation tax		(304)	(315)
Deferred income		-	(62)
Lease obligations	17	(1)	-
		<u>(3,358)</u>	<u>(6,071)</u>
Net current assets		<u>87,217</u>	<u>84,656</u>
Total assets less current liabilities		<u>87,301</u>	<u>84,714</u>
Provisions for liabilities	18	<u>(4,047)</u>	<u>(6,032)</u>
Net assets		<u>83,254</u>	<u>78,682</u>
Capital and reserves			
Called up share capital	21	11,503	11,503
Share premium reserve		7,183	7,183
Other reserves		1,312	1,250
Profit and loss account		<u>63,256</u>	<u>58,746</u>
Shareholders' funds		<u>83,254</u>	<u>78,682</u>

The financial statements were approved by the Board on 26 June 2020 and signed on its behalf by:



P J Mohring
Director

The notes on pages 21 to 35 form an integral part of these financial statements.

Statement of Changes in Equity

for the Year Ended 31 December 2019

	<i>Called up share capital £ 000</i>	<i>Share premium reserve £ 000</i>	<i>Other reserves £ 000</i>	<i>Profit and loss account £ 000</i>	<i>Total £ 000</i>
At 1 January 2018	11,503	7,183	1,146	47,927	67,759
Profit for the year	-	-	-	7,181	7,181
Other comprehensive income	-	-	-	3,638	3,638
Total comprehensive income	-	-	-	10,819	10,819
Share based payment transactions	-	-	104	-	104
At 31 December 2018	11,503	7,183	1,250	58,746	78,682
At 1 January 2019	11,503	7,183	1,250	58,746	78,682
Profit for the year	-	-	-	7,008	7,008
Other comprehensive loss	-	-	-	(2,498)	(2,498)
Total comprehensive income	-	-	-	4,510	4,510
Share based payment transactions	-	-	62	-	62
At 31 December 2019	11,503	7,183	1,312	63,256	83,254

The notes on pages 21 to 35 form an integral part of these financial statements.

Notes to the Financial Statements

for the Year Ended 31 December 2019

1 General information

The Company is a private company limited by share capital, incorporated and domiciled in United Kingdom under the Companies Act 2006. 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 2.

These financial statements are presented in pounds Sterling because that is the currency of the country in which the Company is incorporated.

The level of rounding is to the nearest thousand ('000) unless otherwise stated.

2 Accounting policies

Summary of significant accounting policies and key accounting estimates

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

Basis of preparation

These financial statements were prepared in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework'.

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs"), but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to share based payments, financial instruments, capital management, presentation of comparative information in respect of certain assets, presentation of a cash flow statement, standards not yet effective, impairment of assets and related party transactions.

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

The Company applied for the first-time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2019.

IFRS 16 Leases

The following new or revised standard has an immaterial impact on the financial statements, see note 12.

Notes to the Financial Statements

for the Year Ended 31 December 2019 (continued)

2 Accounting policies (continued)

Going concern

The Company has net current assets of £87,217k as at 31 December 2019 (2018: £84,656k) and a profit for the year that ended of £7,008k (2018: £7,181k). The Company's financial forecasts for the period of going concern, indicate that the company has sufficient financial resources to meet its financial obligations as they fall due during the period of assessment, considered to be twelve months from the signing date of these financial statements. In light of the COVID-19 pandemic, the Company has considered the potential impact on the financial forecasts which indicate that it will continue to have sufficient resources to meet its financial obligations as they fall due, however given the uncertainties in respect of the pandemic and the potential loss of revenue from its aviation services, which have been impacted and the importance of the intercompany receivable to the solvency of the Company, the Company has obtained a letter of support from the Group's ultimate parent, Serco Group plc.

Serco Group plc has indicated its intention to continue to make available such funds as are needed by the Company for the period covered by the forecasts.

The directors of the Company have been made aware of the Going Concern assessment which has been performed in respect of the Group. The directors believe they are able to place reliance on this letter of support for the following reasons.

