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Stock Exchange Announcement

26 February 2010

A strong performance and well positioned for future growth

Serco Group plc – 2009 Full Year Results

12 months to 31 December	2009	2008	% change
Revenue	£3,970m	£3,124m	up 27.1%
Adjusted operating profit	£229.7m	£165.2m	up 39.0%
Operating profit	£212.1m	£156.0m	up 36.0%
Profit before tax	£177.1m	£136.1m	up 30.1%
Adjusted earnings per share	29.53p	22.20p	up 33.0%
Earnings per share	26.76p	20.49p	up 30.6%
Dividend per share	6.25p	5.00p	up 25.0%
Group free cash flow	£137.3m	£94.2m	up 45.8%

Strong operational performance and growth; awarded contracts valued at £5.8bn

- Signed contracts valued at £4.5bn and appointed preferred bidder for £1.3bn of contracts
- Further strengthened business portfolio and extended capabilities into new growth markets
- Delivered strong operational performance and successfully launched major new contracts
- Built strong platform for growth in US through excellent progress on integration of SI acquisition
- Maintained high win rates of one in two new bids and 90% of rebids

Strong financial performance

- Revenue grew by 27.1%; 20.8% excluding currency; 10.2% excluding SI and currency
- Adjusted operating profit margin increase of 50bps; 45bps excluding currency; 27bps excluding SI and currency
- Group free cash flow increased by 45.8% to £137.3m

Excellent revenue visibility supported by long-term contracts and substantial £17.1bn order book

- Order book of £17.1bn at 31 December 2009 (£16.3bn at 31 December 2008)
- Visibility of 91% of planned revenue for 2010, 76% for 2011 and 64% for 2012

Well positioned to support customers with our transformational capabilities

- Global economic environment driving demand in existing and new markets
- Significant opportunities to address customers' needs through our growing capabilities and deep public service ethos
- Strong track record of transforming efficiency and productivity in essential public services

Outlook reflects high visibility, selective bidding strategy, and £28bn opportunity pipeline

- Continue to expect an increase in revenue to approximately £5bn and in Adjusted operating profit margin to approximately 6.3% by the end of 2012*
- In 2010, expect continued strong organic revenue growth and further progress towards our 2012 margin guidance

  * excluding material acquisitions, disposals and currency effects, based on 2008 exchange rates

Christopher Hyman, Chief Executive of Serco Group plc, said: "Serco delivered a very strong performance in 2009, and has entered 2010 with a record order book and significant opportunities in the UK and internationally. Fiscal pressures are increasing in all of our global markets, presenting ever greater opportunities for the efficient delivery of essential services. The breadth of our capabilities, and our track record, enables us to be selective in pursuing the best opportunities to deliver results for all of our stakeholders."

Note: Adjusted operating profit and Adjusted earnings per share shown above are before amortisation of acquired intangibles as shown on the face of the Group's consolidated income statement and the accompanying notes. Group free cash flow is free cash flow from subsidiaries and dividends received from joint ventures and is reconciled in Section 3 of the Finance Review.

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Presentation

A presentation for investors and analysts will be held at J.P. Morgan Cazenove, 20 Moorgate, London EC2R 6DA at 9.30 am today. The presentation will be webcast live on www.serco.com and subsequently available on demand.

Performance excluding currency

Where performance has been stated as "excluding currency", the currency effect has been calculated by translating non-Sterling revenue and earnings, including those of SI, for the year to 31 December 2009 into Sterling at the average foreign exchange rates for the same period in 2008.

About Serco

Serco is a FTSE 100 international service company, which combines commercial know-how with a deep public service ethos.

We improve essential services by managing people, processes, technology and assets more effectively. We advise policy makers, design innovative solutions, integrate systems and - most of all - deliver to the public.

Serco supports governments, agencies and companies who seek a trusted partner with a solid track record of providing assured service excellence. Our people offer operational, management and consulting expertise in the aviation, BPO, defence, education, environmental services, facilities management, health, home affairs, information and communications technology, knowledge services, local government, science and nuclear, transport, welfare to work and the commercial sectors.

More information can be found at www.serco.com

Overview

A strong performance and well positioned for future growth

Serco performed strongly in 2009. We strengthened our position in existing markets by expanding the scope and scale of our current contracts and winning a significant number of new contracts, and broadened our portfolio by entering a number of new markets where we see strong opportunities for growth. Our business performed very well operationally, including successfully starting several major new contracts, and we created an enhanced platform for growth through our excellent progress on the integration of SI International (SI) acquisition. We also continued to develop new opportunities for future growth, which are reflected in the increase in our pipeline of opportunities to £28bn.

We delivered a strong financial performance and also benefited from a first year financial contribution from SI. Excluding currency effects, we grew revenue by 20.8% to £3,774.0m and Adjusted operating profit rose by 31.1% to £216.5m. Our margins increased, with Adjusted operating profit margin rising 45 basis points to 5.74%, excluding currency effects. Excluding both SI and currency effects, revenue grew by 10.2% to £3,442.1m and Adjusted operating profit rose by 15.8% to £191.3m. Organic revenue growth, excluding currency, was 9.4%. Group free cash flow increased by 45.8% to £137.3m, and Group recourse net debt at the year end was £387.7m, a decrease of £136.8m from the end of 2008.

Our ability to transform essential services for our customers and our track record of high quality and efficient operational delivery were reflected in our substantial contract awards during the year, and our continued high win rates. In total, we were awarded contracts valued at £5.8bn, comprising contract wins valued at £4.5bn and preferred bidder appointments valued at £1.3bn. We won 90% of our contract rebids and one in two of our new bids, demonstrating the value placed by both existing and new customers on our capabilities and our consistent delivery of high quality service.

In line with our policy of increasing the total dividend each year broadly in line with the increase in underlying earnings, the Board has proposed a final dividend of 4.40p per share, representing an increase on the 2008 final dividend of 25.0% and bringing the total dividend for the year to 6.25p. The final dividend will be paid, subject to shareholder approval, on 19 May 2010 to shareholders on the register as at 12 March 2010.

Strengthening our position in existing markets

We were awarded new contracts and through renewals and extensions we expanded our existing work across a broad spectrum of our existing markets, including home affairs, IT and BPO, education, transport and integrated services. Smaller and medium-sized contract wins continued to be an important driver of our growth, and further details of some of these awards are given in the Operating Review, starting on page 7.

In larger contract awards, we were selected for a number of significant new home affairs contracts. In Australia, building on capabilities developed in the UK, we signed two new contracts with the Australian Government Department of Immigration and Citizenship (DIAC) to transform its immigration services across the country, and, towards the end of the year, to manage the operation of immigration residential housing and immigration transit accommodation. Together, these contracts are valued at around AUS$415m over five years. In the UK, we were appointed as the preferred bidder to manage and operate two new prisons at Belmarsh West, London and Maghull, Liverpool, with a combined value to Serco of around £600m over 26½ years. Signing of contracts for these prisons is expected by summer 2010.

In North America, we renewed and expanded our work across the armed forces, and intelligence and civil government agencies. We saw a significant expansion of our work supporting the Air Force Space Command, winning US$131m of task orders, and nearly doubled the size of one of our intelligence agency contracts. We were awarded task orders under our US Army HR Solutions contract valued at US$196m, of which US$54m were new orders, and renewed our contract with the US Department of Homeland Security's US Citizenship and Immigration Services to provide records processing support at its National Benefits Center, valued at approximately US$190m over up to five years.

In transport, we renewed and expanded our contract to provide the Dubai Airports Company with air traffic services at Dubai International Airport. The renewed contract is valued at £245m over a longer period of 10 years and builds on the air traffic services that Serco has provided to Dubai for more than 40 years.

Our integrated services business built on its expertise in the local authority and health facilities management markets, with the signing of a number of new contracts. These included contracts with the London Borough of Bexley, valued at £160m over a potential term of up to 15½ years, to provide a full range of environmental services, and with the Plymouth Hospitals NHS Trust to provide services at the Derriford Hospital and the Royal Eye Infirmary valued at around £140m over up to 10 years.

From the start of 2010, we have repositioned our business to maximise our focus on growth and opportunities and to ensure that we maintain a flexible and devolved organisation which is responsive to our customers' needs. As a result, we have created five new divisions, focused on our principal markets. These are: Civil Government; Defence, Science and Nuclear; Local Government and Commercial; Americas and AMEAA (Africa, Middle East, Asia and Australasia). Our segmental reporting will reflect these five divisions starting at our half year results in August 2010.

Entering new growth markets

In 2009, we entered a number of new markets where we see significant opportunities for growth.

In the UK, we opened a new market, pathology, to help our customers improve the efficiency and responsiveness of health services. At the beginning of the year, we formed a new partnership, GSTS

Pathology LLP, with the Guy's and St Thomas' NHS Foundation Trust, to pursue opportunities in this substantial market, which is valued at approximately £2.5bn. In January, GSTS signed a contract, valued at £250m over 10 years to Serco, to improve Guy's and St Thomas' pathology services, and in the second half it further expanded its operations by signing a similar contract with the Bedford Hospitals NHS Trust, valued at approximately £31m over 10 years to Serco.

We have identified significant opportunities in the new Welfare to Work market in the UK to support jobseekers in returning to and remaining in work. In 2009, we signed three contracts under the UK Government's Flexible New Deal initiative, which we are delivering through a unique network of private, public, community and voluntary organisations. These five year contracts have an aggregate value to Serco of £400m-500m, and we expect further similar opportunities to arise in 2010 and beyond.

We also continued to extend our capabilities in the transport market in 2009, adding cycle hire to our existing portfolio of metro, heavy rail, air traffic control, marine and roads operations. We signed a new six-year contract with Transport for London, valued at approximately £140m, to design, build and operate the new London Cycle Hire Scheme. Under the contract we will design and integrate technology and customer service operations, and provide, operate and maintain 6,000 bicycles for hire in Central London at 400 docking stations.

Delivering operational excellence

In 2009, the dedication of our people and the breadth of our capabilities meant that we continued to deliver a strong operational performance in the services we provide, and therefore the value we add, for our customers.

We successfully started a number of major new contracts, valued at over £1bn. These included our Flexible New Deal contracts in the UK; our contract in the Middle East to operate the Dubai Metro, where we have achieved very high performance levels, supported by an in-depth programme of over 50,000 training days to equip some 3,000 employees with the safety and technical skills needed to deliver a world class railway; and our immigration services contract in Australia, where we completed the successful handover of immigration detention centres in under six weeks.

We also set a number of new performance benchmarks and received a number of awards in our existing contracts, including: Merseyrail setting a new record for UK rail punctuality with 96% of trains running to time; our UK marine services delivering outstanding support to the Royal Navy with performance levels consistently running over 99%; exam results from our UK education contracts improving at almost twice the national average; in the US, our receipt of the highest award from the Federal Aviation Authority for air traffic control safety and service excellence and the Best Practice award from the US Department of Defense for our US Marines Wounded Warrior Call Center; and the recognition of our commitment to health and safety by the UK's Royal Society for the Prevention of Accidents through 29 different awards and commendations.

Strong platform for growth in the US market created through SI integration

We have made excellent progress with the integration of SI in its first full year of ownership, with our enhanced capabilities providing a strong platform for growth. This platform positions us well for opportunities in 2010 and beyond in the largest government services market in the world, the US Federal Government services market, notably in supporting the Government in modernising and improving the effectiveness and security of services. We were also pleased with SI's financial performance. SI's revenue grew by 7.5% to US$618.5m, and SI's Adjusted operating profit increased by 28.3% to US$47.1m, representing margin of 7.6%.

Outlook

Our customers, who are principally governments, continue to face rising demand from their citizens to improve the delivery of public services, and to address challenges arising from migration, security, economic development, climate change, ageing populations and congestion.

With the recent substantial increase in fiscal deficits, governments are increasingly seeking new ways to fundamentally transform the efficiency and productivity of essential services. We believe that this will result in both a broadening of opportunities in existing markets, and the continued development of new markets, both in the UK and overseas.

