Serco people
The heart of our business

serco

Serco Group plc
Annual Review and Accounts 2008





Bringing service to life

Serco is an international service company that combines commercial know-how with a deep public service ethos. We improve services by managing people, processes, technology and assets more effectively.

National and local governments, which represent 90% of Serco's business, face profound challenges. Despite intense budget pressures, they must continue to improve vital services and address rising public concerns over sustainability, security and service quality. In today's economic climate, major private companies also face issues of cost, efficiency and quality.

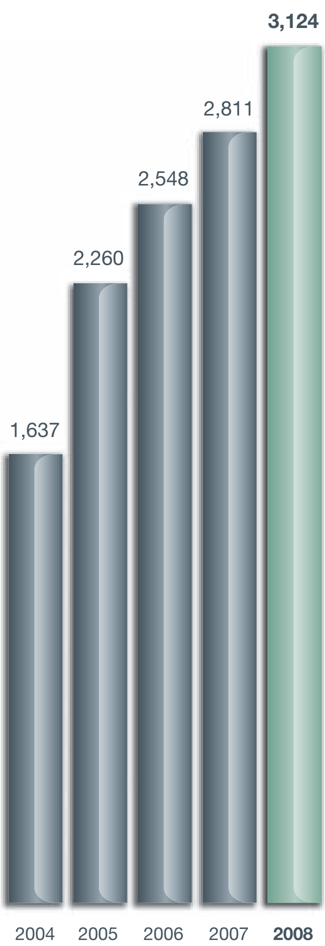
The result is a growing demand for Serco's skills in redesigning organisations, improving processes and enabling people to deliver their best.

This expertise is rooted in a values-led culture and over 40 years' experience in delivering public services, which has enabled us to build strong capabilities across different sectors. Our Governing Principles underpin consistent delivery and customer satisfaction and our Management System allows us to react to changing times with innovation and agility.

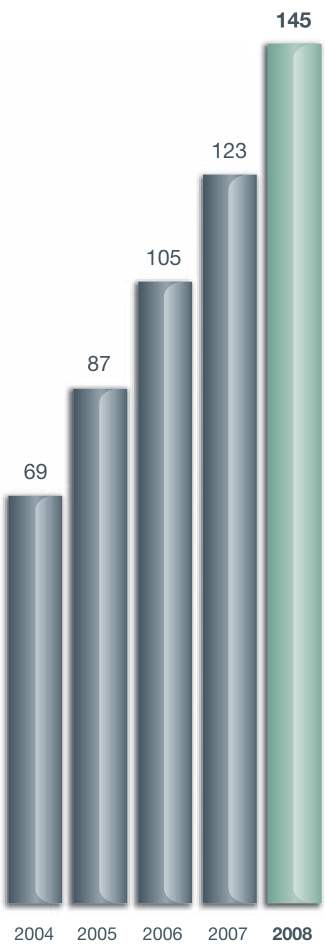
2008 Highlights

Revenue
(2007: £2,811m)

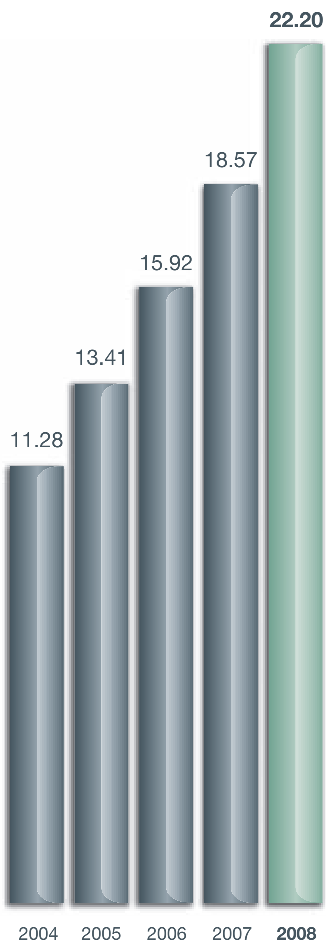
£3,124m
+11.1%



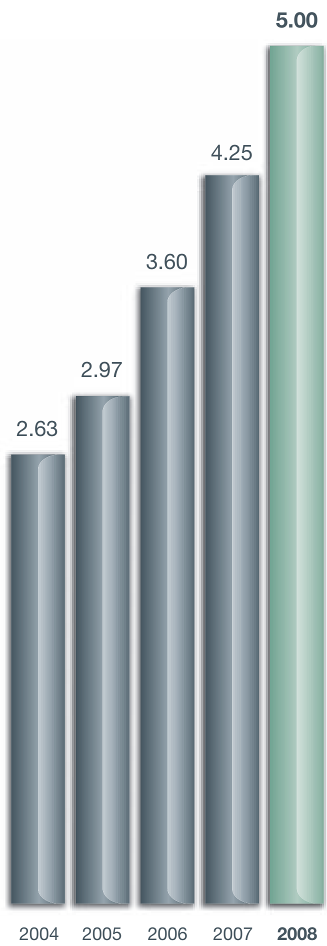
Revenue
(£m)



Adjusted profit before tax
(£m)



Adjusted earnings per share
(pence)



Dividend per share
(pence)

Adjusted profit before tax (2007: £123.2m) **£145.3m** +17.9%	Adjusted earnings per share (2007: 18.57p) **22.20p** +19.5%	Dividend per share (2007: 4.25p) **5.00p** +17.6%
Profit before tax (2007: £114.6m) **£136.1m** +18.8%	Earnings per share (2007: 16.98p) **20.49p** +20.7%	Group free cash flow (2007: £97.6m) **£94.2m** -3.5%

Strong operational performance underpins growth

Strong operational performance and increasing capabilities in growing markets

- Signed contracts valued at £3.2bn
- Win rates of one in two for new bids and 90% of rebids
- Organic growth broadly spread across markets and sectors
- Significant progress in developing new markets
- SI International integration on track

Robust financial performance and secure funding

- Strong revenue growth of 11.1%
- Adjusted profit before tax margin increase of 30bps
- Good cash generation: Group free cash flow of £94.2m
- £900m of committed debt funding: £64m repayable in 2010 with over 60% maturing from 2013

Substantial order book and continued high revenue visibility

- Order book of £16.3bn at 31 December 2008
- Continued high visibility of 90% of planned revenue for 2009, 76% for 2010 and 65% for 2011

Growth prospects increasing: expect continued strong performance

- Challenging global economic environment fuelling opportunities for efficient delivery of essential services in existing and new markets
- Flexible and agile business model, £26bn pipeline of opportunities and new markets support expectation of continued strong performance
- Consistent with previous guidance, expect revenue of approximately £5bn and an improvement in Adjusted operating profit margin of around one per cent to approximately 6.3% by the end of 2012*

* excluding material acquisitions, disposals and currency effects.

Note: Adjusted operating profit, Adjusted profit before tax and Adjusted earnings per share shown above are before amortisation of acquired intangibles as shown on the face of the Group's 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.

Our business

Civil Government

Revenue

£1,127m

(2007: £952m)

We organise our business around market expertise in a variety of sectors: Civil Government, Defence, Transport and Science.

Our work in Civil Government includes home affairs, information and communications technology (ICT), business process outsourcing (BPO), education and children's services, health, integrated facilities management and consulting.

We manage prisons in the UK, Australia and Germany, electronically monitor offenders, develop systems for law enforcement agencies, controlling immigration and improving civil resilience.

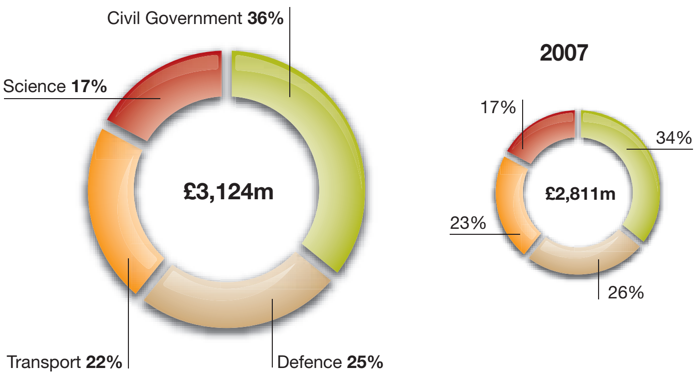
We run all education services in two local authority areas and all children's services in one area, providing services for over 500 schools and around 20,000 children.

Our expanding health business provides clinical services to over two million people in a range of primary and community settings and occupational health services for private companies, local authorities and not-for-profit organisations.

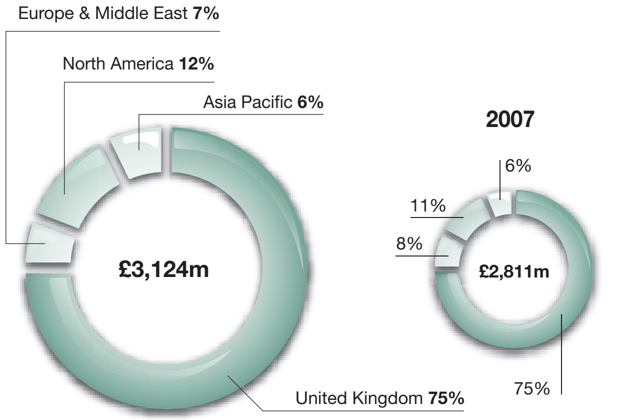
We use our ICT skills and BPO knowledge to deliver better, faster and cheaper solutions to local government, schools and blue chip private sector customers. In North America, the acquisition of SI International has added new records management and IT capabilities which we provide to a number of civil government agencies. During the year, we also acquired InfoVision (now Serco BPO), the largest independent BPO business in the Indian market.

Our integrated facilities management business provides environmental, streetscene and other direct services to councils, and also works with hospitals and private sector customers. Our consulting capability raises awareness of Serco and enhances our reputation with potential and existing customers by providing high-value advisory services.

Revenue by market 2008



Revenue by geography 2008



Defence

Revenue

£786m

(2007: £721m)

Transport

Revenue

£671m

(2007: £655m)

Science

Revenue

£540m

(2007: £483m)

Serco is a leader in the provision of support services to the armed forces of the UK, US, Germany and Australia.

In the UK, we provide training, engineering and operational support to the Royal Air Force and the flight arms of the British Army and Royal Navy. We put the Royal Navy to sea at its three main UK bases, operate and maintain strategic defence assets such as secure satellite communications and the Defence Academy of the United Kingdom, and provide systems engineering, safety assurance and risk management services.

In North America, following the acquisition of SI International during the year, our skills now encompass information technology, professional services, human capital management, engineering and logistics, national security, and intelligence, and we serve every branch of the military.

We provide training, logistics and operational support services to the Australian Department of Defence, with a presence on every defence base in Australia, and to the German Bundeswehr, including our work at one of Europe's most advanced combat training centres.

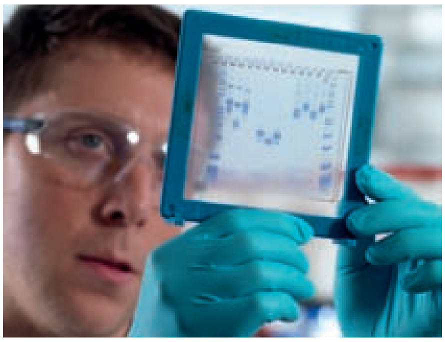
Serco is a major provider of transport services. With our partner, NedRailways, we run Merseyrail – one of the UK's best performing franchises – and Northern Rail, which is the UK's largest network.

In Australia, Serco owns and operates Great Southern Rail, including The Ghan and Indian Pacific trans-continental services.

We have substantial experience of operating light rail systems, including the award-winning Docklands Light Railway in London. During 2008, we signed the contract to operate and maintain the Dubai Metro system which will commence operation in September 2009.

