

[20 JUNE 2019]

OFFICIAL-SENSITIVE

IN THE CROWN COURT AT SOUTHWARK No.

BETWEEN

SERIOUS FRAUD OFFICE

-v-

SERCO GEOGRAFIX LIMITED

STATEMENT OF FACTS PREPARED PURSUANT TO
PARAGRAPH 5(1) OF SCHEDULE 17 OF THE CRIME AND COURTS ACT 2013

INTRODUCTION

1. This is an agreed Statement of Facts in relation to a Deferred Prosecution Agreement (“DPA”) between the Serious Fraud Office (“SFO”) and Serco Geografix Limited (“SGL”), to resolve the SFO’s investigation of allegations that Serco Geografix Limited committed three offences of fraud contrary to section 2 of the Fraud Act 2006, and two offences of false accounting contrary to section 17 of the Theft Act 1986. It is made pursuant to section 5(1) of Schedule 17 of the Crime and Courts Act 2013.
2. SGL hereby agrees that the facts set out in this statement are true and accurate, and admits that it is responsible for the acts set forth in this Statement of Facts.
3. Should the SFO pursue the prosecution that is deferred by the DPA or otherwise take action against SGL, SGL agrees that it will neither contest the admissibility of, nor contradict, this Statement of Facts in any proceeding that is part of or relates to such a prosecution. In any such proceedings this Statement of Facts would be admissible against SGL in accordance with section 10 of the Criminal Justice Act 1967.

The Company

4. SGL is a private limited company incorporated in the United Kingdom (company number 03522659) whose registered address is located in Hook, Hampshire. Prior to a 2013 corporate restructuring and during most of the period addressed in the Indictment, SGL was a wholly-owned subsidiary of Serco Limited, an entity described below. In its 2013 Annual Report, SGL described its principal business as “the design, manufacture, sale, and leasing of electronic tagging equipment,” and explained that “[t]he primary contract for [SGL] is associated with the Electronic Monitoring (EM) contract held by Serco Limited.” SGL’s turnover in 2011, 2012, and 2013 was reported as £21.021 million, £18.3 million, and £12.956 million, respectively, but in its most recent annual report (covering the year ended 31 December 2017), SGL only reported turnover of £266,000, and explained that its “final contract ended 31 January 2018,” its “last remaining employee was transferred over to another [Serco] group company during 2016,” and “there are no expectations to trade in the future.”

Other Relevant Entities and Individuals

5. **Serco Limited** (“SL”) is a private limited company incorporated in the United Kingdom (company number 00242246) whose registered address is co-located with that of SGL in Hook, Hampshire. It employs approximately 22,000 people, and although it reported a loss of £33.4 million in 2017, its 2017 turnover exceeded £1.2 billion, approximately 90% of which resulted from public sector services delivered in the United Kingdom across five sectors: Defence, Justice & Immigration, Transport, Health, and Citizen Services. SL is wholly owned by Serco Holdings Limited (company number 03970268), which is in turn wholly owned by **Serco Group plc** (“Serco Group”), a public limited company incorporated in the United Kingdom (company number 02048608) whose registered address is co-located with those of SGL and SL in Hook, Hampshire. Serco Group trades on the London Stock Exchange and forms part of the FTSE 250 index. Serco Group employs over 50,000 people and reported 2018 underlying trading profit of £93.1 million on revenue of over £2.8 billion, approximately 46% of which resulted from its operations in the United Kingdom and Europe. Serco Group has contracts with—among others—the Ministry of Defence, the Home Office, and the Ministry of Justice, and Serco Group reported 2018 revenues from the UK Government of approximately £1.1 billion.

6. **SGL Director 1** was a qualified accountant and, from March 2010 to May 2012, a statutory director—and directing mind and will—of SGL. During that time SGL Director 1 was also employed as Finance Director of an SL division that oversaw SGL as well as multiple contracts including the Electronic Monitoring contract described in paragraphs 18–24 below. SGL Director 1 also supervised SL Manager 1.

7. **SGL Director 2** was from May 2012 to April 2013 a statutory director—and directing mind and will—of SGL. During that time SGL Director 2 was also employed in SL’s Operations function, in which capacity SGL Director 2 oversaw the operational aspects of multiple SL contracts, including the Electronic Monitoring contract described in paragraphs 18–24 below.