We have a strong track record of high quality service delivery and innovation, and continue to develop our substantial capabilities in improving productivity and efficiency across a broad range of essential services. Given our long-standing relationships with our customers, our deep experience of all types of contracting models, and our people's strong public service ethos, we are well placed to help our customers meet their growing challenges.

Together with the excellent visibility we have over our revenues, the substantial opportunities we see and our growing capabilities and strong track record support our expectation of further progress in 2010 and the medium term.

Operating Review

Civil Government

In Civil Government, our work encompasses sectors including home affairs, welfare to work, integrated services, education and children's services, healthcare, IT and business process outsourcing (BPO), and consulting. In the US, we provide support to a number of civil government agencies through our records management and IT capabilities.

Civil Government revenue grew by 38.0% to £1,556m, representing 39% of Group revenue (2008: 36%).

Home Affairs

In home affairs, our customers are seeking to improve efficiency, increase capacity, and to ensure positive outcomes for those in their care. Our track record of providing secure and cost-effective services, which promote rehabilitation and enhance care, resulted in a number of significant contract awards in 2009.

In Australia, we signed a new five-year AUS$370m contract (with a four-year extension option) with the Australian Government Department of Immigration and Citizenship (DIAC) to transform its immigration services across the country. Since the successful completion of the transition from the existing service provider in November, we have implemented a full programme of activity for the people in our care, including educational programmes and language tuition with the involvement of community groups and volunteers, and are continuing our work on upgrading their living environment. We are also discussing with DIAC arrangements to further expand capacity on Christmas Island.

In the second half of the year, we signed a further new contract with DIAC to transform the operation of immigration residential housing and immigration transit accommodation. The five-year contract is estimated to be valued at AUS$45m and commenced on 31 January 2010.

In border security and control, we extended our contract, known as Mycroft, to provide infrastructure and intelligence applications to the UK Border Agency and other Home Office agencies. The new contract is valued at around £34m over its five-year term. Also in the UK, as part of the Trusted Borders consortium, we have now successfully delivered the first capability piece for e-Borders, allowing the processing of over 100 million passengers a year, and are providing infrastructure to support the next stages of this key programme. In our existing Cyclamen border security contract, while start up has taken longer than expected, we expect to complete the roll-out of this system, which will provide protection against the illegal importation of radioactive materials, in 2010. This leading edge capability, part of the UK Government's counter-terrorism strategy, will be operated by the UK Border Agency and maintained by Serco.

In the UK, we were selected as preferred bidder for contracts to provide and operate two new prisons in the UK, at Belmarsh West, London, and Maghull, Liverpool, with a combined value to us of around £600m over 26½ years. We expect to sign these contracts by summer 2010, and construction is expected to be completed in the second half of 2011.

Also in the UK, the expansion of two of our existing prisons has progressed well. At HMP Dovegate, construction to add a further 260 cells and associated activity and other buildings was completed on budget and ahead of programme, while similar works at HMP Lowdham Grange are nearing completion as expected. The high quality and value of the service we provide was also recognised during the year with HMP Lowdham Grange ranked fifth out of all 138 prisons in UK estate in the National Offender Management Service's Measuring the Quality of Prisoner Life survey, and Hassockfield Secure Training Centre being awarded the British Safety Council Sword of Honour for its health and safety performance.

We also expanded other services in the home affairs market. We extended our Electronic Monitoring contract in England and Wales by two years, securing additional revenue of around £70m, and won a five-year contract valued at over £7m to provide electronic monitoring equipment into Poland.

Welfare to Work

The Welfare to Work market is a significant new market supporting jobseekers in their return to work.

We signed new Flexible New Deal contracts covering three regions, valued in aggregate at £400m-500m, with the UK Department for Work and Pensions (DWP), to support people who have been unemployed for more than 12 months to find sustainable work.

As prime contractor, we are delivering these services through our local networks of successful, established providers, including private, public and third sector organisations. They provide people with tailored support, including career planning and job search advice and specialist services such as debt advice, top-up training and confidence building.

We began the delivery of our Flexible New Deal contracts on time in October 2009, and referrals have increased in the first part of 2010, reflecting the growth in unemployment in early 2009. Job outcome performance is tracking ahead of target, with our highest performing providers already achieving a good early success rate of over 30% of their first jobseeker referrals into employment.

Integrated services

Our integrated services business had a successful year, signing a number of new contracts to help our customers in both the public and private sector reduce overall expenditure and improve service levels in environmental services, and in health and other facilities.

In environmental services, we now provide services to 14 local authorities in the UK. In the second half of the year, we signed a new contract with the London Borough of Bexley to provide a full range of environmental services, including refuse and recycling collection, commercial waste and street cleaning. Our innovative approach will result in an enhanced standard of cleanliness in residential areas, improvements to the efficiency of the environmental services, and a 40% reduction in the service's carbon footprint. The contract is for an initial term of 10½ years, with an option to extend for a further five years, and is valued at over £160m over the full 15½ years. This follows the award of a new contract to provide refuse, recycling and streetscene services for Charnwood Borough Council in Leicestershire in the first half valued at around £35m for a minimum period of seven years.

We also expanded our presence in other integrated services markets during the year. In the UK health market, our new contract, valued at around £140m for up to 10 years, with the Plymouth Hospitals NHS Trust commenced on the 1st October. During the early stages of the contract, great progress has been made in upgrading catering services for staff and visitors, making a step change in cleaning services including the introduction of innovative microbiological testing of cleanliness standards, and improving the provision of patient catering serving 1000 patients a day.

We also renewed and expanded our contract, valued at around £40m over four years, with Airbus for the management and provision of a range of integrated services in the UK, almost doubling our business with Airbus, and signed a new four year contract valued at £24m with Babcock Marine to provide building and civil maintenance repairs and other services to the naval base and Royal Dockyard at Devonport and associated UK Ministry of Defence establishments.

In Australia, as previously reported, we signed contracts valued in aggregate at approximately £12m for facilities management and maintenance for the City of Melbourne; Docklands, Melbourne; and the University of Melbourne.

Education and Children’s Services

We saw further improvements during the year in the results achieved in our existing education services contracts, and expanded the scope of our work as a leading private sector provider of education and children’s services in the UK with new contracts in inspections, strategic advisory services and training.

We delivered a further strong improvement in examination results in our education services contracts at Bradford and Walsall, with the percentage of pupils achieving 5 A*-C grades at GCSE (including English and Maths) increasing by 4.7% at Bradford and 3.1% at Walsall, compared to 2.2% nationally. The improvements we have delivered in education at Bradford have recently enabled the Secretary of State for Children, Schools and Families to lift the Government direction. The Council is planning to take strategic control of education services following the end of our contract in July 2011, but we are supporting the Council in exploring the best ways to deliver operational services in the future.

In the first half of the year, we signed a new six-year, £55m contract in the UK with Ofsted to deliver inspection services to schools, further education colleges, and work-based learning organisations across central England. Since its start in September, we have successfully completed over 1000 inspections.

In the second half, as lead for the Together for Children and Learners consortium, we were awarded a three-year £16m contract (with the potential for a two-year extension) by the Department for Children Schools and Families to provide strategic advisors to help improve children's services across every local authority area in England.

Healthcare

Our new partnership in the pathology market, GSTS Pathology LLP (GSTS), made significant progress in its contract, valued at £250m over 10 years to Serco, to improve Guy's and St Thomas' NHS Foundation Trust's pathology services. In its first year, GSTS has implemented new processes and performance management systems, and an activity-based costing model which has enabled managers to better understand costs and capacity utilisation. This has increased capacity, allowing expansion of the business, and improved turnaround times on tests, in some cases by more than 50%. As reported in the Overview, GSTS also further expanded its operations by signing a similar contract with the Bedford Hospitals NHS Trust.

In 2009, our occupational health business won a number of new contracts with GKN Aerospace, United Utilities, GE and the Student Loan Company. The business has now relocated to new clinical and operational facilities, and has implemented a new bespoke case management system to support its operations.

IT & BPO

In IT & BPO, we further expanded our presence in the UK local authority market by signing a new contract, valued at £44m over 11 years, to manage Peterborough City Council's Information, Communications and Technology (ICT) Services. Our innovative approach will enable an investment of around £6m in Peterborough Council's ICT service at no additional cost to them. We will advise on and implement improvements that will streamline the way services are delivered to residents, and realise efficiencies for the Council by taking advantage of our sophisticated procurement techniques. We will also provide new ICT facilities as part of a modernisation programme that will continually improve council services.

The value of the support we provide to small and medium-sized enterprises in the UK under our Business Link contracts was further recognised during the year through the award of a new contract to provide

Business Link services to the South East of England Development Agency, in a contract that is valued at around £80m over three years (with a two-year extension option), and by expansion of our existing contracts with the South West Regional Development Agency valued at approximately £20m.

In North America, we renewed a number of existing contracts, including with the US Department of Homeland Security's US Citizenship and Immigration Services to provide records processing support at its National Benefits Center valued at approximately US$190m over up to five years. In Canada, while examination volumes at our Driver Examination Service contract in Ontario were affected in the second half of the year by an industrial dispute, this was resolved towards the end of the year. The service has performed strongly so far in 2010, and we are on track to clear the backlog of outstanding examinations.

In Europe, we expanded our business supporting IT, space and science through a number of contract wins with European Institutions, the European Space Agency and at CERN, with a combined value of Euro93m.

While our business in India had a challenging year given the difficult conditions in the global financial services market, we have been encouraged by the interest we have seen in the developing market for public services in this fast-growing country, including in areas such as rail, aviation, health and education, and our expertise in models such as public-private partnerships.

Consulting

Our consulting business performed well and improved its profitability in a competitive market. During the year, we built six expert service lines: Performance Transformation; Operational Efficiency; IT Advisory and Transformation; Procurement; Organisation and Leadership; and Programme Leadership and Assurance. These service lines differentiate our offering in the marketplace and enhance our ability to enter new markets through the provision of sector specific expertise. Consulting also continued to benefit from its position on a number of government frameworks and programmes, and to leverage its expertise in parts of Serco, making a significant contribution to winning contracts and assuring their successful delivery.

Defence

We are a major provider of operational support services to the armed forces of the UK, US, Canada, Germany and Australia. We provide training, engineering and operational support, maintain strategic defence assets, and deliver cost analysis, human resources, systems engineering, safety assurance and risk management services. We have a strong track record of improving productivity and reducing the cost of customer operations, while improving operational availability and capability.

Defence revenue grew by 29.8% to £1,020m, representing 26% of Group revenue (2008: 25%).

United Kingdom and Europe

Growth in our UK defence business continues to be driven by our excellent track record of retaining and growing our existing business, and winning a number of smaller and medium-sized contracts to support the UK armed forces, enhance their operational effectiveness and increase efficiency.

Towards the end of the year, we were appointed preferred bidder for, and since the year end have signed, a Multi-Activity Contract (MAC) to provide services at RAF High Wycombe and RAF Halton. We have provided services including management and administration, general engineering and military transport, at RAF Halton since 1997. With this contract, we will now have a presence at RAF High Wycombe, which is the home of Headquarters Air Command. The combination of services at both sites will provide us with the ability to deliver synergies across both stations through an innovative and flexible solution. The combined seven-year contract (with an additional three option years) is valued at up to £100m over the full 10 years.

In other contract renewals, the UK Ministry of Defence reappointed us to provide support services across all its Air Surveillance and Control Systems sites, valued at £25m over the full eight years, and we were successful in our rebid to provide essential logistical services to the US Air Force at three bases at Alconbury, Molesworth and Croughton, valued at £10m over five years.

In smaller contracts, we were awarded an extension to our contract to support, operate and maintain the UK Ministry of Defence's mobile underwater targets at the British Underwater Test and Evaluation Centre, Kyle of Lochalsh, Scotland, and Weymouth, Dorset valued at up to £7.3m over four and a half years.
We were also appointed by the Ministry of Defence as part of the Paradigm consortium to supply the Cabinet Office with crisis management facilities and key crisis management centres across England, Scotland, Wales and Northern Ireland with a High Integrity Telecommunications System (HITS). Our role, valued at £1.2m over the first 12 months, will be to install the HITS equipment and provide planned and unplanned maintenance support for the HITS systems throughout the UK.