Serco is also a UK market leader in traffic management systems, including the National Traffic Control Centre for England, which helps motorists to plan their journeys and make best use of the road network.

In air, we are one of the world's largest private sector providers of air traffic control services, with operations in the UK, Middle East and the US.



Serco is a leader in managing both science-based organisations and the process of developing, transferring and applying knowledge.

We manage the National Physical Laboratory (NPL), which is one of the world's major scientific establishments. It is our responsibility to maximise the positive impact of NPL's mission in measurement standards and science, for business and government.

We have an integral role in the UK defence and civil nuclear industries. Since 2000, Serco, as a joint venture partner in AWE Management Limited, has been entrusted with the management of the UK Atomic Weapons Establishment, which is responsible for providing the warheads for the UK's nuclear deterrent. In addition we have provided independent specialist nuclear safety advice to the Royal Navy in support of its nuclear submarine fleet for nearly half a century.

We also offer specialist technical support to the UK's civil nuclear industry, providing safety, environmental, risk and asset management advice and operational solutions across the UK's civil nuclear sites.

Serco's vision and strategy

Our vision is to be the leading service company in our chosen markets.

Our strategy for achieving this vision has four elements:

Build a balanced portfolio

We aim to reduce risk and increase opportunity by building a balanced contract portfolio, spread across markets. This reduces our exposure to market fluctuations, enables us to select the best opportunities whichever market they are in, and allows us to transfer expertise from one market to another.

Maintain high rebid and new win rates

We maintain high win rates through building long-term customer relationships and by meeting – and often exceeding – customer expectations. This, along with our reputation with existing customers, helps us to expand the scope and scale of contracts during their life, retain contracts at rebid, and win new contracts.

Our key achievements in 2008:

Education in Walsall

Light Rail in the Middle East

Serco continued to strengthen and broaden its portfolio. We won £3.2bn of contracts, increasing our presence in existing markets, both through new contract wins and expanding the scope and scale of existing contracts, and developing new markets, such as local authority strategic partnerships and light rail in the Middle East.

Most Admired Support Services Company for the fifth year running

Our win rate on rebids for existing contracts in 2008 was 90%, and we won one in two new bids, reflecting our ability to select only those opportunities where we can differentiate ourselves.

We received numerous awards for the quality of our service in our businesses, which are mentioned throughout this report. We won Management Today's award for the Most Admired Support Services Company for the fifth year running.

The outcomes of our strategy

Each of the four elements of our strategy contributes to one or more of the following outcomes:

Reducing our exposure to market fluctuations

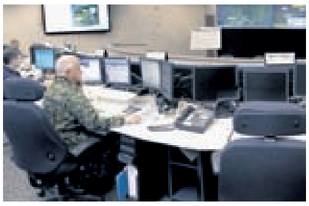
Our balanced portfolio and our high rebid and new contract win rates give high visibility of future revenue and protect against fluctuations in any one of our markets. Innovation enhances our competitiveness and allows us to enter new markets and find new ways of delivering services to customers.

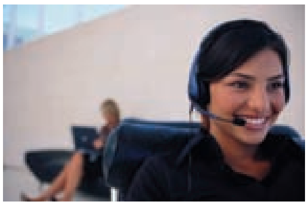
‘Leading’ means that we want to be the best partner to work with, the company people aspire to work for, and the company which delivers superior returns to shareholders.

Our ‘chosen markets’ are those which promise strong revenue growth, attractive margins and the ability to offer good working conditions for our people.

Make strategic acquisitions

While we are primarily focused on organic growth, we make acquisitions to acquire new skills which will be important for future growth and to enter new markets where we see strong opportunities.


SI International

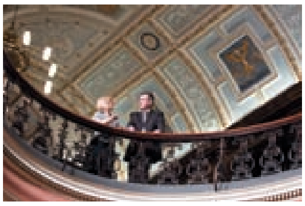

Serco BPO

We took a significant step in our international development by acquiring SI International, a provider of information services, technology, and network solutions in the substantial US federal government services market.

The acquisition of InfoVision (now Serco BPO) established Serco in the fast-growing Indian market. We also acquired the UK’s leading independent occupational health service company, the Grosvenor Group.

Develop new models

We respond to emerging opportunities by finding new ways to deliver services. This may mean collaboration between our divisions, bringing together skills and experience which few other companies can replicate. Or it may mean partnering with our customer or the voluntary sector. Our ability to lead change keeps us at the forefront of our markets.


Glasgow City Council


Guy’s and St Thomas’ pathology

We signed a pioneering joint venture with Glasgow City Council for a range of innovative ICT and property services.

We developed a new partnership structure with the Guy’s and St Thomas’ NHS Foundation Trust to improve its pathology services and target the significant pathology market.

Serco signed two environmental services contracts with an innovative approach to waste and recycling collection.

Our marine services and transport businesses partnered to win a contract to operate the Woolwich Ferry service.

Strengthening our position in our chosen markets

We focus our resources on those markets where we see the best prospects, and innovate to satisfy our customers’ needs. We supplement our organic growth with carefully selected acquisitions to expand our footprint.

Developing new skills and capabilities for the future

We constantly invest in our skills and capabilities to strengthen our market position. We acquire to enhance our capabilities and to allow us to enter new markets which helps us secure opportunities for growth in the future.

Market opportunities

Our customers, principally national and local governments, are increasingly under pressure to reduce budgets and to maximise the effectiveness of their available resources given the current challenging economic environment.

At the same time, they continue to face rising demand from their citizens to improve the delivery of existing public services, and growing challenges in areas such as climate change, migration, security, economic development, ageing populations and congestion.

These pressures are increasing demand from our customers to reduce the costs of public services and address these broader challenges. We are well positioned to help them, given our strong capabilities across a broad range of markets, our proven track record in delivering people-led change and excellent service, and our ability to create innovative solutions.

The strong opportunities for the private sector in delivering better value for money services, both in the UK and overseas, were confirmed in the independent review of the public services industry conducted for the UK Government by Dr DeAnne Julius. The review, which was published in July 2008, concluded that the UK has the most developed public services industry in the world, valued at £79bn, and saw strong potential for this to grow further in the UK and for these skills to be exported into new markets.

The role of the private sector in delivering efficiencies was further confirmed in the UK Government's Operational Efficiency Review, announced in July 2008, and due to report this year. The Review identifies five work streams, including collaborative procurement, back office and IT functions, asset management, property and local initiatives and empowerment, and is seeking to draw on the best of public and private sector experience to deliver billions of pounds of savings across these areas. The further development of Competitive Neutrality, as set out in the UK's Budget in 2008, should also increasingly mean that there will be equality between the public sector and private sector or voluntary agencies when bidding for contracts.

Looking at prospects across the business, we continue to see strong opportunities in home affairs. Rising prison populations are increasing the demand for prison places and innovative approaches to offender management, providing Serco with opportunities to expand its work in the sector in the UK and Australia. At the same time, border security issues have increased the pressure on places at immigration control centres, and the demand for proven, consistent approaches to managing these facilities, and associated services such as escorting.

Above: Caring for prisoners at Acacia Prison.

Above: The joint venture between Serco and Guy's and St Thomas' NHS Foundation Trust will enhance the Trust's pathology capabilities.

Above: Serco delivers and operates the National Traffic Control Centre (NTCC), delivering real time traffic information to motorists.

Above: Providing "surface finishing" services at RAF Cranwell

In the US, the incoming administration's focus on countering cybersecurity threats, improving information sharing among agencies, modernising healthcare management, and increasing the need for logistics services with the anticipated drawdown of combat troops and the lengthening life expectancies of existing military platforms provide growing areas of opportunity for the expanded capabilities of our North American business.

Ageing populations are adding significantly to the pressures on health services and increasing the need to use existing resources efficiently. The groundbreaking partnership between Serco and Guy's and St Thomas' NHS Foundation Trust establishes a new, replicable model to target the significant national pathology market, which is valued at £2.5bn and is growing at 8% to 10% annually, with international opportunities. Similarly, the acquisition of Grosvenor has given us new opportunities in the fast-growing market for occupational health services for public, private and not-for-profit organisations.

The economic downturn is increasing the focus on developing new solutions to increase employment by encouraging entrepreneurialism and supporting people in returning to work. We see further opportunities to support small and medium-sized enterprises through initiatives such as Business Link and our work with the UK's regional development agencies, and expect new opportunities under the Government's Flexible New Deal initiative following the publication of the Green Paper on welfare reform in July 2008.

Local authorities in the UK face a range of challenges in balancing the requirement to achieve a 3% annual efficiency gain (as required by the 2007 Comprehensive Spending Review) with the demand for more responsive public services and their key role in enabling the delivery of national policy such as the Every Child Matters agenda. Serco has pioneered an innovative approach to service transformation in our partnership with Glasgow City Council, and we see good opportunities to provide similar services to other local authorities. We also see a strong pipeline in providing our environmental services to local authorities.

Traffic congestion is a growing threat to economic growth, public health and the wider environment in most regions of the world. Responsive, dependable traffic management and reliable, cost-effective public transport systems both play vital roles in the solution. We see further opportunities to grow our presence in light rail, both in Dubai as the new Metro network expands, and in other countries, including the UK and continental Europe. Serco's expertise in traffic management is also in growing demand as the UK Highways Agency increases its investment in this area, and as other countries look to import the expertise in integrating systems and data to maximise efficiency of the road network developed in the UK.

We recognise the financial and operational pressures affecting our defence customers, and are using our expertise to help them achieve more within existing resource levels. In the UK, we remain in constant dialogue at senior levels as to how we can contribute to through-life capability management, and continue to innovate to help our customers at a local level. In the US, we now serve every branch of the military and see strong opportunities to grow in key areas such as personnel support services, procurement, engineering and logistics, and program management. We also see opportunities to deploy our skills in other selected markets overseas.

We have also identified good growth opportunities in the Indian market where we launched Serco BPO following the acquisition in December of InfoVision's BPO capabilities. Rising incomes are creating an increasing demand from consumers for services and consequently a growing use of third parties to deliver them. The outsourced domestic BPO services market is expected to grow in value to around US$1.8bn over the next five years and there is early evidence that there will be demand for process outsourcing within the Indian public services market.

Chairman's Statement

2008 was another year of strong performance for Serco, with good growth across our markets and sectors. We also made significant progress in developing new markets and enhancing our capabilities.

Kevin Beeston
Chairman

Our substantial order book and pipeline of opportunities together with our proven ability to deliver innovation and efficiency savings to our customers, support our expectation of continued strong performance going forward.

Financial results

I am pleased to report on another year of strong financial performance. Revenue grew by 11.1% to £3,124m, Adjusted profit before tax (Adjusted PBT) rose by 17.9% to £145.3m and Adjusted earnings per share grew 19.5% to 22.20p. The Adjusted PBT margin increased from 4.4% to 4.7%, as we continue to benefit from efficiency improvements and management of our contract portfolio. Profit before tax rose by 18.8% to £136.1m and earnings per share was 20.7% higher at 20.49p. We delivered another good cash performance, with free cash flow of £94.2m, and have a strong funding position, with £900m of committed debt facilities, the majority of which are not repayable until 2013.

In December, we were included for the first time in the FTSE 100 index, which comprises the UK's 100 largest listed companies.

Revenue
(2007: £2,811m)

£3,124m
+11.1%

Adjusted profit before tax
(2007: £123.2m)

£145.3m
+17.9%

Adjusted earnings per share
(2007: 18.57p)

22.20p
+19.5%

Dividend per share
(2007: 4.25p)

5.00p
+17.6%

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 3.52p per share, representing an increase on the 2007 final dividend of 16.6% and bringing the total dividend for the year to 5.00p, representing growth of 17.6%. The final dividend will be paid on 20 May 2009 to shareholders on the register on 6 March 2009.