8. **SL Manager 1** was at all times relevant to the matters described herein employed in an SL Finance function.

The SFO's Investigation

9. In late 2013 the Ministry of Justice ("MoJ") contacted the SFO regarding the electronic monitoring services SL was providing for the MoJ between 2005 and 2013. This referral, and the SFO's initial investigation, focused on the question of whether SL had improperly invoiced and been paid by the MoJ for monitoring subjects where no actual monitoring had taken place. Following a full investigation, the SFO has determined that there is insufficient evidence to provide a realistic prospect of conviction regarding the conduct originally referred to the SFO by the MoJ.
10. However, during its review and production of materials to the SFO in connection with the investigation of suspected improper invoicing, Serco Group disclosed to the SFO (in late November 2013) that it had discovered emails which "raise concerns, including in respect of whether inflated profits have been taken in SGL so as to record lower profits in Serco. In addition, there is concern that the authority was not informed of (unanticipated) cost savings." At the SFO's request, Serco Group refrained from interviewing any employees regarding this newly disclosed issue, and focused instead on a documentary review, the results of which it presented to the SFO in September 2014. The issue of undisclosed profits Serco Group disclosed in late 2013 is that which forms the basis of this agreement.
11. In addition to promptly and voluntarily disclosing the accounting and reporting issues described in paragraph 10, SGL, SL, and Serco Group have cooperated fully and substantially with the SFO's investigation, including by:
 - a. Refraining, at the SFO's request, from interviewing witnesses or taking statements during the course of the criminal investigation;

- b. Instructing an external law firm to conduct a document-only review of the matters under investigation and provide the SFO with a presentation and written account of its findings;
 - c. Providing access to mailbox accounts of its employees and former employees and other data without first filtering their contents for privileged items other than by reference to narrowly defined search terms, and agreeing that any issues of privilege that might arise as a result could be resolved by independent counsel;
 - d. Agreeing to a limited waiver of privilege over certain forensic accounting and first account material;
 - e. Proactively disclosing other material which appeared to it to be significant to the criminal investigation; and
 - f. Proactively keeping the SFO updated of developments in its business that might impact the criminal investigation, including but not limited to information requests from its employees and former employees.
12. Serco Group has also undertaken significant rehabilitative efforts since 2013, including by implementing a multi-year, company-wide Corporate Renewal Programme (a comprehensive set of initiatives to strengthen Serco Group's assurance activities and operating practices), making a complete change of senior management, including but not limited to its Chief Executive Officer and Chief Financial Officer, and subjecting itself to numerous forms of internal and external examination, analysis, detailed review, and audits to ensure progress and success in its rehabilitation efforts. Serco Group also entered into a Settlement Deed with the MoJ in December 2013, pursuant to which Serco Group agreed to pay the MoJ £70,107,586, which included £20,000,000 representing a 50% share of “[p]rofit over bid level including equipment” for the period April 2005–September 2012.

13. The SFO's investigation into the involvement of individuals in the conduct described below continues.
14. A DPA is only available to a body corporate, a partnership or an unincorporated association; a DPA is not available to an individual.

SUMMARY

15. This case concerns a fraud committed against the MoJ between 2011 and 2013. It was carried out by means of fraudulent financial reporting to the MoJ and related false accounting (Charges 1 through 4). Further false accounting occurred when SGL falsified its statutory accounts for the year ending 31 December 2011 (Charge 5).
16. The purpose of the fraud by SGL was dishonestly to mislead the MoJ as to the true extent of the profits being made by SL under contracts for the provision of electronic monitoring services entered into by the Secretary of State for the Home Department and SL, so as to ensure a financial gain for SL from those contracts.
17. Through the conduct of its directors, SGL caused the reporting of false costs to the MoJ by SL, intending to ensure that the MoJ did not, on seeing high profit margins, attempt to limit any of SL's future profits, recover any of SL's previous profits, seek more favourable terms during renegotiations of contracts, or otherwise threaten the revenue stream SL obtained as a result of the continuing operation of the contracts, which over the period October 2010–November 2013 totalled approximately £132 million.