Since the year end, we have been appointed preferred bidder to manage and operate the UK's Emergency Planning College on behalf of the Cabinet Office in a 15-year contract worth over £55m. This places Serco at the heart of UK civil resilience, which includes planning responses to disruption from natural events and major accidents, and builds on our excellent track record in defence and emergency training provision. As commercial partner to the Cabinet Office, we will provide and manage all services at the College, and focus on both growing the business and enhancing its reputation as the UK's leading provider of emergency planning training.

In Germany, we secured £39m in new business and growth, and renewals of existing contracts. Wins have included: contracts with the German Ministry of Defence to provide a mobile military hospital valued at £14m and to provide technical logistic services valued at £3.5m; a new £3.1m contract by NATO's Consultation, Command and Control Agency to support to NATO's initiative to improve data and voice communications links between operating units from the various member states; and contracts to provide a deployable prison for the German military police and deliver the systems integration of deployable command and control containers for close proximity defence systems at German MoD field camps.

North America

In North America, we provide information services, technology and network solutions, and enterprise management, engineering, logistics, and personnel support primarily to the US Government. The acquisition of SI at the end of 2008 has significantly expanded our capabilities and broadened our customer base, and we now serve all branches of the US armed forces.

During the year we expanded our work across all branches of the armed forces and were appointed to a number of significant indefinite delivery/indefinite quantity (IDIQ) contract vehicles during the year giving us, as one of a number of award winners, the opportunity to compete on task orders.

We also saw a significant expansion of our work supporting the Air Force Space Command and other military commands under our C4I2TSR engineering and technical support contract. During the year, we won US$131m of task orders under this contract, which enables the Department of Defense and civilian government agencies to procure a full range of services for mission-critical and high-priority IT systems. We also saw a similar expansion in one of our intelligence agency programmes, which nearly doubled in size.

We continued to broaden the scope of our work supporting the US Navy. Activity under our Sea Enterprise contract, providing IT network support to ships and facilities, increased by nearly 50% in the year, and in the second half, using our expertise developed with the US Army, we won a new contract, valued at US$55m over five years, to support identification card administration throughout the United States. We also won a contract, valued at US$15m over its one-year base period plus four one-year option periods, under which we will provide mobile hospitals for military, humanitarian and disaster relief operations.

We renewed two important contracts with the US Navy. Under our SeaPort-e contract, we will provide logistical support for the management of hazardous material products and chemicals, supporting 15 installations throughout the Southwest. The contract has a one-year base period with four one-year option periods and is valued at approximately US$66m, inclusive of the options. Under the Navy's N1 support contract, valued at US$60m over five years, we will also continue to provide management support for Manpower Personnel Training and Education programs.

In our work for the US Army, we were awarded 78 task orders under our HR Solutions IDIQ during 2009. These were valued in total at US$196m, of which US$54m comprised new orders. These included a task order under which we will assist soldiers and their families who are geographically dispersed make connections with services and support located back at home. This task order has a one-year term and is valued at approximately US$17m, more than double the size of the previous order.

We were also awarded a contract with the US Army to support the closure of bases in Iraq, which is valued at US$30m over three years, and were awarded a new contract with the US Army Research laboratory to provide automation, information, and technology services, with a potential value of US$8m over a one-year base period with four one-year options. We also renewed a contract to provide access card services for the US Army at around 70 locations worldwide, issuing approximately 1.1 million cards annually. The contract, which Serco has held since 2001, is valued at US$9.4m over one year.

For the US Marines, we were awarded a new contract to provide psychological health outreach and referral services for Marine Reservists returning from combat zones or other assignments, and their families. The contract is valued at US$9m over three years.

For the US Air Force, we were awarded a task order to provide its Materiel Command with the capability to migrate data from legacy systems into a modernised integrated environment. This new task order has a six month base period plus a one-year option and is valued at approximately US$25m over its full term.

In the first half, we were appointed to two new multiple awarded government-wide IDIQ procurement programmes, GSA Alliant and STOC II, giving us the opportunity to compete, as one of a number of award winners, for task orders on these programmes. Alliant has a ceiling value of US$50bn over a five-year base period and one five-year option period, and we recently secured our first task order under this program, to support US Customs and Border patrol with a system to enable port officers to rapidly close borders to vehicular traffic. The US Army Program Executive Office for Simulation, Training and Instrumentation Omnibus Contract (STOC II) has a ceiling value of US$17.5bn over a 10-year period.

In the second half, we renewed a number of IDIQ contracts with the US Navy, including two IDIQs for personnel services with a potential value of over US$100m for Serco, and another, with a potential value of up to US$70m for Serco over a five year period, enabling us to compete for US Navy task orders in program management, logistics, financial management and administrative support services.

Australia

In Australia, we were pleased to renew our contract at HMAS Watson for the provision of professional services to the Australian Navy supporting innovative training programmes used in naval bases in New South Wales, Victoria and Western Australia to train military personnel in combat, ship handling and navigation. Under the five-year contract, valued at AUS$10m, we will continue to provide software engineering support to existing electronic naval training, and design new, improved systems.

Transport

We are a major provider of transport services to the UK and markets in Australia, the Middle East and US. We operate heavy and light rail systems, are a leader in the development of integrated traffic management systems, and are one of the world's largest private sector suppliers of air traffic control services. We are broadening our capabilities into other modes of transport, including marine transportation services through our operation of the Woolwich Ferry, and bicycles with our contract to operate the London Cycle Hire Scheme.

Transport revenue grew by 17.6% to £789m, representing 20% of Group revenue (2008: 22%).

Heavy rail

Northern Rail and Merseyrail, Serco's two joint ventures with Abellio (formerly NedRailways), delivered excellent operational performance and continued growth.

Northern Rail carried 85 million passengers during the year, an increase of 34% since the start of our contract in December 2004, and continued to improve punctuality, with the number of trains on time in 2009 improving by 2.5% to 91.8%. Northern Rail was also the first train operator to be awarded the highly prestigious Sir George Earle Trophy for outstanding health and safety management performance at the 2009 RoSPA (Royal Society for the Prevention of Accidents) awards.

In the second half of the year, Merseyrail was one of the first two train operating companies ever to achieve over 96% of trains on time for a continuous 12-month period, a performance which was also achieved for 2009 as a whole. In addition, Merseyrail also gained an overall customer satisfaction score of 91%, the highest in the industry.

Our Australian rail operation, Great Southern Rail, responded quickly to a weaker tourist travel market with enhanced marketing and reduced schedules. Although yields fell, bookings were only slightly below last year's levels, with the service also benefiting from the successful introduction of the Platinum service on the Ghan train in late 2008.

Metro

The operational phase of our £500m contract with the Dubai Government Roads and Transport Authority (RTA) to operate and maintain the first two lines of the new Dubai Metro commenced in the second half of 2009, with the Metro inaugurated on schedule on 9 September. Our start up has been very successful, with the Metro having carried over 10 million passengers to the end of January 2010, and achieving very high levels of performance, with the latest measures in December and January showing 100% availability and 99.5% punctuality with approximately 80,000 passenger journeys per day.

On the Docklands Light Railway (DLR), passenger numbers increased by 3 million to over 69 million, helped by the successful opening of Woolwich Arsenal Station in early 2009. The final phase of work to complete the platform extension and upgrade work for three-carriage trains to run between Bank and Lewisham has now been completed, with longer trains to be introduced on this route throughout 2010. Preparation work is now under way at other stations to enable them to accommodate three-carriage trains from the end of 2010, and work on the Stratford International extension is expected to be completed by the summer. Although services have been disrupted by these works, reliability has averaged above 95% this year and customer satisfaction with the service has remained above 90% throughout. Serco Docklands was also successful in winning an award at the Light Rail Awards this year, with the Community Ambassador Scheme winning "Best Customer Initiative" for its work through local ambassadors in East London's communities.

In Rail Technology, we continue to make progress on our contract to develop an Asset Inspection Train that measures aspects of the London Underground network, such as track profile, rail wear and tunnel dimensions. While this has taken longer than expected, we are now looking forward to commissioning the train and further enhancing its measurement capability.

Traffic management

Our customers are responding to the increasing problem of congestion by seeking to maximise the capacity of the existing road infrastructure through traffic management, and this has driven demand for our innovative capabilities in 2009.

In the UK, we were appointed as preferred bidder for the MF1 contract, valued at up to £12m over three years, to renew communications technology on the Scottish Highways network, including CCTV, variable message signs, and emergency roadside phones.

Since the year end, we have been selected, together with our joint-venture partner Costain, as one of four delivery partners for the Highway Agency’s Managed Motorway initiative, a major investment programme of £2bn to increase capacity through the use of traffic control technology and hard shoulder running, with a total of 34 schemes planned over the next 10 years. We will provide consultancy, systems integration and technology installation and maintenance expertise, and our selection provides a strong foundation for us to become a major partner in the Highway Agency’s future strategy.

Other wins in the UK, valued at around £4m in total, included: an expansion to our National Traffic Control Centre contract; our appointment as a supplier to the Transport Scotland Consultancy Framework; and a contract with the Highways Agency covering software and systems work on the abnormal loads management and website booking system.

We also extended our contract for the maintenance of Transport for London's (TfL) Eastern Tunnel management system to the end of September 2010, and after the year end were awarded a contract by TfL, valued at around £4m, to deliver a new digital CCTV surveillance system and infrastructure.

In the US, since the year end, we have been awarded two contracts by the State of Georgia Department of Transportation (GDOT) valued in aggregate at around US$55m, adding to our successful operations at the Transportation Management Center in Atlanta. Under the GDOT IT Maintenance contract, valued at around US$50m over five years, we will manage the installation and upkeep of over 1,000 devices that comprise the department's Intelligent Transportation Systems, including several hundred remotely operated traffic cameras as well as changeable message signs. Under a separate new contract, we will facilitate the privatization of GDOT's traveller information hotline.

In Australia we signed a contract, in partnership with mdv, a leader in the development of transport technology solutions, with New South Wales Transport and Infrastructure to transform the way residents access transport information. Under the contract, we are providing transport journey planning information services in New South Wales through a variety of channels, including a call centre and website. The contract has a value to Serco of AUS$27m over its five-year term.

Civil Aviation

In addition to the successful renewal and expansion of our contract with the Dubai Airports Company for air traffic services at Dubai International Airport, valued at £245m over 10 years, we won a rebid for a contract for the provision of Air Traffic Control and Electronic Engineering services at Abu Dhabi and Al Ain International Airports, and City Airport at Bateen, as well as two additional satellite airports in the Emirate of Abu Dhabi. Valued at over £24m for two years, the contract commenced in April 2009. Serco has also been successful in the rebid for the provision of Air Traffic Control services for Ras Al Khaimah's International Airport, which has a value of over £1.5m for one year.

Since the year end, we have been awarded a US Federal Aviation Administration Air Traffic Control contract valued at around $170m over five years. Since 1994, Serco has managed approximately 55 air traffic control towers across the western United States and Alaska and, with this recent win, we will now be responsible for a total of 64 sites, including new locations in Hawaii, Guam and Saipan.

Cycle Hire

In the second half of the year, we signed a new six-year contract with Transport for London to design, build and operate the new London Cycle Hire Scheme. Under the contract, which is valued at approximately £140m, we will design and integrate technology and customer service operations, and provide, operate and maintain 6,000 bicycles for hire in Central London at 400 docking stations. We have made good progress in the implementation phase of the scheme, with works underway on the building of docking stations across Central London, and on the systems and the contact centre. We have also recruited the first members of the operational team, which will include a number of engineering apprenticeships, helping to develop the skills of young people in the capital.