Delivering sustainable growth
Economic conditions in 2008 were challenging for governments, companies and citizens alike and whilst no one can expect to be immune to these conditions, Serco has once again demonstrated the resilience of its business model.

Budget constraints are fuelling demand for efficient and cost-effective public services, as governments balance their investment in stimulating economies with the requirement to control national debt. Meanwhile, citizens increasingly demand better solutions to global challenges such as security, congestion and environmental issues.

The role of the private sector in supporting governments in tackling these issues has become an established part of the solution. The Julius Review, commissioned for the UK Government, revealed that the public services industry employs more than 1.2 million people in the UK, generates £45bn of value per year and has significant export potential. Our growing capabilities mean that we are now able to address a broader range of these opportunities across a larger number of geographies and sectors.

We continue to grow our capabilities both organically, by investing within our existing business, and by acquisition. In addition to a substantial number of new contract wins and extensions in 2008, we took a significant step in our international development by acquiring SI International, Inc., a provider of information services, technology, and network solutions in the very large US federal government services market. We also established a presence in the Indian market, where we see strong growth opportunities, through the acquisition of InfoVision, a BPO company serving the domestic market.

Effective management of risk
As well as maximising opportunities for growth within our business, a key element in delivering sustainable performance is to manage risks in bids and existing operations. We do this through the Serco Management System, our robust system of governance and internal control which covers all aspects of our business and is overseen by the Board.

We carefully select new bidding opportunities and assess each bid's financial profile, risks, visibility, place within our portfolio and our ability to deliver excellent service. We take a similar approach to our existing contracts with regular assessment of performance and risks, which is reviewed on a continuous basis.

We also constantly look to improve our processes. Given challenging global economic conditions in 2008, it was appropriate that we incorporated our risk management processes into a broader framework that encompasses the resilience of the Group as a whole, providing us with further confidence in the visibility and control environment within our business.

Our people
Finally, I would like to thank all Serco employees for their tremendous efforts over the year, and to welcome to the business those who joined us in 2008. It is the spirit of innovation of our people and their commitment to the delivery of excellent service that distinguishes us, and supports our confidence in the future.

> "It is the spirit of innovation of our people and their commitment to the delivery of excellent service that distinguishes us, and supports our confidence in the future."

Chief Executive's Statement

In 2008, we delivered strong operational and financial performance while continuing to increase our presence in existing markets and enter new markets. We were successful in expanding the scope and scale of existing contracts, both on rebids and during the contract term, and won a number of significant contracts in new markets with strong growth opportunities.

We delivered another year of double-digit revenue growth, enhanced our margins, generated good free cash flow and strengthened our funding position. At the same time, we invested in improving our capabilities, systems and structures across the business.

In an economic environment that seems likely to remain challenging, our expectation of continued strong performance is underpinned by our continued high revenue visibility, our agility and flexibility in addressing our customers' needs and our ability to direct our resources at the best opportunities.

The strength of our business model and the commitment of our people mean that we continue to deliver quality service to our customers, which was again reflected in our contract win rates. During 2008, we maintained our win rates at over 90% on rebids and one in two new bids, and in total we won over 200 contracts valued at £3.2bn across a wide range of our markets.

Expanding presence in existing markets

We expanded our presence in existing markets, both through new contracts and expanding the scope and scale of existing contracts. Among larger wins, in the UK we won two contracts to deliver a range of innovative environmental services for the London Borough of Hammersmith & Fulham and Milton Keynes Council valued respectively at £140m and £160m over a maximum of 14 years, and we renewed our education and children's services contract with Walsall Council, which is now valued at £345m over a longer term of 12 years. We were also awarded a facilities management contract to manage 29 of Deloitte's office facilities and buildings valued at £50m over five years.

In defence, we continued to expand our services to the military in the UK and overseas. In the UK, we expanded our contract, valued at £76m over its maximum ten-year term, to provide the Naval Air Command with engineering and aircraft support services at Yeovilton and Culdrose air stations. In Australia, Serco Sodexho Defence Services, a Serco joint venture, renewed its contract to provide garrison support services at six defence bases in the Northern Territory, and was awarded a similar contract for the North Queensland region. The total value of both contracts to Serco is AUS$362m. In the US, we won a rebid to deliver Aviation Technical Maintenance and Support Services to the US Navy, which has a total potential value of US$167m over five years and significantly increases the support we provide to the Space and Naval Warfare Systems Center Atlantic.

Developing new markets

In 2008, we also invested in the development of a number of new markets. In the local authority market, we signed our first local authority strategic partnership, valued at £265m over ten years, with Glasgow City Council. We continue to pursue similar opportunities with other local authorities. In April, we signed our first light rail contract in the Middle East with an agreement, valued at £500m, to operate and maintain the Dubai Metro, leveraging the transport capabilities we have developed in the UK and positioning us well for further opportunities in the region. Our implementation plan for the Metro is on schedule ahead of the start of the service in September 2009.

Visiting the Glasgow partnership team.

Presenting the Pulse Awards.

Investing to support our growth
During the year, we continued to invest to support our strong growth: this means ensuring that we have the best people, capabilities, systems and business structures to meet our customers' needs and pursue the higher-value opportunities available to us. For example, during the year, we began the roll-out of our Business Academy, providing our people with online access to the latest tools, thinking, approaches and techniques. At the end of July, we reorganised the central IT services team within our technology business in order to better align our capabilities with developing market needs such as in security and resilience, and to improve efficiency and simplify structures. In the future, we will also leverage our new capabilities in India to support these and related areas. We also completed the roll-out of our SAP system in the UK and the Asia Pacific business, and are now implementing it in the Middle East and anticipate starting this process in North America later this year.

A strong foundation for growth in the US government services market
At the end of the year, we completed our acquisition of SI International, a provider of information services, technology, and network solutions to the US Government, for US$524m, including assumption of debt. In 2008, SI International had revenue of US$575.5m and underlying Adjusted operating profit of US$36.7m.

SI International creates a strong foundation for growth and the delivery of higher value services in the US government services market, by giving us scale and increased resources to bid on larger US Government contracts, broader customer relationships, access to higher growth areas and increased capabilities. Since the year end,

"We have a substantial order book that gives us high visibility on our future revenues together with increasing growth prospects."

Christopher Hyman
Chief Executive

Chief Executive's Statement
(continued)

we have made good progress in integrating SI International with our existing North American business, and there are early positive signs that our integrated teams will be able to apply our enhanced capabilities across our enlarged customer base.

We also entered the Indian market through the acquisition in December of a majority shareholding in InfoVision, a BPO business serving the domestic Indian market, for £14.8m, and have invested in enhancing our presence and launching the Serco brand in that market.

In January 2009, we announced that we had formed a partnership with the Guy's and St Thomas' NHS Foundation Trust to improve the Trust's pathology services and target the pathology market in the UK and overseas. In the UK, pathology is a significant market, valued at around £2.5bn. The 50:50 joint venture – the first of its kind – is branded as GSTS Pathology and will operate and enhance the Trust's existing pathology capabilities under a ten-year contract valued at around £250m to Serco, which started on 1 February 2009.

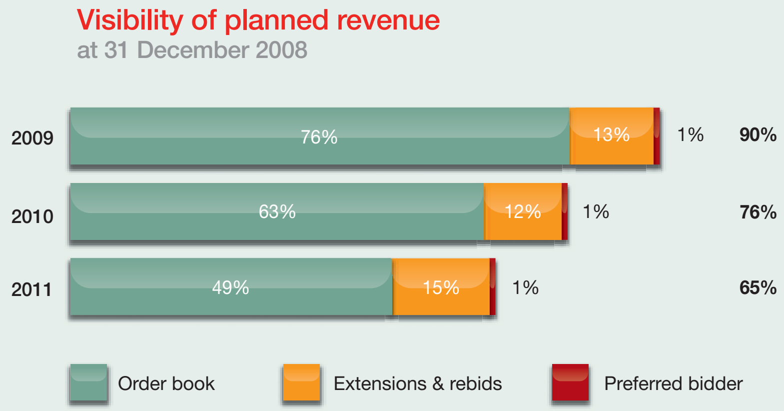
In the nuclear market, while we were disappointed that our consortium did not win the Sellafield nuclear decommissioning contract, we have seen growth in our nuclear assurance business which is well placed to take advantage of increasing nuclear opportunities in the UK and overseas.

A values-led company
We continue to be focused on our values, our Governing Principles as we call them, to ensure that we operate in the best interests of all our stakeholders in the short, medium and long-term. By combining a strong public service ethos with commercial acumen, we seek to create a working environment that is attractive and rewarding for employees, and gives customers the confidence they need to entrust their requirement to deliver excellent service to us. That environment helps Serco people all around the world give their best, whether improving the education a child receives, helping pilots and commuters arrive safely at their destinations, supporting front line military personnel, or assisting businesses in their plans to grow and prosper.

The quality and dedication of our people is reflected in the many awards we receive around the world. Some examples in 2008 include the many employees who received military service medals for their work in operational theatres supporting the No. 32 (The Royal) Squadron and the Skynet 5 secure military satellite communications systems both in Iraq and Afghanistan.

At Merseyrail and Northern Rail, employees' dedication to service has been recognised at an industry level: Merseyrail has achieved a high rating of 90% customer satisfaction and Northern Rail was recognised as the Rail Operator of the Year, having continued to improve reliability and service quality. Among many other awards, we were again recognised by our peers as the UK's Most Admired Support Services company, for the fifth year in a row.

"During the year, we continued to invest to support our strong growth: this means ensuring that we have the best people, capabilities, systems and business structures to meet our customers' needs."



We were also delighted to celebrate the achievement of those teams and individuals nominated by their colleagues to receive a 'Pulse' Award, which is Serco's way of recognising their efforts in ensuring that we live our Governing Principles and support those around us and in our wider community. Our people's strong commitment, which we find all over Serco, is the real bedrock of our growth.

As 2008 came to a close, approximately 13,000 people joined the Serco family through the acquisitions of SI International in the US and InfoVision in India. We chose these companies very carefully, based on the growing markets they operate in, the skills and capabilities they have and, critically, the values that their people demonstrate. We are delighted to welcome them to the Group.

Outlook and guidance

While the global economic environment seems likely to remain challenging, we have a substantial order book that gives us high visibility on our future revenues together with increasing growth prospects.

Our long-term contracts and substantial order book continue to provide excellent visibility over our revenues, over 90% of which come from government. Including a £1bn benefit from SI International, we had a substantial order book of £16.3bn as at 31 December 2008, and we had identified 90% of planned revenue for 2009, 76% for 2010 and 65% for 2011.

Constrained government budgets drive demand for efficiency and cost-effectiveness in the delivery of public services, especially as governments balance their investment in providing economic stimulus with the requirement to control national debt. Our strong capabilities mean that we are well positioned to provide relevant support in existing markets and to leverage our expertise through exporting proven models to new areas. With growing markets and capabilities, our pipeline now stands at a substantial £26bn, including SI International's pipeline of over £2bn.

With our substantial order book, excellent revenue visibility, and our ability to direct our resources flexibly to pursue the best opportunities, we remain confident that our business will continue to perform strongly. We expect increasing demand for our skills to support robust revenue growth, and see good opportunities to improve our margins, through our focus on managing our contract portfolio, enhancing our efficiency, and bidding selectively for higher-value work.

Given the confidence this gives us over the medium-term, we are guiding to revenue and margin by the end of 2012. In future, reflecting the operational drivers of our margin improvement and in line with market practice, we will give our margin guidance at the operating profit margin level.