FACTS

Background

The EM Contract, SL's Reporting Obligations, and the Financial Models

18. On 26 November 2004, SL and the Secretary of State for the Home Department entered into two contracts for the provision of electronic monitoring services in the "London and Eastern area" and "West Midlands and Wales area" (collectively, "the

EM Contract”). The EM Contract provided for curfew monitoring for the purposes of the Criminal Justice System, protecting the public and implementing Government policy.

19. The EM Contract contemplated SL charging the Government for availability of service, induction, installation and removal in respect of each individual under a monitoring scheme and a charge for each enforcement action taken by SL. Whilst the EM Contract was not subject to a profit cap and did not include an automatic profit-sharing mechanism, it included terms designed to ensure the MoJ would receive “Value for Money.” These terms included a requirement that SL “seek, identify and promptly implement opportunities which are reasonably achievable to reduce the costs of providing [electronic monitoring services],” and allowed the MoJ to propose changes to the EM Contract—changes which were to be negotiated based on principles of “Commercial Transparency” and “Value for Money”—to benefit from such cost reductions. The EM Contract also entitled the MoJ to 50% of any “unanticipated cost efficiencies” experienced by SL in the course of servicing the EM Contract, and in order to enable the MoJ to ascertain whether SL was in fact realising such unanticipated cost efficiencies, SL agreed in the EM Contract to “furnish all information reasonably necessary” for MoJ to do so.
20. SL was required by the EM Contract to submit to the MoJ a “Financial Model,” that is, “an Excel workbook containing various interlinking spreadsheets,” which was to be provided to the MoJ approximately every six months and was to be “derived from [SL’s] internal documentation.”
21. SL agreed that the Financial Model it submitted to the MoJ would “take account of actual revenues and costs incurred” by SL in servicing the EM Contract, and defined “costs” as “all types of cost . . . as actually incurred at that time by [SL] in delivering [electronic monitoring services] to [the MoJ].” The EM Contract therefore required SL to provide information from which the profit margin gained by SL in servicing the EM Contract could be calculated.

22. The EM Contract contemplated that the Financial Model should be used as necessary by the parties to support discussions relating to changes to the EM Contract and SL's charges to the MoJ for performing the contract. SL was required to submit the Financial Model, among other things, "to give [the MoJ] sight of the underlying costs of [SL] in delivering its Obligations under the Agreement in order for [the MoJ] to have confidence that [SL] has realistically priced its solution," and to "assess whether or not proposed changes to the Agreement represented value for money...".
23. In addition to the specific requirement that it would report its actual costs of servicing the EM Contract to the MoJ, SL also agreed more generally that in servicing the EM Contract, it would provide "commercial transparency" regarding "costs [and] margins," and "discharge its obligations with all due skill, care and diligence," and also that "any and all information supplied" to the MoJ—in particular "all statements and representations" SL made to the MoJ—would be "to the best of [SL's] knowledge, information, and belief, true and accurate at the time of supply." Moreover, SL agreed to "advise [the MoJ] of any fact, matter or circumstance of which it may become aware which would render any such statement or representation to be false or misleading."
24. SL sought and received two extensions of the EM Contract, in March 2009 and December 2010, which resulted in SL servicing the EM Contract until March 2013. A Transition Agreement resulted in further service delivery until January 2014. Neither those extensions nor the Transition Agreement resulted in any alteration of the terms referred to above. These remained in force throughout the life of the EM Contract.

SL's Forecasts of EM Contract Profitability

25. The EM Contract was funded by HM Treasury and so ultimately by the taxpayer. Accordingly, the Home Office (and subsequently the MoJ) required that the UK Government received "Value for Money" from the company to which the EM Contract was awarded. Bidders on the EM Contract were asked to "indicate [their] proposed charging structure" so that the Home Office could evaluate "the business value of the

proposal,” including “the attractiveness of the charging structure.” Bidders were also informed that if asked to submit a “Best and Final Offer” (“BAFO”), that is, if the Home Office found a bidder’s initial submission sufficiently attractive to proceed into further negotiations and then invite the bidder to submit a BAFO, the bidder’s BAFO would “be evaluated to establish the likely whole-life cost of the proposed solution” and “the overall value for money” of what the bidder was proposing.