Science

Serco manages science-based organisations that are developing and applying scientific knowledge for wealth creation, addressing the growing demand both for low carbon energy and innovative solutions to the challenge of climate change, and enabling international nuclear safety, assurance and verification.

Science revenue grew by 12.2% to £605m, representing 15% of Group revenue (2008: 17%).

Our joint venture at AWE continued to perform strongly, with all contract outputs delivered on time and budget, supported by the engineering and management expertise brought by Jacobs Engineering in its first full year as a shareholder in AWE Management Limited alongside ourselves and Lockheed Martin. We were also pleased to successfully conclude the periodic pricing review under our existing 25-year contract, setting the framework for important investments in skills and facilities at AWE.

Our world-leading nuclear safety and assurance business continued to strengthen its support to operators of nuclear plant, both in the civil and defence nuclear sectors. During the year, this business continued its growth through a range of smaller, high margin contracts, valued at over £40m. Our strong positioning to play a key role in enabling nuclear new build was confirmed shortly after the year end by our signing a contract with Westinghouse, designer of the AP1000 nuclear reactor currently under assessment for the UK's civil nuclear programme. We will serve as its primary nuclear safety adviser in the UK, leading a team of experts to assist them in completing Step 4 of Generic Design Assessment (GDA) for the AP1000. This is a critical stage in the reactor design approval process being conducted by the UK Nuclear Regulators which is due for completion in 2011.

In April we assumed management responsibility for the National Nuclear Laboratory (NNL), along with our partners Battelle and Manchester University, and the first months of operation saw a seamless transition to the new management team. In July, UK Government announced the creation of a Nuclear Centre of Excellence, based at NNL, to help ensure the peaceful use of nuclear power. This, coupled with the world-leading expertise at AWE in the fields of disarmament verification and non-proliferation, places Serco as a significant stakeholder in UK efforts to secure nuclear non-proliferation, disarmament and the peaceful application of nuclear technology. These are issues likely to gain in relevance during 2010 and beyond as part of the global security agenda.

During the year, we have continued our work at the National Physical Laboratory (NPL) to maximise the impact of the science we deliver in support of UK industry. In 2009 NPL worked with over 2000 companies, and independent studies have shown that the laboratory's work for the National Measurement System contributes approximately £2bn per year to UK GDP. NPL also continues to contribute with its work supporting the low carbon economy and the health of UK citizens, for example through its work with UK hospitals to ensure that radiotherapy doses are measured and targeted effectively.

Market opportunities

With our track record of high-quality service delivery, we are well placed to help our customers meet demands for better services and tackle issues like congestion, migration, aging populations and terrorism, while improving productivity and efficiency.

We expect the deficits affecting our government customers arising from the global economic crisis to create substantial opportunities for Serco. Governments around the world are increasingly recognising the benefits of competition and the use of the private sector to improve the quality and efficiency of services and assist recovery from recession and deficits. In the UK, new models are promoting joined-up government through shared support services and a focus on outcomes, increasing choice and the potential for us to deliver benefits to all our stakeholders. Around the world, we are seeing governments learn from our UK experience, and increasingly move towards new, more sophisticated contracting models, including joint ventures, fixed price contracts, franchises, PPPs and PFIs, and partnerships with the voluntary sector.

Given our substantial capabilities, we continue to see good opportunities for growth across a broad portfolio of markets and geographies, both from expansion of scope and scale in our existing contracts and from new contract wins. In new contracts, smaller and medium-sized contracts remain an important driver of our growth, and among larger opportunities, we see a good range of nearer term opportunities in 2010, and a substantial medium term and longer term pipeline.

In Home Affairs, the UK Government is looking to increase efficiency and productivity in offender management by putting some underperforming public sector prisons out to competition during 2010-11. We see substantial opportunities, driven by this need for greater efficiency and to achieve positive outcomes from detention. In the UK, the government has announced the commissioning of five new prisons, and the market testing of five existing prisons, and we also see opportunities in areas such as probation services, health, immigration, and asylum and refugee support services. Other regions are seeing similar pressures leading to potential for expansions of existing facilities, tendering of existing public sector prisons, and for the provision of services such as health in the home affairs sector.

The current economic climate and growing fiscal pressures are leading the UK Government to seek greater value in two areas of significant spend, welfare benefits and the National Health Service. In Welfare to Work, we expect the second round of 23 Flexible New Deal contracts for a further 14 regions to be let in 2010, with contracts valued on average at around £75m. We expect further opportunities for expansion of our innovative model into other benefit areas such as Employment and Support Allowance. In Health, we continue to see further significant opportunities for our joint venture with Guy’s and St Thomas’ to expand its presence in the substantial UK pathology market, and to develop new models, including partnerships and franchises, to help improve productivity in other areas of the health service.

Local authorities in the UK remain under significant budgetary and service quality pressures, and although they are gaining increasing freedom to allocate resources and set priorities at a local level, protecting education, police, and health services is likely to put additional pressure on other essential services which they are expected to deliver. We are seeing a number of opportunities in 2010 and beyond for contracts to help local authorities address this challenge, both by transforming the way they operate, as we are doing for Glasgow City Council, and also through increased efficiency in integrated services operations.

In UK education and children's services, we continue to build our presence across national government bodies whilst consolidating our strong position in local government services. Our national presence was significantly boosted through our inspection services contract with Ofsted, and latterly through the award of the strategically important Children and Learners Strategic Advisers contract. We see potential future opportunities in the commissioning of educational services, and also continue to work with a number of authorities where we see a requirement for service improvement across Children's Services.

In India, we continue to develop our BPO business and remain encouraged by our initial progress and the potential opportunities which are developing, both for expansion in the business process outsourcing market as rising incomes lead to greater demand for services, and in the delivery of public services.

In defence, our customers are addressing significant budgetary pressures, while facing the challenge of ensuring that troops in the front line have battle-winning equipment and support. In the UK, both of the main political parties are committed to conducting a Strategic Defence Review, to ensure an affordable and sustainable outcome. Serco is well placed to assist through the application of innovative contracting models and methodologies that will help to facilitate effective financial planning.

The UK MoD is also focused on sustaining the capability of its armed forces over the long term, which is leading to good organic growth opportunities. Serco has also been selected to compete for two large contracts, due to be awarded between 2011 and 2012, the Fleet Outsourced Activities Project to provide training services for the Royal Navy, and the Armed Forces Recruitment Partnering Project, where we are leading the Prospector Group consortium which includes Logica and the AMV Group.

In the US, the integration of SI's capabilities means that we now have opportunities across a broad range of customers in the largest government services market in the world, the US Federal Government services market. A major focus for the federal government is modernising and improving the effectiveness of government services through the upgrade of IT infrastructure, to make processes more efficient and effective, and to ensure security, with cybersecurity likely to be a priority in 2010 onwards. In 2010, we will submit bids for work across all branches of the armed forces and a broad range of intelligence and civil government agencies.

In transport, our customers are seeking safe and cost-effective solutions to the challenges of congestion and urban and international mass transport and we now have world-leading expertise across a broad range of modes of transport to help them. To leverage our capabilities, which span metro and heavy rail, traffic and roads management, marine, cycle hire and air traffic control, we have created a Global Transport function to grow our presence in this market and to identify and prioritise the significant opportunities we see in the sector globally. Given the global nature of the transport business, it is also likely that the Global Transport function will spearhead our expansion into new geographies, developing new relationships with governments and the private sector in those regions.

We expect opportunities in science to be driven by governments' needs to increase efficiency while ensuring that scientific skills continue to deliver maximum economic, financial and social benefit, particularly in the fields of climate change and supporting a sustained economic recovery. In the UK, we are working in partnership with our customer at the Department for Business, Innovation and Skills, the Royal Society and other organisations to see how science across the public sector can be delivered more efficiently and effectively. Our leading position in nuclear safety and assurance means that we are well placed to address opportunities in both decommissioning and new civil nuclear build in the UK and overseas markets.

People

Serco has around 70,000 people delivering essential services around the world. Our ongoing success is the result of their hard work and commitment to our values and public-service ethos.

Developing our leaders is vital for Serco's future. During the year, we profiled the capabilities of our top 100 leaders against our model for great leadership. This sets out the skills and behaviours required to implement our governing principles and to meet our future business challenges. The process ensured that our leaders fully understand their alignment to the model and are now in the process of creating personal development plans to help them deliver higher levels of performance.

We also undertook a comprehensive talent review. This involved every business unit around the world identifying its current and future leaders, enabling us to create comprehensive succession plans and talent pipelines in each part of our business. This is particularly important in a high-growth company such as Serco, where we continually need to develop new leaders in the organisation.

Our "Viewpoint" survey measures our people's engagement with and commitment to Serco. This year's survey identified our people's world-class levels of commitment and discretionary effort and showed that Serco has an open and respectful culture. The ambition of our people to excel and to develop further within Serco was also clear, and we will increase our focus in these areas in the future.

Ensuring high levels of safety for our people and other stakeholders is fundamental to the way we work. We were delighted, therefore, to receive 29 awards from the Royal Society for the Prevention of Accidents. These included the Sir George Earle Trophy, won by Northern Rail, which recognises outstanding health and safety management. We also received a Sword of Honour from the British Safety Council. In the US, our air traffic control business won the Willie F Card FAA Contract Tower Service Award for the fifth time since 2003. This award is given for excellence in safety and customer service.

Board Change

Kevin Beeston will be retiring from the Company after its Annual General Meeting in May 2010. Kevin has made a significant contribution to the progress of the Company over the last 25 years and the Board would like to thank him as well as wish him every success in the future. The process of appointing a new Chairman is under way and is being led by the Senior Independent Director Baroness Ford of Cunninghame.

Finance Review

Overview

Our business delivered a strong financial performance in 2009, with revenue growing 27.1% and Adjusted operating profit increasing by 39.0%. Our results benefited from the acquisition of SI International ('SI') and from currency movements: excluding currency, revenue growth was 20.8% (10.2% excluding SI) and Adjusted operating profit growth was 31.1% (15.8% excluding SI). Our Adjusted operating margin, excluding currency, increased by 45 basis points (27 basis points excluding SI) (see Figure 2). Free cash flow grew by 45.8% to £137.3m, and Group recourse net debt reduced by £136.8m to £387.7m from the 2008 year end position.

1. Income statement

Serco's income statement for the year is summarised in Figure 1 below. This includes the results of joint ventures which are proportionately consolidated.

Figure 1: Income statement

Year ended 31 December	**2009 £m**	2008 £m	Increase
Revenue	**3,970.0**	3,123.5	27.1%
Gross profit	**586.8**	456.8	28.5%
Administrative expenses	**(357.1)**	(291.6)	22.5%
Adjusted operating profit	**229.7**	165.2	39.0%
Investment revenue and finance costs	**(35.0)**	(19.9)	
Adjusted profit before tax	**194.7**	145.3	34.0%
Amortisation of acquired intangibles	**(17.6)**	(9.2)	
Profit before tax	**177.1**	136.1	30.1%
Tax	**(46.9)**	(36.5)	28.5%
Profit for the year	**130.2**	99.6	30.7%
Effective tax rate	**26.5%**	26.8%	
Adjusted earnings per share	**29.53p**	22.20p	33.0%
Earnings per share	**26.76p**	20.49p	30.6%
Dividend per share	**6.25p**	5.00p	25.0%

1.1 Currency translation

The increase in the size of overseas operations with earnings not denominated in Sterling, principally as a result of the acquisition of SI at the end of 2008, and changes in currency exchange rates over the last twelve months, have benefited Serco's reported results. In order to present the underlying growth of the business in the year, the effect of currency exchange rate changes on revenue, Adjusted operating profit, Investment revenue and finance costs, Adjusted profit before tax and Group recourse net debt are presented in the Finance Review. The currency effect has been calculated by translating non-Sterling earnings, including those of SI, for the year ended 31 December 2009 into Sterling at the average foreign exchange rates for 2008.