Most of the Group's contracts deliver critical services to Governments and the delivery requirements of these have not been impacted by COVID-19. However, a small number of contracts within the Group have been impacted by; lower volumes within its UK transport business; higher levels of absenteeism and increased service performance in its UK Health contracts; closure of operations including leisure centres in the UK and the Driver Examination Services contract in Canada; and delays in project work such as the delivery of the Antarctic Supply Research Vessel in Australia. The negative impact from these contracts has been offset to some extent by additional services being delivered to assist Governments with their management and recovery from the COVID-19 pandemic, and financial support from its customers. It is evident that the most significant impact on the Group's operations has been within the UK. In order to model severe but plausible scenarios to stress test the potential impact of COVID-19 on the Group's forecast, the Group have considered, amongst other scenarios, lower passenger volumes on the Group's train operating contracts, higher costs within the Health portfolio and prolonged closure of leisure centres in the UK, without mitigations such as the Coronavirus Job Retention Scheme and Emergency Measures Agreements within the rail contracts being in place. The Group has reviewed the impact on overseas operations and considered the impact of a second wave in Australia which may impact the ability to deliver operations within contact centres, or drive higher absenteeism in the delivery of its larger operations such as the Fiona Stanley Hospital or Department of Immigration and Border Protection contracts.

After considering these severe but plausible scenarios and with the mitigations available to the Group, the forecasts indicate sufficient capacity in the Group's financing facilities and associated covenants to support the Group. In order to satisfy themselves that they have adequate resources for the future, the Group have reviewed its existing debt levels, the committed funding and liquidity positions under its debt covenants, and its ability to generate cash from trading activities and working capital requirements. The Group's current principal debt facilities as at 31 May 2020 comprised a £250m revolving credit facility, a 3 year term acquisition facility of £45m and £222m of US private placement notes. As at 31 May 2020, the Group had £517m of committed credit facilities and committed headroom of £230m. In undertaking this review the Group have considered the business plans which provide financial projections for the foreseeable future. For the purposes of this review for the Group, the assessment period is considered that to be the period ending 31 December 2021.

Notes to the Financial Statements

for the Year Ended 31 December 2019 (continued)

2 Accounting policies (continued)

As with any company placing reliance on other group entities for financial support, the directors acknowledge that there can be no certainty that this support will continue although at the date of approval of these financial statements, they have no reason to believe that it will not do so. Consequently, the directors are confident that the Company will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements and therefore have prepared the financial statements on a going concern basis.

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.

Turnover

Turnover comprises the fair value of the consideration received or receivable for the sale of goods and provision of services in the ordinary course of the Company's activities.

Turnover is deferred when payment is received in advance of performing the related service of delivering the associated goods and released when the relevant contractual commitment is fulfilled. Turnover on repeat service-based contracts is recognised as services are provided. Under IFRS 15, unless upfront fees received from customers including transition payments can be clearly attributable to a distinct service the customer is obtaining, then such payments do not constitute a separate performance obligation and instead are deferred and spread over the life of the core services.

The Company has a number of long-term contracts for the provision of complex, project-based services. Where the outcome of such long-term project-based contracts can be measured reliably, income and costs are recognised by reference to the stage of completion of the contract activity at the Balance Sheet date in accordance with IFRS 15 Revenue from Contracts with Customers. Contract costs include a rational allocation of overheads. Where the outcome of a long-term project-based contract cannot be estimated reliably, contract turnover is recognised to the extent that it is probable that contract costs will be recovered. Contract costs are recognised as expenses in the period in which they are incurred.

Notes to the Financial Statements

for the Year Ended 31 December 2019 (continued)

2 Accounting policies (continued)

Onerous contract provisions

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

Foreign currency transactions and balances

Transactions in foreign currencies are initially recorded at the functional currency rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated into the respective functional currency of the entity at the rates prevailing on the reporting period date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the initial transaction dates.

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 recognised directly in other comprehensive income.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the reporting date in the countries where the company operates and generates taxable income.

Deferred income tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements and on unused tax losses or tax credits in the company. Deferred income tax is determined using tax rates and laws that have been enacted or substantively enacted by the reporting date.

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.

Property, plant and equipment

Property, plant and equipment is stated in the statement of financial position at cost, less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

The cost of property, plant and equipment includes directly attributable incremental costs incurred in their acquisition and installation.

Notes to the Financial Statements

for the Year Ended 31 December 2019 (continued)

2 Accounting policies (continued)

Depreciation

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

<i>Asset class</i>	<i>Depreciation method and rate</i>
Furniture and equipment	20%, 33%
Right-of-use assets	Equally over the lease term from inception or equally over the remainder of the lease term from the date of a reassessment of the lease end date

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and call deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Trade receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade receivables are measured at transaction price less any impairment in accordance with IFRS 9.