26. SL was invited to submit a “Best and Final Offer” (“BAFO”) for the EM Contract and did so in July 2004. In the BAFO with which SL won the EM Contract, SL forecast monthly profit margins from April 2005 to March 2010 of approximately 14%. Likewise, during its negotiations with the MoJ regarding the contract extensions described in paragraph 24, SL represented to the MoJ that it expected to earn a profit margin of approximately 14% until at least March 2012.

Concerns Regarding Actual EM Profitability

27. As early as 2006, SL's internal profit forecasts on the EM Contract were exceeding those forecast in the BAFO. The trend of increased profitability continued into 2007 as a result of a substantial increase in the number of individuals being monitored without a matching increase in cost.
28. In 2007 SL Manager 1 circulated data to colleagues showing the difference between SL’s forecast profits on the EM Contract and the profit the contract was actually achieving. SL Manager 1 also calculated what 50% of that difference would be – an amount to which SL Manager 1 considered the MoJ might be entitled under the provisions of the EM Contract. As SL Manager 1 subsequently explained, “the reality, two years into the [EM] contract, bears little resemblance to the model” and the “[w]orst case scenario is that we may have to rebate [to MoJ] up to nearly £9M by the end of 2012.” SL Manager 1 further expressed concern that SL’s profit margin was “considerably greater than the 14% bid,” advising that the “[c]ustomer may start demanding some of this surplus back as provided for in contract (or at least ask us to do more without any price increase, which would also bring margin down”).

29. In and around this time, as part of a Government-wide drive to reduce public spending, the MoJ was engaging with SL regarding the “considerable pressure” the MoJ was under “to identify potential efficiencies and savings in contracts.” For example, the MoJ’s request that SL “come up with suggestions and estimates which will enable them to reduce the ongoing cost of delivering [the EM] contract” was forwarded to SL Manager 1 and others, and in response to a suggestion by an SL Contract Manager that SL “offer up a proposal for sharing profit above a certain margin,” an SL Managing Director explained that “I am loathed [sic] to offer up anything whatsoever,” and likewise, SL Manager 1 stated that “for my part, [I] would be cautious about putting anything forward that might encourage the customer to take a closer interest in the figures that we provide such that they might wish to dig deeper than they do at the moment.”
30. As the profitability of the EM Contract for SL continued to significantly exceed SL’s “bid margin” of approximately 14%, SL Manager 1, SGL Director 1 and others refrained from disclosing that actual profitability to the MoJ, including during discussions regarding an extension of the EM Contract. On 27 October 2008, SGL Director 1 circulated to (among others) SL Manager 1, SGL Director 2, an SL division CEO, and others an internal slide presentation explaining “our proposed offer to the MoJ,” which included under the heading “Margin” the following: “Bid 14%; Reported to Client 18% - 19%; Actual margin 24%.” However, the slides submitted to the MoJ two days later by an SL Manager (copying SGL Director 1 and SL Manager 1) only informed the MoJ that “Margin (pre price reduction)” was “18% - 19%,” and in response to further MoJ questions about SL’s profit margin, SGL Director 1 refrained from disclosing SL’s “actual margin,” choosing instead only to say that “our anticipated margin during the extension period will be 13% - 14%. (approximately bid margin).”

Initial Use of Retrospective SGL “Re-charges” as a Way to Suppress Reported Profit

31. The concerns and pressures outlined in paragraphs 27–30 led SL Manager 1, SGL Director 1, and others to consider ways of “mitigating the higher than planned profit levels, yet keeping the overall profits within Serco.” Until approximately 2011, the primary manner in which they did so was by retrospectively re-charging costs incurred by other parts of SL’s business—most notably SGL—to SL. For example, in an email dated 26 October 2009, SL Manager 1 sought to identify further costs within the SL business to retrospectively re-charge to the EM contract in order to reduce the profit margin reported to the MoJ to a target amount. Having been informed non-SGL-related re-charges would be insufficient to “soak up the rest” of SL’s excess profit margin, SL Manager 1 emailed SGL explaining that “I have [a] figure of about £550K that I’m looking for a home for,” and proposed various cost items which SGL could charge to achieve this, despite the fact that no charges connected to these items had previously been invoiced to SL by SGL. In response, SGL included these costs within its internal accounting records, and these retrospectively re-charged amounts were incorporated into a Financial Model and submitted to the MoJ on 28 October 2009.
32. From at least 2010, the practice of using retrospectively re-charged SGL costs to reduce the margin reported to the MoJ closer to a target amount was encouraged by senior SL management. For example, in a Finance Review meeting on 24 March 2010, an SL division CEO is reported to have instructed SGL Director 1 to “ensure that the EM margin is the same as the re-bid margin” of approximately 14%, and to review “ongoing [SGL] prices” in order “to bring margin down to 14%.” Accordingly, in preparation for SL’s next Financial Model submission, SL Manager 1 and SGL Director 1 again sought to transfer costs from SGL to SL for purposes of increasing the costs SL would report to the MoJ, thereby reducing the reported profit margin. In an email dated 9 April 2010, SGL Director 1 asked SL Manager 1 “how much we might be able to transfer,” to which SL Manager 1 responded “[a]pparently we can have any number [we] want! . . . I will let [SGL] have a number towards the end of the month when I have a clearer idea of what we need to shift.” Ultimately, SL Manager 1 submitted a