Figure 2: Income statement bridge

Year ended 31 December	**Revenue £m**	**Revenue growth %**	**Adjusted operating profit £m**	**Adjusted operating margin %**
2008 Group	3,123.5	-	165.2	5.29%
2009				
Group excluding SI and currency	**318.6**	**10.2%**	**26.1**	**0.27%**
	3,442.1		**191.3**	**5.56%**
SI	**331.9**	**10.6%**	**25.2**	**0.18%**
Group including SI	**3,774.0**	**20.8%**	**216.5**	**5.74%**
Currency effects	**196.0**	**6.3%**	**13.2**	**0.05%**
Total	**3,970.0**	**27.1%**	**229.7**	**5.79%**

1.2 Revenue

Revenue grew by 27.1% to £3,970.0m. Revenue growth, excluding SI and currency effects was 10.2%. Organic revenue growth, excluding currency, was 9.4%, and reflects the growth of existing contracts and the contribution of new contracts. SI's revenue was US$618.5m (£331.9m excluding currency effects), which added 10.6% to revenue growth. SI's revenue grew 7.5% when compared to 2008. Currency effects added a further £196.0m (6.3%) to Group revenue.

1.3 Gross margin

Gross margin – the average contract margin across our portfolio – was 14.8% (2008: 14.6%).

1.4 Adjusted operating profit

Adjusted operating profit increased by 39.0% to £229.7m representing an Adjusted operating profit margin of 5.79%. Adjusted operating profit margin increased by 50 basis points (45 basis points excluding currency effects). The table in Figure 2 illustrates the Adjusted operating profit and margin resulting from the group excluding SI and currency, SI, and currency effects.

1.5 Investment revenue and finance costs

Investment revenue and finance costs totalled a net cost of £35.0m (2008: £19.9m), an increase of £15.1m. The increase, excluding currency effects, was £12.4m. Borrowing costs to fund the SI acquisition and an increase in the net pension funding cost of £5.7m charged to the income statement were the principal reasons for this increase.

1.6 Adjusted profit before tax

Adjusted profit before tax was £194.7m, an increase of 34.0%. Excluding SI and currency effects, the Adjusted profit before tax margin was 4.92%, an increase of 27 basis points.

1.7 Tax

The tax charge of £46.9m (2008: £36.5m) represents an effective rate of 26.5%, compared with 26.8% in 2008. The reduction principally reflects the fall in the UK corporation tax rate from the blended UK corporation tax rate of 28.5% in 2008 to 28.0% in 2009.

1.8 Earnings per share (EPS)

Adjusted EPS rose by 33.0% to 29.53p. EPS grew by 30.6% to 26.76p.
EPS and Adjusted EPS are calculated on an average share base of 486.6m during the year (2008: 485.7m).

2. Dividend

Serco’s policy is to increase the total dividend each year broadly in line with the increase in underlying earnings. The Board has proposed a final dividend of 4.40p per share, representing an increase on the 2008 final dividend of 25.0%, and bringing the total dividend for the year to 6.25p, a growth of 25%. The final dividend will be paid on 19 May 2010 to shareholders on the register as at 12 March 2010.

3. Cash flow

The Group generated a free cash inflow of £137.3m (2008: £94.2m), an increase of 45.8%.

Figure 3 analyses the cash flow. As in previous years, we have designed the analysis to show the true cash performance of the Group – the cash flows generated by subsidiaries plus the dividends received from joint ventures. It therefore differs from the consolidated cash flow on page 39, which proportionately consolidates the cash flows of joint ventures. The adjustment line in Figure 3 reconciles the movement in Group cash to the consolidated cash flow.

Figure 3: Cash flow

Year ended 31 December	**2009 £m**	2008 £m
Operating profit excluding joint ventures	**150.6**	107.8
Non cash items	**75.4**	40.6
Group EBITDA	**226.0**	148.4
Working capital movement	**(27.2)**	(22.8)
Group operating cash flow	**198.8**	125.6
Interest	**(31.5)**	(25.0)
Tax	**(26.5)**	(11.8)
Net expenditure on tangible and intangible assets	**(49.8)**	(31.8)
Dividends from joint ventures	**46.3**	37.2
Group free cash flow	**137.3**	94.2
Disposal of investments/subsidiaries	**0.6**	1.9
Acquisition of subsidiaries	**(15.4)**	(322.2)
Financing	**(36.8)**	289.0
Dividends paid	**(25.9)**	(21.6)
Group net increase in cash and cash equivalents	**59.8**	41.3
Adjustment to include joint venture cash impacts	**14.1**	2.8
Net increase in cash and cash equivalents	**73.9**	44.1

Note: Group EBITDA is earnings from subsidiaries (excluding joint ventures) before interest, tax, depreciation, intangible amortisation and other non cash items.

3.1 Group operating cash flow

Group operating cash flow of £198.8m (2008: £125.6m) reflects a conversion of Group EBITDA into cash of 88% (2008: 85%). The increase in working capital from £22.8m to £27.2m reflects the requirements of a growing business and the continued high level of contract start ups.

3.2 Interest

Net interest paid was £31.5m, compared to £25.0m in 2008 reflecting the increase in borrowings resulting from the acquisition of SI in 2008.

3.3 Tax

Tax paid was £26.5m (2008: £11.8m). The increase reflects the fact that there was no tax relief available in 2009 on the special pension contribution made in 2007. Cash tax is below the equivalent charge in the income statement as a result of accelerated capital allowances and other timing differences.

3.4 Net expenditure on tangible and intangible assets

Net expenditure on tangible and intangible assets in the year was £49.8m (2008: £31.8m). Gross expenditure, excluding disposals, was £52.3m (2008: £48.7m) representing 1.6% of group revenue excluding joint ventures (2008: 2.0%).

3.5 Dividends from joint ventures

Dividends received from joint ventures totalled £46.3m (2008: £37.2m), a conversion rate of 93% (2008: 84%) of joint ventures' profit after tax and minority interest, excluding costs allocated by Group.

3.6 Acquisition of subsidiaries

To effect the partnership arrangement between Serco and Guys' & St Thomas' NHS Foundation Trust announced on 30 January in 2009, in February 2009, Serco Group plc acquired a 50% interest in GSTS Pathology LLP. The joint venture arrangement with Guy's & St Thomas' NHS Foundation Trust will provide improved pathology services to the Trust and target the significant national and international pathology market. Total cash outflows associated with this transaction were £5.5m including directly attributable costs. Other acquisition costs included the acquisition of Sandrunner Limited, a UK based specialist consultancy provider for £0.3m, in January 2009 and further payments in relation to the acquisition of Infovision and SI in December 2008 of £3.7m and £5.9m respectively.

Due to the proximity of the acquisition of Infovision and SI to the year ended 31 December 2008, the fair values of the acquired companies' assets, liabilities and contingent liabilities were determined provisionally. The fair value adjustments arising from the acquisitions were finalised in the current year, with adjustments made to the previously published fair values. The consolidated balance sheet at 31 December 2008 has been restated to reflect the finalisation of the fair value adjustments. These adjustments represent management's best estimate of the adjustments required to restate book values to fair values at the date of acquisition. The net effect of these adjustments is to reduce goodwill by £1.5m.

3.7 Financing

The movement in financing resulted primarily from repayments on our committed facility and non recourse debt.

4. Net debt

Figure 4 analyses Serco's net debt.

Figure 4: Net debt

At 31 December	**2009 £m**	2008 £m
Group - cash and cash equivalents	**253.7**	199.8
Group - loans	**(619.1)**	(708.8)
Group - obligations under finance leases	**(22.3)**	(15.5)
Group recourse net debt	**(387.7)**	(524.5)
Joint venture recourse net cash	**58.2**	44.5
Total recourse net debt	**(329.5)**	(480.0)
Group non recourse debt	**(29.0)**	(34.1)
Total net debt	**(358.5)**	(514.1)

4.1 Group recourse net debt

Group recourse net debt decreased by £136.8m to £387.7m. This reflects the changes in currency exchange rates which reduced Group recourse net debt by £52.0m together with the repayment of debt. Group cash and cash equivalents rose to £253.7m, an increase of £53.9m, primarily reflecting periodic changes in working capital. Cash and cash equivalents includes encumbered cash of £11.2m (31 December 2008: £10.4m). This is cash securing credit obligations and customer advance payments.

4.2 Group non recourse debt

The Group's debt is non recourse if no Group company other than the relevant borrower has an obligation to repay the debt under a guarantee or other arrangement. The debt is excluded from all of our credit agreements and other covenant calculations, and therefore has no impact on the Group's ability to borrow.

Group non recourse debt reduced by £5.1m to £29.0m, primarily as a result of the payments made in line with the debt repayment schedule on debt relating to our Driver Examination Services contract in Canada.

5. Pensions

The Group operates and is a member of a number of defined benefit schemes and defined contribution schemes.

At 31 December 2009, the net liability included in the balance sheet arising from our defined benefit pension scheme obligations was £113.6m (31 December 2008: £20.5m), on a pension scheme asset base of £1.4bn.

Figure 5: Defined benefit pension schemes

At 31 December	2009 £m	2008 £m
Group schemes – non contract specific	**(120.0)**	(0.7)
Contract specific schemes:		
– reimbursable	**(144.3)**	(89.6)
– not certain to be reimbursable	**(29.9)**	(24.4)
Net retirement benefit liabilities	**(294.2)**	(114.7)
Intangible assets arising from rights to operate franchises and contracts	**11.4**	14.4
Reimbursable rights debtor	**144.3**	89.6
Deferred tax assets/(liabilities)	**24.9**	(9.8)
Net balance sheet liabilities	**(113.6)**	(20.5)

The total pension charge for the year ended 31 December 2009, including the proportionate share of joint ventures, increased to £92.4m (2008: £85.9m). Within this charge, the Group's contributions to UK and other defined contribution pension schemes increased to £64.8m (2008: £49.0m), reflecting the higher proportion of Group employees who are now members of defined contribution pension schemes. The charge relating to the Group's defined benefit schemes was £27.6m (2008: £36.9m), principally as a result of changes to inflation assumptions as at the end of 2008.

Serco has three main types of scheme which are accounted for as defined benefit pension schemes. Each type has its own accounting treatment under International Financial Reporting Standards. These are:

- Non contract specific – schemes which do not relate to specific contracts or franchises. For these schemes, we charge the actuarial gain or loss for the year to the consolidated Statement of Comprehensive Income (the SOCI);

- Reimbursable – schemes where we have a right of full cost reimbursement and therefore include both the pension scheme deficit and offsetting reimbursable rights debtor in the balance sheet; and

- Not certain to be reimbursable – schemes relating to specific contracts or franchises, where the deficit will pass back to the customer or on to the next contractor at the end of the contract. For these schemes, we charge the actuarial gain or loss on our share of the deficit for the year to the SOCI, recognise a recoverable intangible asset on the balance sheet at the start of the contract or franchise and amortise the intangible asset to the income statement over the contract or franchise life.

Serco has limited commercial risk in relation to the contract specific schemes, due to either the right of cost reimbursement or because the deficit will, in general, pass back to the customer or on to the next contractor at the end of the contract. Among our non contract specific schemes, the largest is the Serco Pension and Life Assurance Scheme (SPLAS). At 31 December 2009, SPLAS had a deficit of £54.7m (31 December 2008: surplus of £62.4m). The deficit reflects the effect of the market conditions on investment returns in the year and an increase in inflation assumptions.

The regular triennial review of SPLAS is currently ongoing. As part of this process, we are working closely with the Trustees on options for the Scheme.

Figure 6 shows the sensitivity of the liabilities of our pension schemes to changes in discount rates and to adjustments in the actuarial assumptions for the rate of inflation, members' salary increases and life expectancies.

Figure 6: Pension assumption sensitivities

	Assumption	Change in assumption	Change in liability
Discount rate	5.8%	+0.5%	(8)%
		(0.5)%	+9%
Price inflation	3.3%	+0.5%	+7%
		(0.5)%	(7)%
Salary	3.7%	+0.5%	+2%
		(0.5)%	(2)%
Longevity	20.3-24.4*	Increase by one year	+3%

*Post retirement mortality range for male and female, current and future pensioners.