Accordingly, and consistent with our previous guidance, our projections are that our revenue will increase to approximately £5bn and our Adjusted operating profit margin to approximately 6.3% by the end of 2012, excluding material acquisitions, disposals and currency effects.

In 2009, we expect to deliver double-digit revenue growth and a 30bps increase in our Adjusted PBT margin, excluding SI International. The addition of SI International is anticipated to increase our 2009 revenue growth by approximately 10%. Including the benefit of SI International, we expect our Adjusted operating profit margin of 5.3% in 2008 to increase by approximately 40bps in 2009. This 2009 guidance excludes material currency effects.

"Our projections are that our revenue will increase to approximately £5bn and our Adjusted operating profit margin to approximately 6.3% by the end of 2012."


By working in partnership with the Child Exploitation and Online Protection Centre, Serco helps to support the vital work in keeping children safe.
CEOP
matter

Working alongside CEOP

The Child Exploitation and Online Protection (CEOP) Centre is the UK police agency dedicated to protecting children from sexual abuse.

Serco works in partnership with the CEOP Centre to support child protection in the UK. As part of its partnership, Serco funded the building of a state of the art Behavioural Analysis Unit (BAU) within the CEOP Centre in London, providing expert project management support which enabled the BAU to be built in just six weeks.

The BAU focuses on understanding how offenders with a sexual interest in children operate and think. It is a resource to law enforcement nationally and internationally who are investigating these types of crimes.

The qualitative information the BAU obtains is disseminated to law enforcement via a comprehensive training programme that incorporates a unique national qualification programme for child protection professionals working in this area.

The results from the analysis undertaken directly influences CEOP strategy and operational policy and helps to inform the development of CEOP's ThinkuKnow education programme, which teaches parents and children about online safety. This programme has to date reached over 3.75 million children.

Civil Government

2008 Revenue

£1,127m

(36% of Group Revenue)

Our work includes:

- Border protection
- Prisons management
- IT and IT-enabled services
- Government web portal management
- Education and children's services
- Environmental services
- Health management and hospital support
- Management consultancy

In Civil Government, our work encompasses sectors including home affairs, healthcare, local government, education and children's services and the corporate sector, providing a broad range of integrated facilities management, IT and business process outsourcing (BPO) support and consulting services.

Above: Skills workshops at Acacia Prison

In the US, the acquisition of SI International has added new records management and IT capabilities which we provide to a number of civil government agencies.

Civil Government revenue grew by 18.4% to £1,127m, representing 36% of Group revenue (2007: 34%).

Home Affairs

The UK Government is responding to increasing prisoner numbers with investment in building new prison facilities and increasing the capacity of existing prisons. Serco is playing an important role in maximising the impact of this investment.

Construction has begun on new houseblock accommodation at HMP Dovegate and HMP Lowdham Grange, adding 260 new places to each prison, and increasing the combined operating income of both contracts by over £100m over their lives. The pressures on the prison system are also increasing demand for associated services, including growth in our court escorting and electronic monitoring services, as authorities look to alternative approaches to prison sentences for the management of offenders.

We received positive inspection reports issued on Yarl's Wood Immigration Removal Centre by HM Chief Inspector of Prisons, and Hassockfield Secure Training Centre by Ofsted, which commended our people on the high quality of the care they provide and further reinforced our reputation for the provision of specialist care for children and young people in secure accommodation.

ICT and BPO

The demand for innovative, flexible approaches to working and people management, combined with the requirement to achieve value for money and the requirement for local authorities to achieve year on year efficiencies is leading to new opportunities for our IT and BPO management services.

In December we acquired a 60% shareholding in InfoVision, the third largest BPO company serving the Indian domestic market, enabling further development of InfoVision's BPO business, and broadening our existing customer offering. We have agreed to acquire the remaining 40% of InfoVision in two tranches over the next two years. We see strong opportunities for growth, both in BPO and as a provider of services to the public as the Indian market develops.

Above: ACCESS team members on a site visit to Glasgow City Council chambers

In 2008, Serco was selected by Glasgow City Council for a pioneering joint venture. Known as ACCESS, the joint venture provides high quality property and ICT services, improving outcomes for Glasgow's citizens while saving the Council more than £70m over ten years.

Steven Purcell, Leader - Glasgow City Council says,

" I am both impressed and delighted with what the ACCESS team has achieved in such a short space of time. Having only signed the contract in February, going live in April was always going to be a difficult goal. The challenges of creating a new business unit and bringing together, so rapidly, groups of people from different backgrounds were not insignificant. However the teamwork and sense of purpose exhibited by ACCESS, working in real partnership with the Council, ensured that not only was the April target met, initial service performance results have been excellent, and ACCESS has already gone on to become an established, well-respected and effective member of the wider Council team. The energy and leadership evident in ACCESS is already beginning to create a real momentum of change and improvement across the Council and I look forward to a successful and valued partnership."

We have made a successful start to our landmark £265m partnership with Glasgow City Council to transform land, property and information and communications technology (ICT) services. During the first nine months of the contract we have surveyed close to 500 properties, opened a new datacentre, merged five service desks into one and delivered some £9m of transition projects to time, cost and quality. The transfer of some 280 seconded staff into the joint venture has taken place and we have already reorganised the ICT function to improve service delivery.

Following our success in Glasgow, we signed a new contract with Derby City Council and Derby Homes to provide IT management and support. The new partnership is designed to support innovative approaches to office and home working, alongside reducing the council's carbon footprint, and securing cash efficiencies for both Derby City Council and Derby Homes. The contract is valued at £19m over seven years.

Our contract with the businesslink.gov services supporting SMEs has been extended to cover the development of online business support. This extra work, with an additional value of £14m per annum, follows positive reviews of our performance on the contract by the National Audit Office. We have continued to develop our business support work across a number of the UK's regions, with a £2m, four-year contract to support the South East's businesses through a customer relationship management system, additional funding of £9m to support rural enterprise in Devon, Cornwall and Somerset, and a contract for the London Development Agency for its CompeteFor procurement portal to match buyers and potential suppliers in the 2012 Olympic Games supply chain which has recently secured additional funding of £1.8m.

Civil Government
(continued)

Above: Environmental services in Hammersmith and Fulham.

Integrated Services

We saw good growth in 2008 in our integrated services business which provides facilities management services to both public and private sector customers, and environmental services for local authorities, all of whom are looking to reduce overall expenditure and improve service levels. We were pleased that our work with the Norfolk and Norwich Health Trust was commended in the Department of Health's 'Deep Clean to Keep Clean' report, which quotes Serco as an example of best practice in collaborative working.

Our innovative approach to environmental services includes introducing electric vehicles and more efficient route planning to reduce councils' carbon footprints, synchronising street cleansing, recycling and refuse collections, and actively promoting recycling. During the year, we won contracts with the London Borough of Hammersmith & Fulham, at a value of £140m over a maximum of 14 years, and Milton Keynes Council, with a value of £160m over the same term. We have also won a contract to maintain parks and sports grounds for the London Borough of Newham, with a value of £30m over ten years.

We secured a new £50m, five-year facilities management contract with Deloitte, which covers cleaning, security, maintenance, helpdesk facilities and the disposal of confidential waste, and won further corporate facilities management contracts for Coca-Cola, Volkswagen and Wyeth Medica, with a combined value of around £20m per annum.

The signing of a £20m, ten-year contract covering fire and rescue services at Cardiff International Airport further secures our strong position in the UK's airport facilities management market, adding to existing contracts with Birmingham and Filton airports. The new contract covers primary fire and rescue response, adverse weather response, training and maintenance.

Education and Children's Services

During the year, we renewed and extended our contract with Walsall Council to provide education and children's services. The award of the new contract, which is valued at around £345m, is for a longer term of 12 years, reflecting the success we had achieved under the previous contract. Under the new contract, we are working with the Council to ensure that children and young people achieve the best possible educational outcomes, and also to provide support to the most vulnerable children and their families.

Our contract to provide support for the national roll-out of Children's Centres under Sure Start's Together for Children programme has been extended following strong performance under our innovative 'field force' model. Our approach delivered the target of 2,500 rolled out centres ahead of schedule, and we delivered a further 400 centres under the term of the initial contract. Under the contract extension, worth £15m over two years, the total number of centres will be increased to 3,500 by 2010.

Our success under Together for Children contributed to us winning a separate, new contract under the Aiming High for Disabled Children programme known as Together for Disabled Children, with a value of £5.5m over two years. In both these national programmes we are proud to lead contracts fully involving voluntary sector organisations in delivery.

Above: Helping with the care of patients at Norfolk and Norwich Hospital.

Above: Measuring noise, humidity, pollution, vibration and other factors that may lead to ill health

This year has seen two major landmarks in our success in Education. Our primary school results across Walsall and Bradford were ranked the first and seventh (respectively) most improved councils for primary school achievement nationally between 2001 and 2008, and our transformation of Children's Services at Stoke was recognised by Ofsted in the 2008 Annual Performance Assessment, referring to "significant and rapid progress made" since our appointment.

Healthcare

Excellent service delivery and an innovative approach to improving performance are the foundations of our growth across the Healthcare sector.

Serco Occupational Health has increased our presence in this fast-growing sector and added new capabilities in managed healthcare services. The business has won new contracts and extended current business across both public and private sector employers. Serco is now the third largest provider of occupational health in the UK.

The extension for a further two years of our out-of-hours doctors' service contract for Cornwall and the Isles of Scilly follows consistent outperformance of national targets as recognised by the Healthcare Commission and positive feedback from users of the service. The contract extension is worth £14.5m.

We have signed a new three-year contract with Doncaster Primary Care Trust to provide nursing and related services to HMP Lindholme, HMP Moorlands and Lindholme Immigration Removal Centre. With a value of £4m, the contract brings the number of prisons and immigration centres to 16 for which we provide health services.

Consulting

Serco's Consulting business continued to increase its scale and scope during the year, expanding its high-value, strategic and advisory level work. Examples include NHS Connecting for Health, the Rural Payments Agency and our work for Department for Environment, Food and Rural Affairs (DEFRA) Animal Health where we are working on a major business reform programme. Serco's consultancy team continues to perform strongly and our presence on the programme has been expanded to developing DEFRA's capability and managing external relationships with suppliers.

Home Affairs continues to represent a growing market, with new wins including the Metropolitan Police, Greater Manchester Police and the Home Office. Other strong markets for Consulting include the Scottish government and education.

As the UK Government looks to find efficiencies in the procurement of external consultancy services, our position as an approved supplier on the Office of Government Commerce's buying.solutions Catalist framework is also leading to an increased number of new project opportunities.

Helping to make Western Australia safer

In 2006, the Government of Western Australia appointed Serco to manage the State's only privately run prison. Eighteen months later, Acacia prison was ranked by the State Inspector as a high performing facility.

Among the prison's strengths are its high standard of offender treatment programmes, resettlement services, and the prison's constructive and equitable regime. Our staff remain committed to understanding the different cultural challenges faced by Indigenous Australians who account for more than 30% of the prison population. The positive and responsive attitude of the Serco team reflects the focus on staff engagement and communication at the prison.

Rehabilitation and the re-entry of prisoners into society is at the heart of what we do at Acacia, giving prisoners the opportunity to address their offending behaviour and develop their potential, so they leave better able to find work and contribute to the community.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SWIPE
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We help make Western Australia a safer place by helping prisoners lead productive lives on release.

Defence

2008 Revenue

£786m

(25% of Group Revenue)

Our work includes:

- Command/control systems
- Defence establishments' management
- Economic cost analysis
- Logistics consulting
- Marine services
- Port security
- Risk and safety management
- Secure IT support
- Through-life capability management
- Training and personnel services

We are a major provider of operational support services to the armed forces of the UK, the 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.