Financial Model to the MoJ on 24 June 2010 that included an additional £1.05 million of SGL costs purportedly incurred by SL in servicing the EM Contract, as well as a Financial Model to the MoJ in January 2011 that included an additional £1.986 million of SGL costs purportedly incurred by SL in servicing the EM Contract.

33. In total, between April 2006 and January 2011, SL submitted seven Financial Models to the MoJ. These reported to the MoJ at least an additional £6.2 million of costs that had been retrospectively re-charged to SL by SGL, as described in the preceding paragraphs, for the purpose of suppressing the profitability of the EM Contract SL reported to MoJ.

The Fraud: SGL's False £500,000 Monthly Charges, 2011–2013

34. SGL's charging of £1.986 million to SL, described in paragraph 32 above, exhausted the total of all the remaining expenses on SGL's books that SGL could use for the purposes of increasing the costs SL reported to the MoJ. Moreover, as SL Manager 1 explained in an email dated 4 January 2011, in order to "show" the MoJ an average margin as low as 17.3% for the period March 2010 through September 2010 in the Financial Model submitted in January 2011, SL Manager 1 explained, SL had had to apportion the £1.986 million over six months rather than, as SL Manager 1 had originally hoped, over an entire year, which would have resulted in a margin of 22.3%. As a result, SL Manager 1 advised his supervisors—including SGL Director 1—that "we need to be looking at what we can do to increase the costs disclosed after September [2010]." SGL Director 1 instructed SL Manager 1 to "work with [one of SL Manager 1's supervisors] and come back with a proposal for the reducing the margin for the next return."

"About £500K per month" is Proposed and Adopted

35. After explaining that reducing the reported profitability of the EM Contract would not be "quite as simple as [SGL Director 1] seems to think it is," in an email dated 26 April 2011 SL Manager 1 explained to SL Manager 1's supervisors the amount SL would need

to “move,” telling them “I would suggest about £500K per month.” SL Manager 1 then offered “a couple of scenarios that deliver the £500K per month,” the first being an across-the-board increase of SGL charges, the second being a lower across-the-board increase of SGL charges, coupled with “a monthly charge [from SGL] for development, (or maintenance or call it whatever you like).”

36. SL Manager 1’s proposals were not driven by actual SGL charges with any underlying basis or substance. No purchase order or invoice had been raised for any of the proposed charges. No additional goods or services were provided to SL by SGL in consideration of the proposed charges, and SGL had not incurred any additional costs or expenses itself that could explain an increase in charges in the amounts proposed. The fictitious nature of the charges was reflected in SL Manager 1’s explanation to SL Manager 1’s supervisors that “[w]e can, of course, make the numbers whatever we wish.”
37. On 26 May 2011, at the request of one of SL Manager 1’s supervisors, SL Manager 1 provided a slide presentation titled “Review SGL charges” that was “a walk through to a proposed disclosure” of SL’s costs to the MoJ. The five-page presentation began with a slide showing what SL Manager 1 described as “the underlying numbers,” that is, SL’s actual internal accounting, which yielded monthly margins for the period October 2010–March 2011 that averaged over 32%. The second slide showed the same data, but added “£500K per month . . . to SGL charges,” resulting in monthly margins for the same period that averaged approximately 17.9%. In the final slide of the presentation, SL Manager 1 included a slide suggesting line-items among which “£500,000 (ish)” of “[a]dditional charges” from SGL might be spread, and explained to SL Manager 1’s supervisor that “really any combination is possible.”
38. SL Manager 1, SGL Directors 1 and 2, and others discussed the idea of including £500,000 per month of additional charges from SGL to SL as a way to increase SL’s reported costs of servicing the EM Contract again on 1 June 2011, referencing the provisions of the EM Contract described in paragraphs 19–21 above. This discussion led SGL Director 1 to opine that “calling any additional charges from [SGL]