6. Treasury

The Group's principal debt finance comprises a £400m bank revolving facility which matures in September 2013 together with a term loan and bilateral facility totalling US Dollar 550m to fund the acquisition of SI. The term loan and bilateral facility are repayable between September 2010 and September 2013. There is a scheduled repayment of US Dollar 92m due in September 2010; thereafter the next repayment on these facilities is due in September 2011. The facilities, which are syndicated with a group of 13 banks, are unsecured. As at 31 December 2009, £458m had been drawn down on these combined facilities (31 December 2008: £560m). Excluding the effects of currency on the US Dollar denominated debt, the equivalent draw down would have been £514m.

Serco has loan notes in issue under a private placement of £117m, which will be repaid evenly from 2011 to 2015.

7. Segmental information

As disclosed in note 1 of the notes to the preliminary announcement, the directors have determined that the segments under IAS 14 continued to be appropriate under IFRS 8 for 2009. Although management information is presented in a variety of ways, the reportable segments presented within the financial statements reflect the principal way in which management information was reported to the Chief Operating Decision Maker (the Chief Executive and Executive Board) during the year. As discussed in the Overview section, the group has repositioned the business for growth and, as a result, has created five new divisions. This change was effective from 1 January 2010. We will present these divisions as our new reportable segments for the first time in the half year results announcement for the six month period ended 30 June 2010, including comparatives.

The new reportable segments are:

- **Civil Government**, comprising UK and Europe civil government and transport
- **Local Government and Commercial**, comprising our UK and Europe IT and BPO, integrated services, education and commercial businesses
- **Defence, Science and Nuclear**, bringing together UK and Europe defence and science-based businesses
- **Americas,** comprising US defence, intelligence and federal civil government agencies operations, and Canadian operations
- **AMEAA,** which consists of our operations in Africa, Middle East, Asia (including Hong Kong and India) and Australasia

8. Going concern

The directors have acknowledged the guidance "Going Concern and Liquidity Risk: Guidance for Directors of UK Companies 2009", published by the Financial Reporting Council in October 2009. Whilst the current economic environment remains uncertain, the broad base of our contract portfolio and with over 90% of our customers being government bodies, the Group is well placed to manage its business risks (as discussed in the section 'Principal Risks and Uncertainties') successfully and has adequate resources to continue in operational existence for the foreseeable future.

The Group's revenues are largely derived from long-term contracts with governments which, historically, have been largely unaffected by changes in the general economy. The contract portfolio is spread across a number of markets, sectors and geographies such that a downturn in any one segment is highly unlikely to affect the Group as a whole. In addition, with an order book of £17.1bn and high visibility of future revenue streams (91% in 2010; 76% in 2011 and 64% in 2012), the Group is well placed to manage its business risks despite the current uncertain economic climate.

In September 2008, the Group secured medium-term financing by entering into a five year revolving credit facility and bilateral facilities. Including the term loan and US private placements, the Group has in excess of £860m of credit facilities. As at 31 December 2009, the headroom on the facilities was approximately £300m. The first repayment on these facilities falls due in September 2010 for an amount of US Dollar 92m. The Group fully expects to meet this repayment through internally generated cash flows. Based on the information set out above, the Directors believe that it is appropriate to prepare the financial statements on a going concern basis.

Responsibility statement of the Directors on the Annual Report

The responsibility statement below has been prepared in connection with the company's full annual report for the year ended 31 December 2009. Certain parts thereof are not included within this announcement.

We confirm to the best of our knowledge:

- the financial statements, prepared in accordance with the relevant accounting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the undertakings included in the consolidation taken as a whole; and

- the management report, which is incorporated in the Directors' Report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

By order of the Board,

Andrew Jenner
Finance Director

25 February 2010

Consolidated income statement
For the year ended 31 December 2009

	Note	2009 £m	2008 £m
Continuing operations			
Revenue	2	**3,970.0**	3,123.5
Cost of sales		**(3,383.2)**	(2,666.7)
Gross profit		**586.8**	456.8
Administrative expenses		**(357.1)**	(291.6)
Other expenses – amortisation of intangibles arising on acquisition		**(17.6)**	(9.2)
Total administrative expenses		**(374.7)**	(300.8)
Operating profit	2	**212.1**	156.0
Investment revenue	3	**2.7**	8.2
Finance costs	3	**(37.7)**	(28.1)
Profit before tax		**177.1**	136.1
Tax		**(46.9)**	(36.5)
Profit for the year		**130.2**	99.6
Attributable to:			
Equity holders of the parent		**130.2**	99.5
Minority interest		**-**	0.1
Earnings per share (EPS)			
Basic EPS	4	**26.76p**	20.49p
Diluted EPS	4	**26.45p**	20.18p

Consolidated statement of comprehensive income
For the year ended 31 December 2009

	2009 £m	2008 £m
Profit for the year	**130.2**	99.6
Other comprehensive income for the year:		
Net actuarial (loss)/gain on defined benefit pension schemes[1]	**(259.0)**	8.7
Actuarial gain on reimbursable rights[1]	**117.1**	50.6
Net exchange (loss)/gain on translation of foreign operations[2]	**(9.9)**	54.1
Fair value (loss)/gain on cash flow hedges during the year[2]	**(6.3)**	14.2
Tax credit/(charge) on items taken directly to equity[3]	**45.2**	(21.3)
Recycling of cumulative net hedging reserve[2]	**0.2**	(0.7)
Total comprehensive income for the year	**17.5**	205.2
Attributable to:		
Equity holders of the parent	**17.5**	205.1
Minority interest	**-**	0.1

1 Recorded in the Retirement benefit obligations reserve in the consolidated statement of changes in equity.

2 Recorded in the Hedging and translation reserve in the consolidated statement of changes in equity.

3 Of the tax credit, £39.6m (2008: debit of £16.8m) was recorded in the Retirement benefit obligations reserve: a credit of £1.4m (2008; debit of £3.9m) was recorded in the Hedging and translation reserve; a credit of £4.2m (2008: debit of £0.6m) was recorded in the Share based payment reserve.

Consolidated statement of changes in equity

For the year ended 31 December 2009

	Share capital £m	Share premium account £m	Capital redemption reserve £m	Retained earnings £m	Retirement benefit obligations reserve £m	Share-based payment reserve £m	Own shares reserve £m	Hedging and translation reserve £m	Total equity £m	Minority interest £m
At 1 January 2008	9.7	299.3	0.1	260.6	(90.2)	34.6	(15.1)	(1.8)	497.2	1.3
Total comprehensive income for the year	-	-	-	99.5	42.5	(0.6)	-	63.7	205.1	0.1
Shares transferred to option holders on exercise of share options	-	1.8	-	-	-	(1.0)	4.6	-	5.4	-
Dividends paid	-	-	-	(21.6)	-	-	-	-	(21.6)	-
Expense in relation to share-based payment	-	-	-	-	-	7.0	-	-	7.0	-
Purchase of own shares for employee benefit trust (ESOP)	-	-	-	-	-	-	(9.2)	-	(9.2)	-
Acquisition of minority interest by joint venture	-	-	-	1.3	-	-	-	-	1.3	(1.3)
At 1 January 2009	9.7	301.1	0.1	339.8	(47.7)	40.0	(19.7)	61.9	685.2	0.1
Total comprehensive income for the year	**-**	**-**	**-**	**130.2**	**(102.3)**	**4.2**	**-**	**(14.6)**	**17.5**	**-**
Shares transferred to option holders on exercise of share options	**0.1**	**3.0**	**-**	**-**	**-**	**(1.8)**	**9.1**	**-**	**10.4**	**-**
Dividends paid	**-**	**-**	**-**	**(25.9)**	**-**	**-**	**-**	**-**	**(25.9)**	**-**
Expense in relation to share-based payment	**-**	**-**	**-**	**-**	**-**	**7.2**	**-**	**-**	**7.2**	**-**
Purchase of own shares for employee benefit trust (ESOP)	**-**	**-**	**-**	**-**	**-**	**-**	**(2.4)**	**-**	**(2.4)**	**-**
At 31 December 2009	**9.8**	**304.1**	**0.1**	**444.1**	**(150.0)**	**49.6**	**(13.0)**	**47.3**	**692.0**	**0.1**

Consolidated balance sheet
At 31 December 2009

	Note	2009 £m	2008 Restated* £m
Non-current assets			
Goodwill		**898.4**	963.2
Other intangible assets		**164.4**	192.7
Property, plant and equipment		**129.2**	115.4
Trade and other receivables		**181.4**	121.1
Retirement benefit asset		**-**	62.4
Deferred tax assets		**48.0**	20.0
Derivative financial instruments		**2.5**	5.6
		1,423.9	1,480.4
Current assets			
Inventories		**65.9**	50.2
Trade and other receivables		**720.9**	725.7
Cash and cash equivalents		**319.4**	250.8
Derivative financial instruments		**1.4**	5.0
		1,107.6	1,031.7
Total assets		**2,531.5**	2,512.1
Current liabilities			
Trade and other payables		**(771.6)**	(756.2)
Current tax liabilities		**(14.1)**	(19.5)
Obligations under finance leases		**(6.0)**	(4.5)
Loans		**(110.7)**	(36.8)
Derivative financial instruments		**(5.5)**	(4.2)
		(907.9)	(821.2)
Non-current liabilities			
Trade and other payables		**(23.1)**	(32.7)
Obligations under finance leases		**(18.0)**	(12.7)
Loans		**(543.2)**	(710.9)
Derivative financial instruments		**(1.7)**	(0.4)
Retirement benefit obligations		**(294.2)**	(177.1)
Provisions	8	**(42.3)**	(45.9)
Deferred tax liabilities		**(9.0)**	(25.9)
		(931.5)	(1,005.6)
Total liabilities		**(1,839.4)**	(1,826.8)
Net assets		**692.1**	685.3
Equity			
Share capital		**9.8**	9.7
Share premium account		**304.1**	301.1
Capital redemption reserve		**0.1**	0.1
Retained earnings		**444.1**	339.8
Retirement benefit obligations reserve		**(150.0)**	(47.7)
Share-based payment reserve		**49.6**	40.0
Own shares reserve		**(13.0)**	(19.7)
Hedging and translation reserve		**47.3**	61.9
Equity attributable to equity holders of the parent		**692.0**	685.2
Minority interest		**0.1**	0.1
Total equity		**692.1**	685.3

*Note 5

Consolidated cash flow statement

For the year ended 31 December 2009

	Note	**2009** **£m**	2008 £m
Net cash inflow from operating activities	6	**235.1**	162.6
Investing activities			
Interest received		**2.1**	7.3
Disposal of investments/business undertakings		**0.6**	1.9
Proceeds from disposal of property, plant and equipment		**3.7**	17.5
Acquisition of subsidiaries, net of cash acquired	5	**(14.7)**	(322.2)
Purchase of other intangible assets		**(17.3)**	(20.4)
Purchase of property, plant and equipment		**(38.9)**	(32.6)
Net cash outflow from investing activities		**(64.5)**	(348.5)
Financing activities			
Interest paid		**(33.6)**	(30.3)
Dividends paid		**(25.9)**	(21.6)
Repayment of loans		**(66.8)**	(78.6)
Repayment of non recourse loans		**(6.5)**	(7.5)
New loan advances		**33.8**	397.4
Other financing		**-**	(17.0)
Capital element of finance lease repayments		**(5.7)**	(8.6)
Purchase of own shares for employee benefit trust (ESOP)		**(2.4)**	(9.2)
Proceeds from issue of share capital and exercise of share options		**10.4**	5.4
Net cash (outflow)/inflow from financing activities		**(96.7)**	230.0
Net increase in cash and cash equivalents		**73.9**	44.1
Cash and cash equivalents at beginning of year		**250.8**	185.0
Net exchange (loss)/gain		**(5.3)**	21.7
Cash and cash equivalents at end of year		**319.4**	250.8

Notes to the Full Year Announcement

1. General information and changes in accounting policy

The basis of preparation of this preliminary announcement is set out below.