Financial instruments

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

The primary financial assets carried by the Company which are not measured at FVTPL are trade receivables and intercompany receivables. The Company's customer base is predominantly Government or Government-backed, and as a result, the Company's ECL at any given point in time across the entirety of the customer base is immaterial.

Trade payables

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

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.

Notes to the Financial Statements

for the Year Ended 31 December 2019 (continued)

2 Accounting policies (continued)

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.

Employee related provisions are for post-employment awards such as End of Service Gratuities which have been accrued and are based on legal or contractual entitlement and salary. The provisions will be utilised over various periods driven by employee end of service dates (whether through voluntary turnover or termination), the timing of which is not certain.

Share capital

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

Defined 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.

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.

3 Critical accounting judgements and key sources of estimation uncertainty

Critical judgements

In the process of applying the Company's accounting policies which are described above, the management has made the following judgement that has a most significant effect on the amounts recognised in the financial statements.

Impairment of trade and other receivables

Identifying whether there are indicators of impairment for trade and other receivables, involves a high level of judgement and a good understanding of the drivers of value behind the asset. At each reporting year, an assessment is performed in order to determine whether there are any such indicators. The largest asset in the Company's Balance Sheet is a receivable from a related party of £64.8m as included in note 14. Having considered the ability and intention of the counterparty to settle this amount when required, the Company has taken into account the financial standing of the counterparty, including its position within the Serco group of companies. The balance is considered recoverable given the counterparty's Balance Sheet and the known intention of the Group to ensure that balances can be settled as they fall due, or for balances with no set repayment date, as they are required to be settled.

Notes to the Financial Statements

for the Year Ended 31 December 2019 (continued)

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

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.

Provisions for onerous contracts

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

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

- The ability of the Company to maintain or improve operational performance, to ensure costs or performance-related penalties are in line with expected levels.
- Volume driven revenue and costs being within the expected ranges.
- The outcome of matters dependent on the behaviour of the customer, such as a decision to extend a contract where it has the unilateral right to do so.
- The outcome of open claims made by or against a customer regarding contractual performance.
- The ability of suppliers to deliver their contractual obligations on time and on budget.

To mitigate the level of uncertainty in making these estimates management regularly compares actual performance of the contracts against previous forecasts and considers whether there have been any changes to significant judgements. A detailed bottom up review of the provisions is performed as part of the Group's formal annual budgeting process.

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

The individual provisions are discounted where the impact is assessed to be significant. Discount rates used are calculated based on the estimated risk-free rate of interest for the region in which the provision is located and matched against the ageing profile of the provision.

Serco-IAL Limited

Notes to the Financial Statements

for the Year Ended 31 December 2019 (continued)

4 Turnover

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

	2019 £ 000	2018 £ 000
Provision of Aviation Services	<u>61,923</u>	<u>69,423</u>

5 Operating profit

Arrived at after charging/(crediting)

	2019 £ 000	2018 £ 000
Depreciation expense	12	-
Foreign exchange losses/(gains)	<u>406</u>	<u>(620)</u>

6 Interest receivable and similar income

	2019 £ 000	2018 £ 000
Interest receivable from group companies	<u>1,044</u>	<u>803</u>

7 Interest payable and similar charges

	2019 £ 000	2018 £ 000
Interest payable to group companies	<u>17</u>	<u>13</u>

8 Staff costs

The aggregate payroll costs (including directors' remuneration) were as follows:

	2019 £ 000	2018 £ 000
Wages and salaries	30,871	35,817
Social security costs	22	19
Pension costs, defined contribution scheme	439	739
Pension costs, defined benefit scheme	-	1
Other employee expense	<u>13,992</u>	<u>14,675</u>
	<u>45,324</u>	<u>51,251</u>

Notes to the Financial Statements

for the Year Ended 31 December 2019 (continued)

8 Staff costs (continued)

The other employee expense is primarily made of employee benefits such rent costs, school fees and employee healthcare costs.