‘development’ may not be the best name,” and to ask SL Manager 1 to figure out “a suitable term and rationale for charges.” Thereafter, on 12 June 2011, SL Manager 1 circulated a “revised proposal for breakdown of additional charges from SGL” slide presentation, explaining that “[i]nstead of Development I have used the expression ‘Improvement’ and hopes [sic] this suits,” and stating that if the recipients—SGL Director 1 as well as another of SL Manager 1’s supervisors—were “happy for me to proceed then I will update and submit the financial model to the [MoJ].” Subsequently, and with knowledge of and approval from SGL Director 1, SL Manager 1 reported cost figures to the MoJ for the period October 2010 to March 2011 that were false insofar as they included £500,000 per month of fabricated costs represented as equipment, staff and overhead costs.

Falsification of Internal Accounting Records

39. In addition to reporting these false figures to the MoJ, SL Manager 1, SGL Director 1, and others caused the falsification of the internal accounting records of both SL and SGL in an effort to create the perception that SGL had actually charged SL an extra £500,000 in each of October, November, and December 2010, as well as in January, February, and March 2011. For example, in an email dated 20 June 2011 with the subject line “fancy £500k a month...?”, one of SL Manager 1’s supervisors explained to a colleague that “[t]he proposal arrived at by [SL Manager 1], and agreed with [SGL Directors 1 and 2], is that [SGL] charge an additional £500k a month for the last 6 months of the year (£3m) across to [SL] to equalise profit.” That supervisor amended the “fancy £500k a month...?” email later the same day, explaining that “[i]ts [sic] actually not just what I described before. We also need to tfr £4.5m of cost to us in June, to reflect the 9 months from October 10, where we are proposing you charge us the same £500k a month. So that will be £4.5m in June, and then £0.5m per month thereafter – so £7.5m in total for the year.” In executing this plan, another of SL Manager 1’s supervisors explained that, “[i]t is an additional management fee of £500[,000] per month backdated to the start of the next period to be reported via the ‘open book’ arrangement [SL] has with the MoJ.”

40. Accordingly, SGL Director 1 and others ensured that SL's and SGL's internal accounting records—which were records made and required for an accounting purpose—were dishonestly manipulated to post the false £500,000 monthly charges from SGL to SL. This included SGL posting the false charges as “management fees” in its own accounting records.

Retrospective Funds Transfer From SL to SGL

41. False charges of £4.5 million from SGL to SL were booked and approximately £3 million were reported to the MoJ as costs actually and genuinely incurred in the Financial Model SL submitted to the MoJ on 11 August 2011. Afterward—on 29 September 2011—an SL division CEO approved payment by SL to SGL of over £5.4 million, an amount which was described to the SL division CEO as including “backdated charges” from SGL to SL.
42. SL's payment to SGL of an amount that included the “backdated” £500,000 monthly charges was intended by SGL Director 1 and SL Manager 1 to further obscure the falsity of the £500,000 monthly charges, and to thereby further conceal the profitability of the EM Contract for SL.

Ongoing Submission of Financial Models Reporting False £500,000 Charges

43. With the knowledge and approval of SGL, and in an effort to conceal the true profitability of the EM Contract from the MoJ, SL Manager 1 continued to include false £500,000 monthly charges in the Financial Models SL submitted to the MoJ through to January 2013. In doing so, SL Manager 1—with the knowledge and approval of SGL—was acting to ensure that the true profitability of the EM Contract would not be questioned or diminished by any action the MoJ might take. This was an ongoing concern for SL Manager 1, SGL Directors 1 and 2, and others as, despite being artificially suppressed by the £500,000 monthly charges, the profitability of the EM Contract continued to reach levels that raised the prospect of scrutiny by the MoJ. For example, in an email dated 24 May 2012, SL Manager 1 explained to SGL Director 2