Top: Providing support services to the UK MoD at its base in Gibraltar.

Above: Maintaining military aircraft and helicopters at the Royal Navy Air Station in Yeovilton.

We are well placed to help our customers by improving efficiency and reducing costs, through providing advice and consultancy to achieve greater efficiencies while improving operational availability, and implementing the delivery of services to improve operational capability.

Defence revenue grew by 9.1% to £786m, representing 25% of Group revenue (2007: 26%).

United Kingdom

We are actively engaged with the Ministry of Defence at the highest levels to help them meet their operational challenges with a focus on improving the availability of people and equipment to the front line and ensuring that military staff are able to focus on core operational tasks.

We provide training, engineering and operational support to the Royal Air Force and the aviation arms of the British Army and Royal Navy. We also support the Royal Navy's three main UK bases, operate and maintain key strategic defence assets such as secure satellite communications and the UK's Defence Academy, and provide systems engineering, safety assurance and risk management services.

We continued to broaden our contribution to improving the capability of the UK's military air operations in 2008, both through engineering support in the UK and deployed operations in theatres of conflict. During the year, over 50 Serco employees supporting the No. 32 (The Royal) Squadron and the Skynet 5 secure military satellite systems were awarded military service medals for their work in operational theatres.

The potential for growth stemming from our successful track record in support to operations is shown in a number of new air support contracts won during 2008. These include the ten-year £68m 'surface finish' contract covering 16 RAF sites including the Falkland Islands, taking Serco's military aviation support to over 16 different aircraft types; and a maintenance contract for the RAF glider fleet valued at £6m over a maximum of seven years.

Following successful rebids, we were also awarded the £9m, five-year contract to provide air traffic control, engineering and flight planning at the British Army Air Corps' Wattisham base and an £8.5m contract with the US Air Force Europe to provide support services at three of its UK operating bases.

Above: Providing engineering support to the Apache helicopters of 7 Air Assault Battalion, Wattisham Station.

In addition to contracts directly awarded by the Ministry of Defence, we are benefiting from an increasing range of opportunities with other private sector providers. BAE Systems appointed Serco to the £8m, five-year maintenance and supply contract for improving efficiency and aircraft availability amongst the VC10 aircraft fleet that BAE Systems operates at Brize Norton. We already support the RAF Tristar fleet at the base.

North America

We provide information services, technology and network solutions, and enterprise management, engineering, logistics, economic cost analysis and human resources services to the US military. The acquisition of SI International at the end of the year has significantly expanded our capabilities and broadened our customer base. We now serve all branches of the US armed forces.

Increasing demand for high-quality personnel support services is reflected in the award of a number of contracts. These included a contract to provide psychological health services at five US Navy regional commands, valued at approximately US$6m over two years.

We also renewed our contract valued at up to US$32m over two years with the US Army Career and Alumni Program to provide career counselling, and won a new contract to support the provision of advocacy services to soldiers and family members who are victims of domestic violence and sexual assault, through a one-year, US$10m contract with a second-year option. We will provide support services for families of Active Army, National Guard and Reserve Soldiers under a US$5.6m extension to our US Army's Integrated Family Support Network contract. We were also awarded a contract worth US$11m annually over a base year plus one option year, to develop the MyArmyLifeToo web portal, which provides timely and relevant information to Army families.

We successfully rebid for the Casualty Support Services Contract awarded by the US Army Casualty and Mortuary Affairs Operations Center, which includes manning the operations center for Army casualty support, receiving casualty reports and providing information and assistance to next-of-kin. The initial value of the contract is US$9m for the first year, with the potential to increase to US$44.5m if all options are exercised.

We also won, with our partner Summit Marketing, a contract for the Freedom Team Salute recognition and commendation program, which has an estimated value of US$21m to Serco over two years.

The award of the Aviation Technical Maintenance and Support Services contract by US Navy SPAWAR Systems Center Charleston, with a potential value of US$167m over five years, reaffirms our track record in delivering high quality air traffic control and integrated technical and maintenance aviation services, and strengthens our 11-year partnership with SPAWAR.

With greater budget constraints and increased demand for operational resources being deployed in the field, emphasis is being placed on cost analysis and procurement. During the year, we rebid successfully for the Price Fighters cost analysis contract supporting the US Navy's weapons procurement program. The contract is valued at approximately US$41m for a base year plus four option years. We were also awarded a one-year US$2.3m contract to provide cost analysis support to the multi-national coalition forces in Iraq.

We were awarded a US$18.5m contract by the US Space and Naval Warfare Systems Command for the production and delivery of Navigation Sensor System Interface (NAVSSI) components and ongoing production engineering support services. The NAVSSI system collects and processes data for weapons, combat support and other on-board information systems. The five-year contract combines purchases for the US Navy and the governments of Australia and Spain. We were also part of a team awarded contracts under the Project Management Support Services programme, with an overall value to Serco estimated at US$25m over five years.

Middle East and Asia Pacific

In the Middle East, as previously reported, we were disappointed to be informed in February 2008 that the Oman Ministry of Defence no longer wished to proceed with its project to develop a military training college.

We provide training, logistics and operational support services to the Australian Department of Defence and we have successfully built a presence on every defence base in Australia, providing a firm foundation for organic growth.

Our joint venture in Australia, Serco Sodexho Defence Services, was awarded the Integrated Base Services contract for the North Queensland region, adding to its earlier success in winning the Base Services contract for the Northern Territory. The combined value of the two contracts is AUS$362m over nine years.

Supporting the US Navy

Serco's Price Fighters contracts help the US Navy maximise its buying power.

Under our initial contract, which began in 1996, we assessed the fair price of spare parts. Since then, we have transformed our capabilities in response to the Navy's evolving needs, enabling us to perform increasingly complex analyses of aircraft, weapons and programs. We also adapted our methodology to understand the cost of services such as logistics.

Serco's cost analysts, engineers and technicians have years of manufacturing experience and have helped the Defense Department save over US$1.2bn. Our expertise has been a key factor in winning other significant defence service contracts with the US Army.

We're proud to help US servicemen and women, by enabling our customer to invest more efficiently in the equipment they need for challenging missions.

Transport

Our work includes:

- Air traffic services
- Heavy rail operations and maintenance
- Light rail operations and maintenance
- Traffic control and transport systems
- Transport consultancy

2008 Revenue

£671m

(22% of Group Revenue)

We are a major provider of transport services to the UK and markets in Australia, the Middle East and the 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.

Top: Air traffic control in Dubai.

Above: Assisting passengers on MerseyRail.

Transport revenue grew by 2.4% to £671m, representing 22% of Group revenue (2007: 23%). Excluding the effect of the ending of our contracts to operate the Manchester Metrolink and Copenhagen Metro in 2007, revenue growth was 8% reflecting strong performance across this segment.

During the last year, our transport operations continued to leverage skills developed in the UK to win significant new business in the Middle East and further develop our presence in US markets.

Heavy rail

Northern Rail and Merseyrail, Serco's two joint ventures with NedRailways, continued to deliver good growth in 2008, supported by innovation and excellent service delivery, and have made a good start to 2009. These joint ventures have revenue or profit sharing agreements, and stable subsidies which account for over 60% of revenue.

Northern Rail was named as 'Train Operator of the Year' and 'Rail Business of the Year' at the HSBC Rail Business Awards during 2008. The new hourly service Northern Rail has introduced between Leeds and Nottingham links these two important centres, directly, for the first time in 25 years and along with the expansion to a half-hourly service on its Leeds-Sheffield route will further improve performance and enhance the passenger experience.

Merseyrail has received the highest score for passenger satisfaction in the latest National Passenger Survey for any train operating company outside London as well as achieving the UK's first fully secure rail network by the Department of Transport as all of its 66 stations have been awarded Secure Station status. Serco Docklands was awarded Secure Station status for its stations in 2007.

Our Australian rail operation, Great Southern Rail, has made appropriate adjustments to service schedules and operations after a weaker tourist market began to impact on passenger numbers during the second half of the year. Sales of the Ghan service's premium Platinum cabins, launched in September, have performed well. In August, we learned we had not been selected to run the trains in Melbourne, Australia.

We continue to pursue opportunities for monitoring and maintaining infrastructure. Serco was awarded two contracts this year, one by Network Rail, extending our existing track monitoring and rail grinding contract, valued at £20m over one year with a possible one-year extension, and one by Virgin Trains to upgrade property and stations on the West Coast route valued at £5.5m over a maximum four-year term.

Left: Northern Rail, Serco's joint venture with NedRailways, was named as UK Train Operator of the Year in 2008.

Light rail

Docklands Light Railway (DLR) continued to perform strongly in 2008. The construction work to extend the railway's capacity from two-carriage to three-carriage trains is proceeding on schedule, and the £180m extension to the line serving Woolwich Arsenal was opened in January 2009.

Our expertise in light rail systems puts us in an excellent position to meet growing demand for these services, particularly in the Middle East.

Signed in April 2008, our contract with the Dubai Government Roads and Transport Authority (RTA) to operate and maintain the first two lines of the new Dubai Metro has a value of £500m over 12½ years. The launch of the driverless metro system is creating considerable local interest, and is expected to lead to further opportunities in the region through the extension of the Dubai Metro network, further transport systems in Dubai, and the adoption of similar rail systems in other Emirates. Our implementation plan, which includes the recruitment of over 3,000 employees, is proceeding to schedule, ahead of the formal start of the operating contract in September 2009.

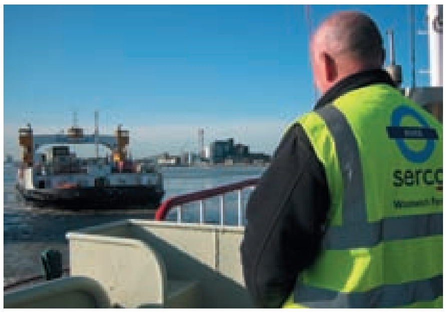
Our broad transport capabilities meant that we were also able to win further business with the RTA during the year. These included a £3.5m contract to implement ten key projects under the Bus Master Plan for Dubai and a £2m contract to deliver a real-time journey planner system, which is accessible online, over mobile phones and through a customer service centre.

Traffic management

Reducing congestion is a priority issue in the UK, with the Highways Agency increasing its investment in the area and emphasis growing on the skills required to manage motorways and road infrastructure effectively. We are taking a leading role in developing innovative solutions through traffic management systems, with several new contract wins during 2008. We signed a first-year trial contract with the UK's Department for Transport to undertake a feasibility and strategy study on Time-Distance-Place (TDP) road charging. TDP systems track vehicle movements and offer road authorities the option of varying costs to motorists depending on where and when they use their vehicles. We also won a ground-breaking contract with BAA to maintain the traffic system at Heathrow Airport, which has the potential to be replicated around the world.

In the US, Serco secured a US$23m contract to install and manage a new smart parking system for San Francisco, as well as a separate US$8m, two-year extension to our parking meter counting and collection contract.

In Hong Kong, we have renewed our contracts to operate the Aberdeen tunnel and maintain the Shenzhen road corridor between Hong Kong and mainland China. Under a further contract, Serco will supply the latest technology in traffic light enforcement to the Hong Kong Transport Department. In total, these contracts are valued at approximately £23m.



Above: Operating the Woolwich Ferry in London.

Civil marine

Serco's expertise in the provision of marine services to the Royal Navy led to Transport for London awarding us a new £11m, 18-month contract to operate the Woolwich Ferry, opening up further opportunities in the civil marine market. The free ferry service carries over a million vehicles and two million passengers a year, and provides an important link to the DLR.

Air traffic control

In Middle East air traffic control services, we rebid successfully on our contract to provide air traffic control and electronic engineering services for the United Arab Emirates' Area Control Centre in Abu Dhabi. The contract, with the General Civil Aviation Authority, is worth £28m over three years.