The average number of persons employed by the Company (including directors) during the year was as follows:

	<i>2019</i>	<i>2018</i>
	<i>No.</i>	<i>No.</i>
Total	<u>314</u>	<u>386</u>

9 Directors' remuneration

The directors' remuneration for the year was as follows:

	<i>2019</i>	<i>2018</i>
	<i>£ 000</i>	<i>£ 000</i>
Remuneration	<u>371</u>	<u>311</u>

One of the directors did not perform material qualifying services for the Company and no remuneration has been recorded for the Company. Only one directors' remuneration has been disclosed.

During the year the number of directors who were receiving benefits and share incentives was as follows:

	<i>2019</i>	<i>2018</i>
	<i>No.</i>	<i>No.</i>
Received or were entitled to receive shares under long term incentive schemes	<u>1</u>	<u>1</u>

In respect of the highest paid director:

	<i>2019</i>	<i>2018</i>
	<i>£ 000</i>	<i>£ 000</i>
Remuneration	<u>371</u>	<u>311</u>

During the year the highest paid director received or was entitled to receive shares under a long term incentive scheme.

Notes to the Financial Statements

for the Year Ended 31 December 2019 (continued)

10 Auditor's remuneration

Auditor's remuneration of £5,000 (2018: £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 no non-audit fees incurred by the Company and payable to the Company's auditor during the year (2018: £nil).

11 Tax

Tax charged in the profit and loss account

	2019 £ 000	2018 £ 000
Foreign tax	<u>906</u>	<u>977</u>

The differences are reconciled below:

The tax on profit before tax for the year is lower than the standard rate of corporation tax of 19% (2018 - 19%).

	2019 £ 000	2018 £ 000
Profit before tax	<u>7,914</u>	<u>8,158</u>
Corporation tax at standard rate	1,504	1,550
Adjustments in respect of prior years	-	17
Expenses not deductible for tax purposes	206	104
Group relief for nil consideration	(198)	-
Overseas rate differences	<u>(606)</u>	<u>(694)</u>
Total tax charge	<u>906</u>	<u>977</u>

Deferred tax

There is £13,000 of depreciation in excess of capital allowances (2018: £13,000) for which no deferred tax asset is recognised in the statement of financial position.

Factors affecting future tax rate

A reduction in the UK corporation tax rate from 19% to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016. The March 2020 Budget announced that a rate of 19% would continue to apply with effect from 1 April 2020, and this change was substantively enacted on 17 March 2020. There is no impact of this change on the tax charge as there are no instances of deferred taxation recognised in the income statement or directly in equity in the current period.

Notes to the Financial Statements

for the Year Ended 31 December 2019 (continued)

12 Property, plant and equipment

	<i>Furniture and equipment £ 000</i>	<i>Right-of-use assets £ 000</i>	<i>Total £ 000</i>
Cost or valuation			
At 1 January 2019	-	-	-
Opening adjustment - IFRS16	-	23	23
Additions	30	-	30
Foreign exchange movements	(1)	(1)	(2)
At 31 December 2019	<u>29</u>	<u>22</u>	<u>51</u>
Depreciation			
At 1 January 2019	-	-	-
Opening adjustment - IFRS16	-	15	15
Charge for the year	6	6	12
Foreign exchange movements	(1)	(1)	(2)
At 31 December 2019	<u>5</u>	<u>20</u>	<u>25</u>
Net book value			
At 31 December 2019	<u>24</u>	<u>2</u>	<u>26</u>
At 31 December 2018	<u>-</u>	<u>-</u>	<u>-</u>

As at 31 December 2019, an asset with a net book value of £1.5k was included in motor vehicle relating to the right to use leased motor vehicle under a lease agreement.

Serco-IAL Limited

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

13 Investments

£ 000

Cost or valuation

As at 1 January 2019 58

As at 31 December 2019 58

Carrying amount

At 31 December 2019 and as at 31 December 2018 58

Details of the investments as at 31 December 2019 are as follows:

<i>Name of investment</i>	<i>Principal activity</i>	<i>Country of incorporation and principal place of business</i>	<i>Proportion of ownership interest and voting rights held</i>	
			<i>2019</i>	<i>2018</i>
Serco Saudi Arabia LLC	Transportation services	6987 King Abdul Aziz Road, Al Maseef District, Unit No. 31, Riyadh, 12467-2444. Kingdom of Saudi Arabia	5%	5%

14 Debtors: amounts falling due within one year

	<i>2019</i>	<i>2018</i>
	<i>£ 000</i>	<i>£ 000</i>
Trade debtors	4,732	8,961
Amounts owed by group companies	64,828	70,572
Prepayments	4,103	5,598
Contract assets	2,532	-
	<u>76,195</u>	<u>85,131</u>

Amounts owed by group companies are receivable on demand and bear interest based on LIBOR minus 0.2%.