The financial information in this announcement, which was approved by the Board of Directors on 25 February 2010, does not constitute the Company's statutory accounts for the years ended 31 December 2009 or 2008, but is derived from these accounts.

Statutory accounts for 2008 have been delivered to the Register of Companies and those for 2009 will be delivered following the Company's annual general meeting. The auditors have reported on these accounts; their reports were unqualified and did not contain statements under S498 (2) or (3) of the Companies Act 2006 or equivalent preceding legislation.

The preliminary announcement has been prepared in accordance with International Financial Reporting Standards (IFRSs) adopted for use in the European Union. Whilst the financial information included in this preliminary announcement has been computed in accordance with IFRS, this announcement does not itself contain sufficient information to comply with IFRS. The Company expects to publish full Group and parent company only financial statements that comply with IFRS and UK Accounting Standards respectively, in April 2010.

The financial statements have been prepared on the historical cost basis.

Changes in accounting policy

In the current financial year, the Group has adopted International Financial Reporting Standard 8 'Operating Segments' and International Accounting Standard 1 'Presentation of Financial Statements' (revised 2007).

IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the Group's Chief Operating Decision Maker (the Chief Executive and Executive Board) in order to allocate resources to the segments and to assess their performance. The information previously disclosed under the predecessor standard (IAS 14 'Segment Reporting') required the Group to identify two sets of segments (business and geographical), using a risks and rewards approach. The Directors have reviewed the business segments identified under IAS 14 and, although management information is presented in a variety of ways, consider that these segments continue to be appropriate under IFRS 8 as the principal way in which information is reported, however, the requirements of IFRS 8 have resulted in certain changes to disclosures.

IAS 1 (revised) requires the presentation of a statement of changes in equity as a primary statement, separate from the income statement and statement of comprehensive income. As a result, a consolidated statement of changes in equity has been included in the primary statements, showing changes in each component of equity for each period presented. In addition, IAS 1 (revised) requires the presentation of a balance sheet as at the beginning of the earliest comparative period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements. As described in note 5, the balance sheet for 31 December 2008 has been restated for the finalisation of provisional fair value adjustments. An opening balance sheet as at 1 January 2008 has not been presented in these accounts as it is unadjusted from the previously published version.

2. Segmental information

Information reported to the Group's Chief Operating Decision Maker (the Chief Executive and the Executive Board) for the purposes of resource allocation and assessment of segment performance focuses on the categories of customer identified using their respective markets.

The Group's reportable operating segments under IFRS 8 are:

Reportable Segments	Operating Segments
Civil Government	- home affairs, welfare to work, health, integrated services, IT and BPO, education and children's services and consulting
Defence	- provision of operational support services to the armed forces of the UK, the US, Canada, Germany and Australia
Transport	- provision of transport services in the UK, Australia, the Middle East and the US
Science	- science-based business including scientific research and nuclear industries

Reportable segments

Year ended 31 December 2009	Civil Government £m	Defence £m	Transport £m	Science £m	Total £m
Revenue	**1,556.1**	**1,019.9**	**788.7**	**605.3**	**3,970.0**
Result					
Segment result	**77.8**	**78.3**	**36.0**	**63.7**	**255.8**
Corporate expenses					**(43.7)**
Operating profit					**212.1**
Investment revenue					**2.7**
Finance costs					**(37.7)**
Profit before tax					**177.1**
Tax					**(46.9)**
Profit for the year					**130.2**

Year ended 31 December 2008	Civil Government £m	Defence £m	Transport £m	Science £m	Total £m
Revenue	1,127.3	785.8	670.8	539.6	3,123.5
Result					
Segment result	55.2	59.1	29.7	51.6	195.6
Corporate expenses					(39.6)
Operating profit					156.0
Investment revenue					8.2
Finance costs					(28.1)
Profit before tax					136.1
Tax					(36.5)
Profit for the year					99.6

Geographic information

Year ended 31 December 2009	United Kingdom £m	United States £m	Other countries £m	Total £m
Revenue	**2,541.9**	**819.2**	**608.9**	**3,970.0**

Year ended 31 December 2008	United Kingdom £m	United States £m	Other countries £m	Total £m
Revenue	2,334.6	311.4	477.5	3,123.5

3. Investment revenue and finance costs

	2009 £m	2008 £m
Net fair value adjustments on derivative financial instruments	**-**	0.3
Interest receivable by PFI companies	**-**	1.0
Interest receivable on other loans and deposits	**2.7**	6.9
Investment revenue	**2.7**	8.2
Interest payable on non recourse loans	**(1.6)**	(2.7)
Interest payable on obligations under finance leases	**(1.8)**	(1.3)
Interest payable on other loans	**(26.8)**	(23.5)
Movement in discount on provisions	**(1.2)**	-
Net interest payable on retirement benefit obligations	**(6.3)**	(0.6)
Finance costs	**(37.7)**	(28.1)
Net finance costs	**(35.0)**	(19.9)

4. Earnings per share

Basic and diluted earnings per ordinary share (EPS) have been calculated in accordance with IAS 33 'Earnings per Share'. EPS is shown both before and after amortisation of intangible assets arising on acquisition to assist in the understanding of the underlying performance of the business.

The calculation of the basic and diluted EPS is based on the following data:

Number of shares

	2009 Millions	2008 Millions
Weighted average number of ordinary shares for the purpose of basic EPS	**486.6**	485.7
Effect of dilutive potential ordinary shares: share options	**5.6**	7.3
Weighted average number of ordinary shares for the purpose of diluted EPS	**492.2**	493.0

Earnings	**2009**		2008	
	Earnings £m	**Per share amount Pence**	Earnings £m	Per share amount Pence
Earnings for the purpose of basic EPS being net profit attributable to the equity holders of the parent	**130.2**	**26.76**	99.5	20.49
Add back: Amortisation of intangible assets arising on acquisition, net of tax of £4.1m (2008: £0.9m)	**13.5**	**2.77**	8.3	1.71
Adjusted earnings before amortisation of intangible assets arising on acquisition	**143.7**	**29.53**	107.8	22.20
Earnings for the purpose of basic EPS	**130.2**	**26.76**	99.5	20.49
Effect of dilutive potential ordinary shares	**-**	**(0.31)**	-	(0.31)
Diluted EPS	**130.2**	**26.45**	99.5	20.18

5. Acquisitions

During the year, the Group paid £5.9m and £3.7m of acquisition-related costs and deferred purchase consideration due in relation to its acquisitions in December 2008 of SI International, Inc. ('SI') and Amtech Private Limited ('Infovision'), respectively.

During the year, the Group acquired shareholdings in two companies;

a) On 28 January 2009, the Group acquired 100% of the share capital of Sandrunner Limited. Net assets acquired total £0.2m purchased for consideration of £1.3m, consisting of £0.3m of cash and £1.0m in deferred consideration recognising £1.1m of goodwill. Sandrunner Limited is a management consultancy business based in the UK.

b) On 2 February 2009, the Group acquired a 50% interest in GSTS Pathology LLP ('GSTS') from Pathology Services Limited, a subsidiary of the Guy's & St Thomas' NHS Foundation Trust ('the Trust'). GSTS provides pathology services to the Trust and various third parties. Related net cash outflows on acquisition were £4.8m consisting of £5.5m consideration (including directly attributable costs) and £0.7m of cash acquired. Net assets acquired total £0.4m. Goodwill of £5.1m has been recognised relating to future opportunities in pathology services.

These transactions have been accounted for in accordance with IFRS 3 'Business Combinations'.

Amendments to provisional fair value adjustments

During December 2008, Serco acquired SI and Infovision. Due to the proximity of these acquisitions to the year end, the fair values of the acquired companies' assets, liabilities and contingent liabilities, as disclosed in the 2008 financial statements, were determined provisionally.

The fair value adjustments arising from the acquisitions were finalised in the current year, with adjustments made to the previously published fair values. The consolidated balance sheet at 31 December 2008 has been restated to reflect the finalisation of the fair value adjustments. The effect of these adjustments is reflected in the table below.

	Provisional fair value £m	Final fair value adjustments £m	Fair value £m
SI			
Trade and other receivables	91.5	7.5	99.0
Deferred tax liabilities	(14.2)	0.1	(14.1)
Provisions	(25.1)	(7.6)	(32.7)
Adjustment to net liabilities acquired		**-**	
Infovision			
Intangible assets	2.1	1.4	3.5
Trade and other receivables	9.9	(1.3)	8.6
Trade and other payables	(10.4)	1.3	(9.1)
Deferred tax assets	0.2	0.3	0.5
Provisions	(2.2)	(0.2)	(2.4)
Adjustment to net assets acquired		**1.5**	

The fair value adjustments represent management's best estimate of the adjustments required to restate the assets and liabilities of SI and Infovision to fair value at acquisition. The fair value adjustments principally relate to the finalisation of the acquisition related taxation position of SI.

The total adjustment to goodwill as a result of these adjustments is £1.5m.

6. Reconciliation of operating profit to net cash inflow from operating activities

	2009 £m	2008 £m
Operating profit for the year	**212.1**	156.0
Adjustments for:		
Share-based payment expense	**7.2**	7.0
Depreciation of property, plant and equipment	**34.4**	26.0
Amortisation and impairment of intangible assets	**40.5**	29.3
Loss/(profit) on disposal of property, plant and equipment	**2.0**	(4.6)
Profit on disposal of business undertakings	**-**	(2.7)
Movement in provisions	**(0.6)**	(9.0)
Operating cash inflow before movements in working capital	**295.6**	202.0
(Increase)/decrease in inventories	**(15.1)**	0.9
(Increase)/decrease in receivables	**(31.1)**	11.0
Increase/(decrease) in payables	**24.8**	(26.4)
Cash generated by operations	**274.2**	187.5
Tax paid	**(39.1)**	(24.9)
Net cash inflow from operating activities	**235.1**	162.6

7. Analysis of net debt

	At 1 January 2009 £m	Cash flow £m	Acquisitions £m	Exchange differences £m	Non cash movements £m	At 31 December 2009 £m
Cash and cash equivalents	**250.8**	**73.0**	**0.9**	**(5.3)**	**-**	**319.4**
Non recourse loans	**(34.1)**	**6.5**	**-**	**(1.4)**	**-**	**(29.0)**
Other loans	**(713.6)**	**33.0**	**(2.5)**	**58.2**	**-**	**(624.9)**
Obligations under finance leases	**(17.2)**	**5.7**	**-**	**(0.6)**	**(11.9)**	**(24.0)**
	(514.1)	**118.2**	**(1.6)**	**50.9**	**(11.9)**	**(358.5)**

Non cash movements in 2009 relate to finance leases.

8. Provisions

	Employee related £m	Property £m	Contract £m	Other £m	Total £m
At 1 January 2008	9.0	4.7	4.7	0.2	18.6
Arising from acquisitions	-	9.3	7.4	10.6	27.3
Charged to income statement	0.6	-	-	0.3	0.9
Released to income statement	(3.7)	(4.3)	(1.0)	-	(9.0)
Utilised during the year	(0.7)	(0.1)	-	(0.1)	(0.9)
Exchange differences	0.7	0.2	0.1	0.2	1.2
At 31 December 2008	5.9	9.8	11.2	11.2	38.1
Fair value adjustment (note 5)	-	-	-	7.8	7.8
Restated at 1 January 2009	**5.9**	**9.8**	**11.2**	**19.0**	**45.9**
Charged to income statement	**2.4**	**-**	**0.9**	**1.9**	**5.2**
Released to income statement	**-**	**-**	**(0.5)**	**-**	**(0.5)**
Utilised during the year	**(0.6)**	**(1.2)**	**(0.7)**	**(2.8)**	**(5.3)**
Movement in discount rate	**-**	**0.4**	**0.3**	**-**	**0.7**
Exchange differences	**-**	**(1.0)**	**(0.8)**	**(1.9)**	**(3.7)**
At 31 December 2009	**7.7**	**8.0**	**10.4**	**16.2**	**42.3**

9. Joint ventures

The Group's interests in joint ventures are reported in the consolidated financial statements using the proportionate consolidation method.