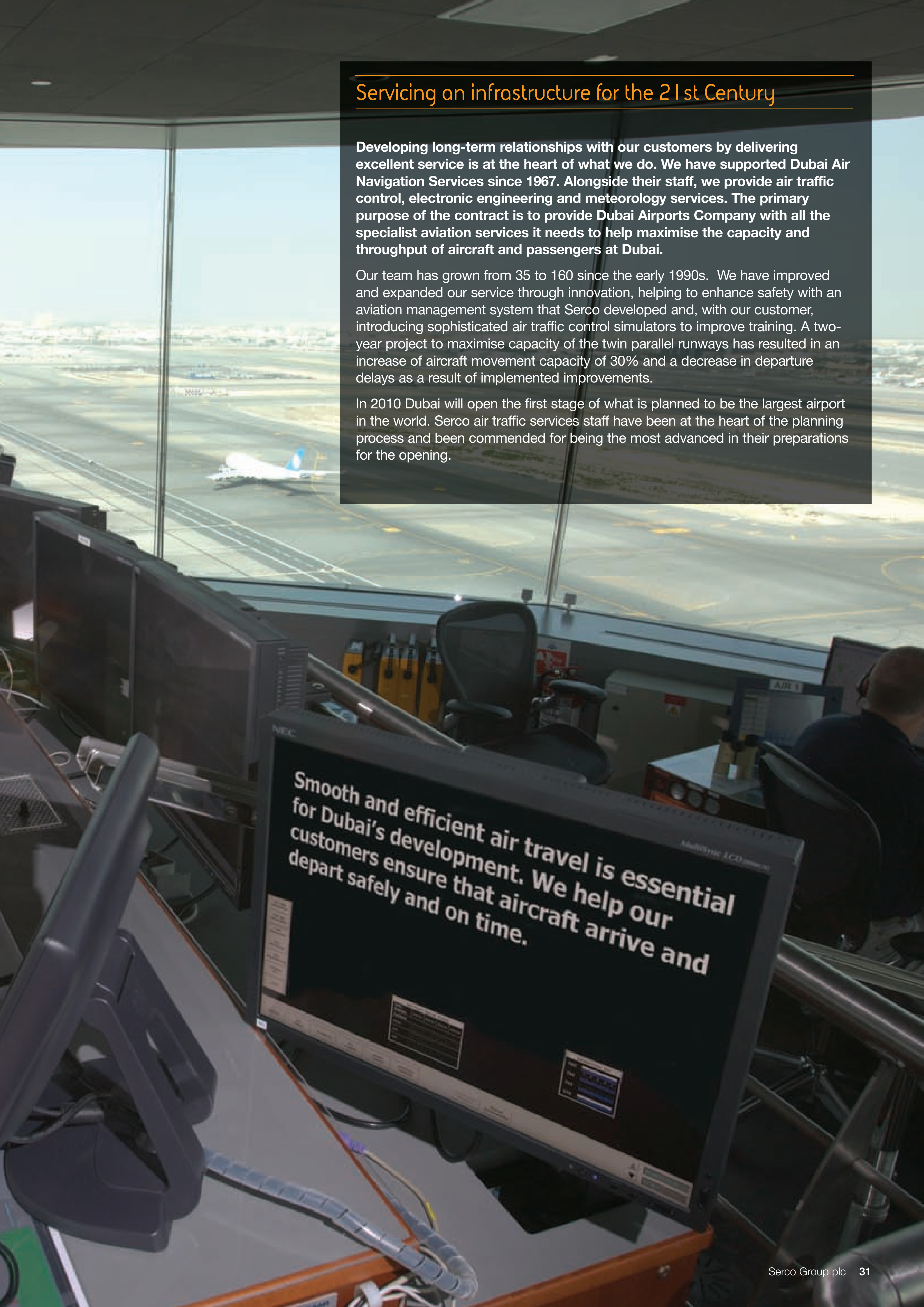

CODE F CHART

Servicing an infrastructure for the 21st Century

Developing long-term relationships with our customers by delivering excellent service is at the heart of what we do. We have supported Dubai Air Navigation Services since 1967. Alongside their staff, we provide air traffic control, electronic engineering and meteorology services. The primary purpose of the contract is to provide Dubai Airports Company with all the specialist aviation services it needs to help maximise the capacity and throughput of aircraft and passengers at Dubai.

Our team has grown from 35 to 160 since the early 1990s. We have improved and expanded our service through innovation, helping to enhance safety with an aviation management system that Serco developed and, with our customer, introducing sophisticated air traffic control simulators to improve training. A two-year project to maximise capacity of the twin parallel runways has resulted in an increase of aircraft movement capacity of 30% and a decrease in departure delays as a result of implemented improvements.

In 2010 Dubai will open the first stage of what is planned to be the largest airport in the world. Serco air traffic services staff have been at the heart of the planning process and been commended for being the most advanced in their preparations for the opening.



Science

Our work includes:

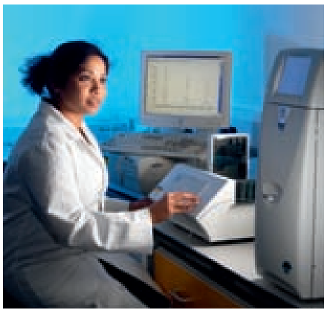
- Materials science
- Measurement science
- Nuclear assurance
- Research establishments' management
- Technical training

2008 Revenue

£540m

(17% of Group Revenue)

Serco manages science-based organisations and develops and applies scientific knowledge for wealth creation. Technology, innovation and people management are at the heart of our offering in this market.



Top: The Analytical Science Team at NPL is a multi-disciplinary team focused on government priority areas such as environmental protection, energy and sustainability, healthcare and nanotechnologies.

Above: NPL is a recognised source of expertise on the evaluation of biometrics technologies,

Science revenue grew by 11.7% to £540m, representing 17% of Group revenue (2007: 17%).

We continued to see strong performance from our joint venture to manage and operate the UK's Atomic Weapons Establishment (AWE). The construction phase of the new Orion building finished as scheduled in March 2008, with the project due for completion in 2010. AWE has also commenced the planning phase for Project Mensa, the construction of a replacement warhead assembly and disassembly facility at the Burghfield site.

In December 2008, BNFL sold its one-third shareholding in AWE Management Limited (AWEML) to the California-based company, Jacobs Engineering. We retain our one-third stake in AWEML in an equal partnership alongside Lockheed Martin and Jacobs Engineering.

The annual RoSPA awards once again recognised AWE's excellent health, safety and environmental performance, with the award of the Astor Trophy for excellence in occupational health, the International Dilmun Environmental Award and the sectoral award for outstanding performance in health and safety.

We have been responsible for managing the work of the National Physical Laboratory (NPL) since 1995, supporting its mission to apply scientific knowledge for economic and quality of life benefits. NPL has won business in the environment sector, including air monitoring projects with DEFRA, and in the security and defence sector. In addition, the Nobel Peace Prize Committee recognised the important work of NPL in supporting its peace prize winners and our diversity and educational outreach were rewarded with the 'Investor in WISE' award from Women into Science, Engineering and Construction (WISE).

Our nuclear assurance business, which is focused on enhancing the performance of nuclear reactors that generate electricity or power nuclear submarines, has continued to perform well during the year.

"The annual RoSPA awards once again recognised AWE's excellent health, safety and environmental performance."

We were appointed as one of a team of partners to provide engineering and technical support to British Energy's nuclear power stations, worth up to £30m to the partners over the next five years, and are well placed to grow the business as nuclear new build programmes get underway in the UK and overseas.

The business has also completed the main stage of its extensive refurbishment of the nuclear laboratory and support complex in Cheshire. These facilities, which include nuclear corrosion and high temperature laboratories, strengthen Serco's world class capabilities in nuclear safety, assurance and regulatory support.

Business relationships

Suppliers
Alongside the hundreds of services Serco manages through contracts on behalf of customers, the Group also has its own extensive supplier relationships.

We take the same approach to suppliers as we do to customers. We look for long-term relationships in which there is opportunity for continuous improvement and value creation based on innovation.

In order to continually improve quality and manage costs, the Group has standardised the centralisation of buying goods and services. The number of preferred suppliers for such goods and services, ranging from commodity computer peripherals to agency employees, has reduced and the terms and conditions enhanced.

Procurement policies and processes are clearly communicated internally and facilitated through online purchasing systems which reduce administration costs, reduce wastage, improve cash flow and give contract managers more time to focus on client needs.

Joint ventures and strategic partnerships
Serco has a number of joint ventures and strategic partnerships around the world that manage service contracts, particularly in the transport, defence and science sectors.

Strong relationships, mutual trust and respect and clarity of role are all essential ingredients if a service is to be successfully delivered through a joint venture.

In transport, for example, our partnership with NedRailways began work at Merseyrail in 2003 and Northern Rail in 2004. Together we have become one of the UK's major train operating companies.

Our partnership at the Atomic Weapons Establishment has been highly successful and together we have consistently exceeded service targets.

We continue to create new partnerships and joint ventures, which include innovative new business models with customers. In 2008, we formed a strategic joint venture with Glasgow City Council to improve services for citizens through cohesive, efficient and higher quality property and information and communications technology services. In 2009, we announced that we had formed a partnership with Guy's and St Thomas' NHS Foundation Trust to improve the Trust's pathology services and target the significant national and international pathology market.

Relationships with joint venture partners are the responsibility of the relevant divisional management teams, supported by members of the Group Executive Team and Board as appropriate. Regular strategy and review meetings ensure the joint venture partners remain firmly committed to working together to deliver services to clients.

Our track record for successful partnerships speaks volumes.

"Our reputation for delivering excellent service and our ability to build long-term relationships is behind the consistent success Serco has enjoyed to date."

Our people and reputation

Above: We are committed to investing in the professional and technical skills our staff need to do their jobs.

Our people
Having skilled, qualified, engaged and inspired employees who bring service to life is essential to our continued success. That is why we are committed to communicating with, supporting and developing our people. We have a strong culture based on our Governing Principles – and we monitor how well we're putting them into practice.

Having great people is the single biggest factor in the growth and success of our business and in 2008, we have further embedded our leadership development strategy. Initially focused on our senior leadership, over the course of 2008 we broadened the programme to develop the right type and number of leaders across our entire leadership population. This strategy enables effective performance management and development plans that are tailored to the needs of the individual.

Across the Company, we are committed to investing in the professional and technical skills our staff need to do their jobs. We are always looking to equip and encourage staff to take on wider roles.

To enable our leaders to manage their people, we have developed a comprehensive suite of employment policies which support our employees, wherever they are in the world. The key employment policies are made available through line managers, human resources teams and our intranet. They include policies covering diversity and equality, for employees having children, resolving issues, health and safety, confidentiality, security and ethics and time off work.

As an international company, we experience differing employment legislation, customs and practices in different parts of the world. Our approach is always to respect local differences but not to fall short of minimum standards.

Our performance against our policies, and the implications of changing legislation and best practice, is monitored by our human resources function. Where we need to change an approach, then appropriate communications and training are implemented.

Our Skills for You programme was developed in partnership with UK Government departments, trade unions and training providers. It offers Serco staff the chance to improve their literacy, numeracy and language skills while continuing with their workplace learning. Since its introduction at Serco, 3,221 of our people have been assessed with 640 achieving a qualification.

We know that having highly engaged employees, who live our Governing Principles and bring service to life, will lead to even higher performing contracts. That is why we research how engaged our employees are with Serco. To us, this research is more than a measurement tool; it is a continuous improvement process for people issues and a key driver to improved business performance. Throughout 2008 across every level of our business we have put changes in place to improve engagement and will be measuring the impact in 2009.