Serco-IAL Limited

Notes to the Financial Statements

for the Year Ended 31 December 2019 (continued)

15 Cash and cash equivalents

	2019	2018
	£ 000	£ 000
Cash at bank	<u>14,380</u>	<u>5,596</u>

16 Creditors: amounts falling due within one year

	2019	2018
	£ 000	£ 000
Trade creditors	163	250
Accrued expenses	2,293	5,138
Amounts due to group companies	86	86
Other creditors	487	220
Contract liabilities	<u>24</u>	<u>-</u>
	<u>3,053</u>	<u>5,694</u>

Amounts owed to Group companies are repayable on demand and bear interest based on LIBOR minus 0.2%.

17 Lease obligations

	<i>Minimum lease payments</i>
	2019
	£ 000
Amounts payable under leases	
Within one year	1
Between one to five years	-
After five years	<u>-</u>
	1
Less: future finance charges	<u>-</u>
Present value of lease obligation	<u><u>1</u></u>

Notes to the Financial Statements

for the Year Ended 31 December 2019 (continued)

18 Provisions for liabilities

	<i>Employee benefits £ 000</i>
At 1 January 2019	6,032
Increase in existing provisions	2,036
Provisions used	(3,847)
Decrease due to foreign exchange differences	(174)
	<hr/>
At 31 December 2019	<u>4,047</u>
Non-current liabilities	<u>4,047</u>

Employee related provisions are for post-employment awards and terminal gratuities which have been accrued and are based on law, together with an estimate of the probabilities that employees will stay until retirement and receive all amounts.

19 Contingent liabilities

The Company is aware of other claims and potential claims which involve or may involve legal proceedings against the Company although the current assessment by the directors of these is that they are not considered probable to result in an outflow of economic benefits.

20 Pension and other schemes

Defined contribution pension scheme

The Company operates a defined contribution pension scheme. The pension cost charge for the year represents contributions paid by the Company to the scheme and amounted to £439k (2018: £739k).

Contributions totalling £nil (2018: £nil) were payable to the scheme at the end of the year and are included in creditors.

Further details on this Group defined contribution scheme can be found in note 31 of the consolidated Annual Review and Accounts of the Company's ultimate parent, Serco Group plc.

Defined benefit pension schemes

The Company paid employer contributions of £nil (2018: £1,000) into UK defined benefit schemes. Contributions totalling £nil (2018: £nil) were payable to the scheme at the end of the year and are included in creditors.

The total net pension asset on this Group defined benefit scheme at 31 December 2019 was £78.3m (2018: £85.8m asset).

Notes to the Financial Statements

for the Year Ended 31 December 2019 (continued)

20 Pension and other schemes (continued)

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 31 of the consolidated Annual Review and Accounts of the Company's ultimate parent, Serco Group plc, under the heading 'Defined benefit schemes'.

21 Share capital

Allotted, called up and fully paid shares

	2019		2018	
	No.	£	No.	£
Ordinary share capital of £1 each	<u>11,502,593</u>	<u>11,502,593</u>	<u>11,502,593</u>	<u>11,502,593</u>

22 Parent and ultimate parent undertaking

The Company's immediate parent is Serco Holdings Limited.

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

23 Post balance sheet events

Coronavirus (COVID-19) was originally identified as a disease in China late in 2019. Following global transmission of the disease early in 2020, Europe and other continents began identifying cases which continued to rise in number such that on 12 March 2020 the World Health Organisation characterised the outbreak of COVID-19 as a global pandemic. As the impact of COVID-19 arose subsequent to the Company's year-end it is considered to be a non-adjusting post Balance Sheet event. It is not possible to reliably estimate the length and severity of these developments nor the impact on the financial position and financial results of the Company in future periods, hence no amounts related to the impact of COVID-19 have been included in these financial statements, nor have any amendments been made to the carrying value of items on the Balance Sheet. The Company has seen a reduction in services provided within its air traffic control and airport services contracts, however the full impact on these is dependent on how long airports continue to operate at a reduced service, which is unknown, and may have a material impact on the Company's revenue and profit projections.