and others that although SL Manager 1 had suppressed some of SL's reportable EM Contract profitability by "re-phas[ing] the disclosed margin for March 2012, which is showing as 25.09%, and which may raise eyebrows with the customer." SGL Director 2 asked SL Manager 1 if there were any other costs "that have been charged elsewhere" but which "we could include" for reporting purposes, to which SL Manager 1 replied, "I'm afraid not. The only thing that I could think to do was to artificially smooth some of the costs out of other months into March 2012 so that March's margin's reduced at the expense of other [sic] going up marginally." SL Manager 1 asked SGL Director 2 "what margin you would be happy to show in March 2012," so that SL Manager could "revise and send you an amended version," to which SGL Director 2 responded, "Leave it with me."

44. Had the MoJ had full sight of SL's profits on the EM Contract via true and accurate Financial Models, it is likely that the MoJ not only would have challenged SL regarding the value it was providing the MoJ in exchange for the sums SL was being paid, but also that the MoJ would have sought alterations to the commercial, economic or performance terms of the contract, including as to price, and thereby would have reduced the profitability of the EM Contract for SL. However, by disguising the full extent of SL's profits through false Financial Models, SGL and others deprived the MoJ of information that may have prompted such challenges, and thereby avoided any diminution of SL's EM Contract revenues.
45. At no point were SGL's £500,000 monthly charges based on any additional goods or services SGL provided to SL, and indeed SGL's and SL's internal accounting records did not categorise them in a consistent or corresponding manner, with SL's internal accounting records referring to them as "provision for additional equipment lease" and SGL's internal accounting records referring to them as "management fees."
46. The funds SL paid SGL as a result of the false £500,000 monthly charges—as described, for example, in paragraphs 41 and 42 above—were not kept within SGL, but rather were returned as part of a general dividend payment back to SL on the authorisation of the directors of SGL, including SGL Directors 1 and 2.

47. Between 2011 and 2013 four Financial Models were prepared and three submitted to the MoJ (on or about the dates set forth in summary form in the chart below and in month-by-month detail in Attachment A to the Statement of Facts) that dishonestly and falsely represented untrue and misleading cost figures for the sole purpose of suppressing the profitability of the EM Contract SL reported to the MoJ.

Financial Model Submission Date	Financial Model Reporting Period	Monthly Profit Margin Range (per Financial Model)	False Charges	Actual Monthly Profit Margin Range
11/08/2011	6 Months to March 2011	-13.62% to 21.22%	£3,093,699	5.90% to 37.91%
06/06/2012	12 Months to March 2012	12.96% to 25.09%	£5,900,000	23.46% to 37.97%
18/01/2013	6 Months to September 2012	14.52% to 21.13%	£3,000,000	27.87% to 34.42%
n/a	6 Months to March 2013	12.50% to 53.44%	£3,000,000	28.24% to 67.95%

48. The actions of SGL, and SGL Directors 1 and 2 that led to the submissions of these false Financial Models to the MoJ were dishonest, and were intended to make a gain for SL and SGL by ensuring that SL's and SGL's revenues from the EM Contract were not queried and potentially reduced as a result of the MoJ having visibility of the true high profit levels SL was experiencing from the EM Contract.

Falsification of SGL's 2011 Statutory Accounts

49. In connection with their audit of SL's 2011 accounts, SL's auditors asked questions that required SL—and in particular SL Manager 1 and SGL Director 1—to explain the £500,000 monthly charges SL was recording from SGL. The falsity of those £500,000 monthly charges required SGL, SL Manager 1, SGL Director 1, and others to manufacture such explanations and ensure they were consistent between SL and SGL. For example, in an email dated 30 January 2012, an SL Finance Director emailed SL Manager 1, SGL Director 1, and another SL employee, noting that “[t]he auditors are chasing [SL Manager 1] and we need to get back to them today,” and reminding the group that “any explanation” for the “movement” of SL's margin “needs to be consistent with SGL.”