We're passionate about communication. It is natural for us to share information and bring people together across the world. We have set out how we want employees across the business to connect to Serco. This is delivered through a communications network, programme of channels and campaigns.

In 2008 we launched Scoop, a magazine for all Serco employees. Through this publication we deliver consistent brand and message, and present a 360 degree view of the Serco family. We also introduced a new intranet channel for employees to connect with their senior leadership.

Our Pulse Awards are designed to celebrate the very best qualities and achievements of Serco people, our customers and partners. The awards are closely linked to our Governing Principles. They recognise people who excel at innovation, inspire through their leadership, demonstrate outstanding commitment and make an exceptional impact on communities, the environment or issues such as safety and ethics.

In 2008, 48 employees received an award in the first global Pulse Awards.

Our reputation
Our reputation for delivering excellent service and our ability to build long-term relationships is behind the consistent success Serco has enjoyed to date.

Customers and potential customers tell us that corporate reputation is one of the key criteria in the selection and retention of private sector partners. As a result, we are taking steps to measure customer advocacy and corporate reputation consistently on a Group-wide basis.

We continue to build our reputation amongst business stakeholders through a communication programme which includes the publication of thought-leading research and attendance at seminars and conferences. However, we recognise that delivering value to customers and citizens by improving services' efficacy and efficiency is the most significant shaper of our reputation.

Corporate responsibility

These are some of the highlights taken from our 2008 Corporate Responsibility Review. To find out more, please visit www.serco.com

Serco strives to operate in a way that has a positive impact on society.
Our people embody the values that we have worked so hard to embed throughout the organisation. These values are built on our Governing Principles: we foster an entrepreneurial culture; we enable our people to excel; we deliver our promises; and we build trust and respect. These values have supported us in becoming one of the world's leading service companies. We work in partnership with governments and commercial organisations around the world to improve services across many areas of public life.

Beyond profits

While financial performance is important, the search for profit is not what defines us. We want not only to achieve the social outcomes we are often contracted to deliver, but to do it in a way that has a positive impact on society.

Setting a strategic framework

As an organisation, we are never complacent. We work continually to improve our systems and processes.

Like all responsible companies, we are striving to become more sustainable. As a result we have developed our corporate responsibility framework, which recognises local cultures and conditions across our diverse operations, to put sustainable development at the heart of our business. The framework consists of five key areas.

- to make a positive difference to the communities we serve
- to reduce our environmental impact
- to reduce our consumption and assure our supply chain
- to increase our value to our customers and shareholders
- to realise the potential of our people.

Key to this whole process is understanding how we perform so that we can improve the management decisions we make.

We have a core set of performance indicators that we use to assure ourselves that we are performing responsibly. Details of these are provided in our Corporate Responsibility Review and are available on our website.

Reviewing corporate governance

We undertook a review of our management system to ensure that our policy framework is the right one for the size and scale of the organisation we now are.

As we continue to grow, we have focused on how to keep it as simple as possible and make sure we are using language that everybody can clearly understand.

We need to ensure we have strong links between our management system, risk management and our internal audit process, so that we have confidence in both our governance structure and our management of risk.

It is important that our people have clarity about their roles and accountability, empowering and enabling them to excel even further, leading to better value all around.

Measuring performance

An overall assessment is provided by the Business in the Community (BitC) Corporate Responsibility Index. We achieved, for the second year running, a gold overall rating (90%). This year a new workplace index was introduced under which we received platinum banding with a score of 95%, along with a community index in which we achieved platinum status (96%). Serco's Leisure business, National Physical Laboratory and our contract at Airbus Filton were again recognised by the BitC Awards for Excellence with each receiving a Big Tick Award for the second year in succession.

Our BitC environmental index rating also improved with a gold banding and overall score of 89%. This was an improvement on the previous index where we scored 79.5%.

Above: Teaming up with the Scouts Association to sponsor their Environment Badge.

Above: Safety is a priority at Dubai Airport.

Above: Education classes at Kilmarnock Prison.

Measuring our environmental performance has been a particular area of attention. 2008 saw a significant step forward with a comprehensive review of the Company's environmental performance indicators and the capture of accurate environmental data. This has provided a baseline of company performance that we will use to benchmark future environmental performance against.

We recognise we not only have a responsibility to improve our performance but also to influence thinking. In 2008 Serco co-sponsored with the new Local Government Network, an independent local government think tank, a piece of research looking at potential solutions to the pressing and immediate challenges and issues facing the UK waste industry.

Our lost time incident rate has continued to improve, although the proportion relating to reportable three-day absence has increased, leading to a pilot to better manage first-day absence management by occupational health. Reflecting external benchmarks, mental and behavioural diseases and musculoskeletal system and connective tissue diseases remain the main reason for referrals. We have therefore established a process to fast track these referrals to specialists to reduce the time in resolving them. We are also looking at ways of reducing the number of incidents. The pilot of the 'Back-Track' system in the UK has seen a significant reduction in manual handling manoeuvres where it has been trialled.

In our rail operations both verbal and physical assault rates have been below target and reflect the success of a focused campaign over the last few years.

In 2007 we launched the Pulse Awards. Aligned to our Governing Principles, the awards recognise examples of excellence in business operations or improvement, environmental and safety initiatives and leadership. They also recognise our wider responsibilities to society, the environment and the communities we serve. This might be through significant contributions made to charitable or community organisations. In 2008 the first Pulse Awards were given to 118 divisional award winners, of which 48 received a global Pulse Award.

Embedding ethical guidelines

Our company values and ethics are integral to one another. Historically our value set has been clear about where we draw the lines. However, as we move into different countries and cultures, and as we diversify our range of services, we need to review regularly the Company's position on these.

That is why we have set up a formal Ethics Committee, made up of senior management with very clear guidelines about its remit. It is there to determine the 'big ticket' items that define our position beyond regulatory and statutory requirements.

Doing business the right way demands constant vigilance. By its very nature, it has to be a journey without an ending. Thanks to the people we employ, we are making real progress in reaching our ambitious goals.

"As an organisation, we are never complacent. We work continually to improve our systems and processes."

Above: Corporate Responsibility Review 2008.

Finance Review

1. Financial performance

Serco's strong performance in 2008 is reflected in our financial results, with double-digit revenue growth and a further increase in margins. We generated good cash flow, and have a strong funding position.

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	2008 £m	2007 £m	Increase
Revenue	3,123.5	2,810.7	11.1%
Gross profit	456.8	406.2	12.5%
Administrative expenses	(291.6)	(264.2)	
Adjusted operating profit	165.2	142.0	16.3%
Investment revenue and finance costs	(19.9)	(18.8)	
Adjusted profit before tax	145.3	123.2	17.9%
Amortisation of acquired intangibles	(9.2)	(8.6)	
Profit before tax	136.1	114.6	18.8%
Tax	(36.5)	(32.2)	
Profit for the year	99.6	82.4	20.9%
Effective tax rate	26.8%	28.1%	
Adjusted earnings per share	22.20p	18.57p	19.5%
Earnings per share	20.49p	16.98p	20.7%
Dividend per share	5.00p	4.25p	17.6%

1.1 Revenue

Revenue grew by 11.1% to £3,123.5m, benefiting from the growth of existing contracts and the contribution of new wins. Underlying revenue growth, which excludes the effects of changes to currency exchange rates, acquisitions, disposals and significant contract divestments, was 10.3%.

1.2 Gross margin

Gross margin – the average contract margin across our portfolio – was 14.6%, a small increase of 0.1% on 2007.

1.3 Investment revenue and finance costs

Investment revenue and finance costs totalled a net cost of £19.9m (2007: £18.8m). A reduction in the Group's underlying borrowing costs was offset by an increase in the net pension funding cost charged to the income statement.

1.4 Profit before tax

Adjusted profit before tax was £145.3m, an increase of 17.9%. This represented a margin of 4.7%, up from 4.4% on 2007. Profit before tax increased by 18.8% to £136.1m.

1.5 Tax

The tax charge of £36.5m (2007: £32.2m) represents an effective tax rate of 26.8%, compared with 28.1% in 2007. The decrease in the effective tax rate principally reflects the fall in the UK corporation tax rate from 30% to 28% in April 2008.

1.6 Earnings per share (EPS)

Adjusted EPS rose by 19.5% to 22.20p. EPS grew by 20.7% to 20.49p.

EPS and Adjusted EPS are calculated on an average number of shares in issue of 485.7m during the year (2007: 482.4m). The increase in the average number of shares in issue resulted from the exercise of employees' share options.

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 3.52p per share, representing an increase on the 2007 final dividend of 16.6%, and bringing the total dividend for the year to 5.00p, a growth of 17.6%. The final dividend will be paid on 20 May 2009 to shareholders on the register on 6 March 2009.

3. Cash flow

The Group generated a free cash inflow of £94.2m, £3.4m lower than in 2007. The free cash flow in 2007 benefited from a low working capital movement and a lower level of cash tax.

Figure 2 analyses the cash flow. As in previous years, we have designed the analysis to show the actual cash performance of the Group – being the cash flows generated by subsidiaries plus the dividends received from joint ventures. It therefore differs from the consolidated cash flow on page 83, which proportionately consolidates the cash flows of joint ventures. The adjustment line in Figure 2 reconciles the movement in Group cash to the consolidated cash flow.

Figure 2: Cash flow

Year ended 31 December	2008 £m	2007 £m
Operating profit excluding joint ventures	107.8	92.2
Non cash items	39.4	47.6
Group EBITDA	147.2	139.8
Working capital movement	(21.6)	(0.2)
Group operating cash flow	125.6	139.6
Interest	(25.0)	(25.6)
Tax	(11.8)	(5.4)
Net expenditure on tangible and intangible assets	(31.8)	(47.9)
Dividends from joint ventures	37.2	36.9
Group free cash flow	94.2	97.6
Disposal of business undertakings	1.9	3.3
Acquisition of subsidiaries	(322.2)	(7.4)
Financing	289.0	(71.0)
Special pension contribution	–	(51.0)
Dividends paid	(21.6)	(17.9)
Group net increase/(decrease) in cash and cash equivalents	41.3	(46.4)
Adjustment to include joint venture cash impacts	2.8	6.7
Net increase/(decrease) in cash and cash equivalents	44.1	(39.7)

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 £125.6m (2007: £139.6m) represents a conversion of Group EBITDA into cash of 85% (2007: 100%). The strong levels of organic growth in the business require working capital investment and this is reflected in the 2008 movement of £21.6m.

3.2 Interest

Net interest paid was £25.0m, compared to £25.6m in 2007.

3.3 Tax

Tax paid was £11.8m (2007: £5.4m). Tax paid in 2007 and the first half of 2008 was lower than expected as a result of the tax relief on the special pension contributions made in 2006 and 2007. The increase in 2008 reflected that there was no further tax relief available in the second half of the year on these contributions.

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 £31.8m (2007: £47.9m). This comprised gross expenditure of £48.7m, representing 2.0% of revenue excluding joint ventures (2007: 2.2%), and disposals of £16.9m. The principal component of disposals was the sale and leaseback of a number of carriages on the Great Southern Railway in Australia. This follows similar transactions in previous years to realise a further part of the substantial investment we have made in acquiring and successfully growing the business since 1999.

3.5 Dividends from joint ventures

Dividends received from joint ventures totalled £37.2m (2007: £36.9m), a conversion rate of 84% (2007: 100%) of joint ventures' profit after tax and minority interest, excluding costs allocated by Group. This is in line with our expectation of a conversion rate in the range of 80-90%.