The effect of the Group's joint ventures on the consolidated income statement is as follows:

	2009 £m	2008 £m
Revenue	**786.0**	719.7
Expenses	**(724.5)**	(671.4)
Operating profit	**61.5**	48.3
Investment revenue	**1.0**	5.1
Finance costs	**(0.5)**	(0.7)
Profit before tax	**62.0**	52.7
Tax	**(14.9)**	(13.2)
Share of post-tax results of joint ventures	**47.1**	39.5

Operating profit is after allocating £2.8m (2008: £4.7m) of costs incurred by Group.

10. Related party transactions

Transactions between the Company and its wholly owned subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. Transactions between the Group and its joint venture undertakings are disclosed below, with the relevant proportion being eliminated on consolidation.

Trading transactions

During the year, Group companies entered into the following material transactions with joint ventures:

	2009 £m	2008 £m
Royalties and management fees receivable	**1.6**	1.4
Dividends receivable	**46.3**	37.2
	47.9	38.6

The following receivable balances relating to joint ventures were included in the consolidated balance sheet:

	2009 £m	2008 £m
Current:		
Loans	**0.6**	1.2

	2009 £m	2008 £m
Non-current:		
Loans	**2.2**	0.7

Remuneration of key management personnel

The Directors of Serco Group plc had no material transactions with the Group during the year other than service contracts and Directors' liability insurance.

The remuneration of the key management personnel of the Group is set out below in aggregate for each of the categories specified in IAS 24 'Related Party Disclosures':

	2009 £m	2008 £m
Short-term employee benefits	**3.2**	3.6
Termination arrangements	**-**	0.7
Post-employment benefits	**0.4**	0.4
Share-based payment expense	**1.5**	1.9
	5.1	6.6

The key management personnel comprise the Executive Directors, Non-Executive Directors and key members of the Global Management Board.

Principal Risks and Uncertainties

Serco has a well-established and embedded system of internal control, including financial, operational and compliance controls and risk management, designed to safeguard shareholders' investments and our assets and reputation. The Board has overall responsibility for our internal control system and for reviewing its effectiveness, and has delegated to management the implementation of policies on risk and control.

We have developed robust systems and processes to identify and manage the key risks facing each of our businesses and the Group as a whole, and all parts of the business have appropriate risk and crisis management plans that meet our policy standards.

During the year we completed a comprehensive review, with the support of KPMG LLP, of the adequacy of our risk management approach. The review confirmed the maturity and effectiveness of current risk management processes, and also put forward a number of recommendations around enhanced oversight, risk identification and assessment, and reporting and monitoring. We are implementing these recommendations to ensure that risk management remains current, adds value to the management of the business and is integral to our internal audit approach.

Risk management is fundamental to how we manage our business. Our risk management policies, systems and processes are therefore defined and embedded within the Serco Management System, as described below. The Board regularly reviews these, which conform to the Combined Code's requirements.

Such policies, systems and processes, however, can only be designed to mitigate, rather than eliminate, the risk of failure to achieve business objectives, and can only provide reasonable, and not absolute assurance, against misstatement or loss. The Board confirms that these have been in place for the year under review and up to the date of approval of the Annual Review and Accounts.

Our approach to risk within the Serco Management System

The Serco Management System (SMS) sets out policy standards, systems and processes that identify, review and report risks at all levels of our business and in the Group as a whole, with the aim of safeguarding our shareholders' investments, our stakeholders' interests, and our assets and reputation. We regularly review the risk management processes we apply throughout our business as part of the SMS. This ensures they reflect the nature of the activities we undertake and the business and operational risks inherent in them, and therefore the level of control we consider necessary to protect our interests and those of our stakeholders.

These controls and processes fall into four main areas: identification, assessment, planning and control, and monitoring, so that we:

- identify business objectives that reflect our stakeholders' interests, and the risks associated with achieving these objectives
- regularly assess our exposure to risk, including measuring key risk indicators
- control and reduce risk as far as reasonably practicable or achievable, through cost-effective risk mitigation, and
- identify new risks as they arise and remove risks that are no longer relevant

Risk Identification

In identifying the potential risks associated with achieving our business objectives, we consider both external factors arising from the environment we operate in, and internal risks arising from the nature of our business, its controls and processes, and our management decisions.

Once identified, we document risks in risk registers, which we maintain at a contract, business unit, programme, divisional and Group level. These risk registers change as new risks emerge and existing risks diminish, so that the registers reflect the current key risks. We review risk registers at least quarterly and more frequently as required, and the Board reviews the Group risk register at each Board meeting.

Risk Assessment

We assess the potential effect of each identified risk on the achievement of our business objectives and wider stakeholder interests. To do so, we use a risk scoring system based on our assessment of the probability of a risk materialising, and the effect if it does. We assess this from three perspectives:

- the risk's significance to the achievement of our business objectives
- the risk's significance to society, including on public safety and the environment, and
- our ability to influence, control and mitigate the risk.

Analysis of our key risks allows us to assess the probability of disruption to our business objectives, and highlights critical areas that require management attention.

Risk Planning and Control

We assign each identified and assessed risk to a risk owner, who is responsible for controlling and managing it and developing a robust and effective plan to reduce or mitigate the risk. Risk owners are required to report to the Board on specific risks. The Board may ask for additional information or request an audit to provide additional assurance.

Risk reduction involves taking early management action to remove or reduce identified risks before they can affect the contract or project. We consider options to eliminate, reduce or control the risks as part of the risk identification and analysis process.

Risk mitigation involves us identifying appropriate measures, including contingency plans, to reduce the severity of the risks' impact, should they occur. This includes developing crisis management plans in response to risks whose potential impact warrants a specific management process.
The SMS requires every contract to develop a risk management plan reflecting assessed risks and supported by appropriate measures and contingency plans to mitigate the impact of the risks.

Risk Monitoring

Changes in our external environment, internal structures, and management decisions may all affect the nature and extent of the risks to which the Group is exposed.

Our risk monitoring process therefore regularly monitors changes to our business and the external environment, to ensure that we respond appropriately to reduce the impact of emerging risks.

Principal Risks

The Group risk register identifies the principal risks facing the business, including those that we manage at a Group level. The process identifies the business objectives and the interests of shareholders and other stakeholders that are likely, directly or indirectly, to influence the business's performance and its value.

The Group's key stakeholders include, but are not limited to, shareholders, customers, suppliers, staff, trade unions, government, regulators, banks and insurers. The way that we operate as a responsible company recognises the interests of the community in areas such as social, environmental and ethical impact.

The most significant risks relate to our reputation, and to operational and financial performance. A number of our risks also reflect social, environmental and ethical issues.

The following summarises the key risks we have identified that could have a material impact on our reputation, our operations, or our financial performance:

Key Internal risks

- Major accident or incident involving failure of duty of care or compliance with regulation, deaths or serious injuries to public or staff, or substantial damage to the environment
- Failure to manage our people effectively, including attracting and retaining key talent and maintaining good industrial relations
- Failure to deliver contracted commitments
- Major information security breach resulting in loss or compromise of sensitive company, personal or customer information
- Major IT failure or prolonged loss of critical IT systems, including enterprise applications

- Increase in people costs, including pension-related costs

Key External risks

- Significant change in government policy that impacts market opportunities or results in changes to existing or new contracts
- Significant changes in rates of inflation directly impacting revenue generation and/or costs
- Failure to have sufficient funding to meet current and future business requirements
- Outbreak of pandemic illness that severely disrupts and impacts our ability to operate and meet contracted commitments

We also have material investments in a number of joint ventures where we have joint control over management practices. In such circumstances our representatives within these companies ensure that their processes and procedures for identifying and managing risk are appropriate and that internal controls exist and are regularly monitored.

We keep reputational and emerging risks under review and inform the Board of changes. Emerging risks cover longer-term risks that could represent a threat to our activities but which are not yet sufficiently defined to be included as active risks. Examples of these risks include climate change and changes in key markets.

Managing and mitigating risk

Our risk management process enables us to understand our operational risk profile. While operational risk can never be eliminated, we endeavour to minimise the impact by the consistent implementation of the SMS, ensuring that appropriate infrastructure, controls, systems, staff and processes are in place. Some of our key management and control techniques defined in the SMS are set out below:

- Serco's operating processes fully reflect the principles of clear delegation of authority and segregation of duties
- comprehensive business review processes ensure we meet customer expectations, regulatory requirements, and performance criteria including operational effectiveness, investment returns, cash flow requirements and profitability
- we monitor and regularly review key performance indicators. These include analysis of business performance and variances from plan, customer satisfaction and retention data, staff turnover and satisfaction levels, occupational health and safety incidents, and error and exception reporting
- selective recruitment, succession planning and other human resource policies and practices ensure that staff skills are aligned with Serco's current and future needs
- we maintain insurance policies against losses arising from circumstances such as damage or destruction of physical assets, theft, legal liability for third party loss and professional advice. We review the adequacy of our insurance cover at regular intervals

- our Investment Committee meets regularly to ensure appropriate governance and the management of risk associated with larger or higher risk bids, acquisitions, disposals and areas of significant capital expenditure
- we apply robust project management and change implementation disciplines to all major projects including new contract transitions, acquisitions, new technology applications, change programmes and other major initiatives
- the Directors' Report describes our approach to health, safety and environmental protection. Qualified and experienced staff in each business unit provide advice and support on health, safety and environmental issues and undertake regular audits
- we have safety specialists in our aviation, rail, defence, nuclear and marine businesses who report to the Board and maintain and further develop the very high standards expected in these industries
- the Chief Information Officer is responsible for ensuring that systems and processes are in place to ensure the confidentiality, integrity and availability of sensitive information and the associated information systems that support our business activities
- our Ethics Committee has responsibility for the review of ethical issues that may arise from our current and future activities
- the Company Secretary manages a confidential reporting service, to which staff can report illegal, dangerous, dishonest or unethical activities

Internal Audit

An integral part of risk management is assurance that the controls identified to manage risks are operating and effective. The Head of Internal Audit has led the strategy to transform our assurance programme so that it is aligned to test the key controls managing the Group's risk. Internal audit is delivered at three levels across the business:

- Group internal audit,
- functional internal audit, and
- divisional internal audit

The Head of Internal Audit leads the Group internal audit programme, which is independently delivered by KPMG LLP. Its findings are reported directly to the Group Audit Committee. In addition to the audits conducted by KPMG, the Head of Internal Audit supplements the programme by conducting periodic special reviews as requested by the Serco Group plc Board or Executive Committee from time to time.

The functional internal audit programme supplements the Group internal audit programme. It addresses finance processes and controls, through a centrally provided audit programme delivered by divisional management on a peer to peer basis; as well as audit programmes completed by Group functional specialists covering health, safety and environment, and IT policy compliance.

In addition to these programmes, each operating division maintains a divisional risk register, from which we develop a divisional internal audit programme. This programme selects a number of contracts for review based on certain key risks. These reviews are completed through a self-assessment programme focused on testing the controls which manage and mitigate these key risks. Divisional audit committees, which track and report on the progress of the divisional internal audit programme, meet three times a year.
The Head of Internal Audit oversees the internal audit process, as well as acting as the conduit for sharing best practice, and flagging emerging risks to ensure each part of the business benefits from the wider scale of the Group's assurance activity.

In addition to internal audit, many parts of our business are subject to other reviews of their controls by third parties, including industry regulators, ISO Standards, customers and other audits. This third-party scrutiny significantly increases the scope of auditing conducted across the Group each year.

The Board confirms that the actions it considers necessary are being taken to remedy the failings and weaknesses which it has determined to be significant from its review of the internal controls across the Group including those of a joint venture that is being closed. The Board confirms that it has not been advised of material weaknesses in financial reporting as part of the internal control system.