50. A few days later, on 2 February 2012, SL Manager 1 emailed that same SL Finance Director, noting that “[a]t the moment I haven’t been asked what the additional charges are from SGL but I expect this to come,” and asking if the SL Finance Director had heard anything further regarding what the explanation in response should be.
51. As SL Manager 1 anticipated, minutes after providing information regarding SL’s EM Contract profit margin that SL Manager 1 had discussed and coordinated with the SL Finance Director, SL’s auditors asked “what drove the increases in price from SGL.” SL Manager 1 drafted a multi-paragraph response, which described “a number of things that have contributed” to the increases in price. SL Manager 1 forwarded this explanation to the SL Finance Director, asking if the SL Finance Director was “happy” with it. The SL Finance Director replied “Yes – thx!”
52. SL Manager 1 thereafter provided the information to SL’s auditors as an explanation of the £500,000 monthly charges from SGL, but as SL Manager 1 and SGL Directors 1 and 2 knew, none of the items SL Manager 1 cited to SL’s auditors actually “contributed” to the £500,000 monthly charges from SGL.
53. In connection with SL’s reporting of the £500,000 monthly charges from SGL in SL’s internal accounting records and to further conceal the falsity of those charges, SGL included the £500,000 monthly charges in its internal accounting records as well. As such, SGL’s 2011 statutory accounts—which reflected the entries in those internal accounting documents, were themselves records made for an accounting purpose, and were approved and signed in May 2012 by SGL Director 1—reported an additional £7.5 million of false revenue, over one-third of SGL’s reported turnover for the year.
54. In its 2011 statutory accounts, SGL also claimed that its reported 69% increase in turnover for the year was due to “increased demand for electronic monitoring services and equipment” and “represents amounts receivable for goods and services provided in the normal course of business,” when, as SGL Director 1 knew when signing those

statutory accounts, a significant portion of that reported increase in turnover was due to SGL's false £500,000 monthly charges to SL.

Attachment A: Monthly Impact of False Costs on Financial Model (“FM”) Profit Margins

FM Period to	FM Submission Date	Profit Margin/Cost	Month												
			Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	
Mar 2011	11/08/11	FM Profit Margin	n/a	16.06%	21.20%	21.22%	16.52%	11.97%	-13.62% ¹						
		False Cost	n/a	493,111	478,304	590,854	509,493	506,404	515,533						
		Actual Profit Margin	n/a	30.66%	35.04%	37.91%	30.95%	27.01%	5.90% ²						
Mar 2012	06/06/12		Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	
		FM Profit Margin	17.94%	14.91%	16.96%	19.36%	20.51%	23.57%	23.99%	21.04%	12.96%	13.03%	20.11%	25.09%	
		False Cost	500,000	500,000	500,000	500,000	500,000	500,000	500,000	500,000	500,000	500,000	400,000	500,000	500,000
		Actual Profit Margin	31.70%	28.33%	30.27%	32.31%	33.05%	35.99%	36.29%	33.63%	25.67%	23.46%	33.51%	37.97%	
Sept 2012	18/01/13		Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	
		FM Profit Margin	14.52%	21.13%	17.30%	19.58%	19.32%	15.02%	n/a	n/a	n/a	n/a	n/a	n/a	n/a
		False Cost	500,000	500,000	500,000	500,000	500,000	500,000	500,000	n/a	n/a	n/a	n/a	n/a	n/a
		Actual Profit Margin	27.87%	34.42%	31.56%	33.35%	33.15%	29.28%	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Mar 2013	n/a		Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	
		FM Profit Margin	n/a	20.03%	18.61%	53.44% ³	16.90%	12.50%	18.84%						
		False Cost	n/a	500,000	500,000	500,000	500,000	500,000	500,000						
		Actual Profit Margin	n/a	34.00%	33.10%	67.94% ⁴	31.71%	28.24%	33.74%						

¹ This low margin figure is a result of a £1 million rebate paid by SL to the MoJ, which reduced SL’s revenue in March 2011. The rebate was agreed as part of a contract extension signed in December 2010.

² As per footnote 1.

³ This outsized margin is a result of a £1.2 million “rebate” paid by SGL to SL, which reduced SL’s costs in December 2012. The purpose of rebate was to try and achieve a reported margin for the period to March 2012 that “did not look untoward,” in anticipation of what was already a £2.7 million payment due from SL to the MoJ as part of SL’s agreement to exit the EM Contract.

⁴ As per footnote 2.