3.6 Disposal of business undertakings

On 23 June 2008, the Group disposed of its equity stake in Kilmarnock Prison Services Limited, in line with our strategy to realise cash from our equity and subordinated debt in private finance initiatives (PFI) projects. This disposal follows the sale of equity and subordinated debt in six PFI projects in 2006. Profit on disposal of the Kilmarnock stake was £2.7m, and the net cash inflow of £1.9m comprised gross sale proceeds of £6.2m offset principally by cash held within the entity to cover future debt repayments of £3.0m. We retain the operating contract for Kilmarnock prison.

3.7 Acquisition of subsidiaries

Acquisition of subsidiaries principally comprises the acquisition of SI International, Inc. on 29 December 2008, a provider of information services, technology, and network solutions to the US Government, for £289.8m. The acquisition gave rise to goodwill of £305.2m. Intangible assets arising on the acquisition have been recognised at £51.8m and will be amortised on a straight-line basis over their expected lives. Given the proximity of the acquisition to the Group's year end, SI International, Inc. made no contribution to the Group's revenue, profit and operating cash flow in 2008.

Other acquisitions were InfoVision, an Indian business process outsourcing company, for which we paid £14.8m for an initial 60% shareholding in December 2008, and the Grosvenor Health Group, an occupational health service provider, acquired for £19.0m, in May 2008.

Fair values have been determined provisionally in respect of SI International, Inc. and InfoVision and may be subject to adjustment in the year.

3.8 Financing

The movement in financing resulted primarily from a drawdown on our committed facilities to finance acquisitions made during the year.

4. Net debt

Figure 3 analyses Serco's net debt.

Figure 3: Net debt

At 31 December	2008 £m	2007 £m
Group - cash and cash equivalents	**199.8**	138.1
Group - loans	**(708.8)**	(263.3)
Group - obligations under finance leases	**(15.5)**	(12.7)
Group recourse net debt	**(524.5)**	(137.9)
Joint venture recourse net cash	**44.5**	34.9
Total recourse net debt	**(480.0)**	(103.0)
Group non recourse debt	**(34.1)**	(59.3)
Total net debt	**(514.1)**	(162.3)

4.1 Group recourse net debt

Group recourse net debt increased by £386.6m to £524.5m. The net impact of acquisitions in the year added £322.2m to net debt. Changes in currency exchange rates increased net debt by £32.3m. Group cash and cash equivalents rose to £199.8m, an increase of £61.7m, primarily reflecting periodic changes in working capital. Cash and cash equivalents includes encumbered cash of £10.4m (31 December 2007: £11.9m) which 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 £25.2m to £34.1m, due to the disposal of our equity stake in Kilmarnock Prison Services Limited. The remaining non recourse debt relates to our Driver Examination Services contract in Canada.

5. Pensions

At 31 December 2008, the net liability included in the balance sheet arising from our defined benefit pension scheme obligations was £20.5m (31 December 2007: £52.2m), on an asset base of £1.2bn. The net liability has fallen principally as a result of changes in the RPI and discount rate assumptions used to value the schemes, partially offset by lower than expected equity returns in the year. Figure 4 provides further analysis.

Figure 4: Defined benefit pension schemes

At 31 December	2008 £m	2007 £m
Group schemes – non contract specific	(0.7)	(67.9)
Contract specific schemes:		
– reimbursable	(89.6)	(60.7)
– not certain to be reimbursable	(24.4)	(14.0)
Net retirement benefit liabilities	(114.7)	(142.6)
Intangible assets arising from rights to operate franchises and contracts	14.4	17.4
Reimbursable rights debtor	89.6	60.7
Deferred tax (liabilities)/assets	(9.8)	12.3
Net balance sheet liabilities	(20.5)	(52.2)

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 period to the consolidated statement of recognised income and expense (SORIE);
- 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 period to the SORIE, 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 2008, SPLAS had a surplus of £62.4m (31 December 2007: a deficit of £28.7m). This movement in the scheme position reflects the reduction in volatility afforded by the Liability Driven Investment (LDI) strategy introduced in 2007 and a change in inflation and discount rate assumptions.

Figure 5 shows the sensitivity of the liabilities of our pension schemes to changes in discount rates and to adjustments in the principal actuarial assumptions for the rate of inflation, members' salary increases and life expectancies.

Figure 5: Pension assumptions and sensitivities

	Assumption	Change in assumption	Change in liability
Discount rate	6.0%	+0.5%	-9%
		-0.5%	+10%
Price inflation	2.6%	+0.5%	+7%
		-0.5%	-7%
Salary inflation	3.1%	+0.5%	+3%
		-0.5%	-3%
Longevity	20.3 – 24.4*	Increase by one year	+3%

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

6. Treasury

In the year, the Group replaced its existing £400m bank credit facility with a new five-year £400m bank revolving credit facility which matures in September 2013. The Group also arranged a term loan and bilateral facility totalling US Dollar 550m to fund the acquisition of SI International, Inc. The term loan and bilateral facility are repayable between September 2010 and September 2013. The facilities, which are syndicated with a group of 13 banks, are unsecured. As at 31 December 2008, £560m had been drawn down on these facilities.

Serco has also issued US private placement loan notes totalling £117m, which will be repaid evenly from 2011 to 2015.

In total, the Group has £900m of committed debt facilities available, giving significant headroom to fund working capital and other known requirements.

7. Going concern

The Directors have acknowledged the guidance on going concern and financial reporting published by the Financial Reporting Council in November 2008. Whilst the current economic environment is uncertain, the broad base of our contract portfolio and with 90% of our customers being government bodies, the Group is well placed to manage its business risks successfully, including those risks arising from the failure of customers to meet contractual obligations, and has adequate resources to continue in operational existence for the foreseeable future.

As disclosed in the Business Review of the Annual Review and Accounts, 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 £16.3bn and high visibility of future revenue streams (90% in 2009; 76% in 2010; and 65% in 2011), the Group is well placed to manage its business risks despite the current uncertain economic climate.

The Group's management of exposure to financial risk, including liquidity, foreign exchange, credit, interest rate and price risks, is disclosed in note 26 to the Annual Review and Accounts.

In September 2008, the Group secured medium-term financing by entering into a five-year revolving credit facility and bilateral facilities eliminating the near-term risk of refinancing the £400m bank facility maturing at the end of 2009. Including the term loan and US private placements the Group has committed funding of approximately £900m. As at 31 December 2008, the headroom on the facilities was in excess of £300m. The first repayment on these new 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. In addition, we have diversified both the number and geographical locations of the banks within the syndicate which has risen from nine to thirteen.

Based on the information set out above, the Directors believe that it is appropriate to prepare the financial statements on a going concern basis.

Principal risks and uncertainties

The Group 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 the Group's assets and reputation. Whilst the Board has overall responsibility for the Group's system of internal control and for reviewing its effectiveness, it is the role of management to implement the policies on risk and control.

The Group's risk management process identifies the key risks facing each business and the Group as a whole and reports to the Board on how those risks are being managed. These processes are reviewed regularly by the Board and conform to the requirements of the Combined Code. Such a system, 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 this process has been in place for the year under review and up to the date of approval of the Annual Review and Accounts.

The Serco Management System (SMS) is the framework within which business divisions, operating companies and contracts implement processes and procedures that are appropriate to the business being undertaken. Divisional chief executives and business unit managers have the responsibility and authority to implement and monitor the system within their businesses. The SMS incorporates: the Group's vision and strategy; the core values and business principles that define the corporate behaviour of the organisation; the operating structure and roles and responsibilities of the principal elements of the organisation; and its core processes.

Policy statements and standards

As part of the SMS, the Board has authorised a set of policy statements, which are supported by standards, guidance and training material. An ethical standard defines the following principles that apply to all our business activities:

- We will comply with the laws of the country in which business is being transacted
- We will respect the rights of the individual
- We will respect the traditions and culture of communities and protect the environment within which we operate
- We will undertake our business activities in accordance with the highest standards of professionalism, integrity and honesty.

These broad principles are further interpreted in respect of individual and corporate behaviours. A separate corporate responsibility standard defines the corporate responsibility programme that is implemented throughout the Group. The Group's risk management standard defines the processes required in the organisation to manage and mitigate threats to our business objectives.

The risk management process is described in a risk management manual and a set of guidance notes covering specific aspects appropriate to particular business activities. An internally developed and supported risk database tool supports the risk management process at all levels of the business and is used to create the risk, opportunity, assumption and issue registers that support the decision-making processes. Risk registers are maintained at a contract, business unit, divisional and Group level and are reviewed at least quarterly and more frequently as required.

During 2008, the risk management process has been incorporated into an over-arching resilience management framework that incorporates risk, security, business continuity and crisis management. The resilience management framework is supported by a set of top-level requirements, more detailed process descriptions and guidance and tools to support the implementation of the framework across the Group.

The risk registers identify the key risks, the probability of those risks occurring, their potential impact on the business and the actions being taken to reduce and mitigate the risks. Guidance on the risk appetite of the Group has been issued which defines the appetite/tolerance levels both for individual risks and for projects or business units where multiple risks are present.

Principal risks

The Group risk register identifies the principal risks facing the business, including those that are managed directly at a Group level. The process specifically identifies the business objectives and the interests not only of shareholders but also of other stakeholders that are likely, directly or indirectly, to influence the performance of the business and its value.

These include, but are not limited to, shareholders, customers, suppliers, staff, trade unions, government, regulators, banks and insurers. The interests of the wider community in areas such as social, environmental and ethical impact are recognised in the Group's corporate responsibility programme.

The Group risk register is updated at least quarterly, reviewed six-monthly by the Risk Oversight Group and discussed at quarterly Board meetings. Active risks are ranked by importance and grouped under the following six headings:

- Strategic – covering threats to the long-term deliverability of the Group's strategy. Principal risks include loss of competitive position and risks associated with acquisitions
- Financial/Commercial – covering threats to the short- to medium-term performance. Principal risks include financial market instability, the loss of key contracts, failure to meet financial business plans, pension fund liabilities and delays or cost over-runs in major transition programmes
- Compliance – covering compliance with all relevant legislation and regulations. Principal risks include legal action resulting from compliance failures, loss or compromise of personal data and unethical behaviour by Directors or members of staff
- Safety and Security – covering threats to the safety of staff, sub-contractors, members of the public and the environment and the security of the Group's assets and staff. Risks include the responsibility for a major accident or incident where public safety is concerned, environmental pollution, assaults on staff in the course of their duties, loss of sensitive information and crime, fraud and terrorism
- Operational – covering threats to the continuity of business operations. Principal risks include the failure of information systems, loss of key infrastructure and the recruitment and retention of key staff
- Management – covering possible internal failures of managers or management systems. Principal risks include failures of internal controls and management systems.

For the Group, the most significant risks relate to the strategy and safety areas. Social, environmental and ethical issues, while recognised within a number of the Group's risks, do not represent significant threats to the Group's strategy at present. Reputational and emerging risks are kept under active review and the Board informed of changes. Emerging risks cover longer-term risks that could represent a threat to the Group's activities but which are not yet sufficiently defined to be included as active risks. Examples of these risks include influenza pandemic, climate change and changes in key markets.

In quantifying and ranking risks, Serco uses a risk scoring system based on assessments of probability and impact. The guidance provided in internal documents requires the assessment to address the impact on business objectives as well as wider stakeholder interests.

As Serco operates in a number of business sectors such as aviation, rail and nuclear, where public safety is involved, societal concerns such as public safety and environmental damage are specifically identified in the assessment criteria. The criteria are generally subjective rather than financially based since it is difficult to quantify the financial impact of a major incident involving loss of life.

Serco's approach to the reporting of risks that have social, environmental or ethical implications is summarised below. It is based on the assessment of three factors:

- Significance of the risk to the achievement of Serco's business objectives
- Significance of the risk to wider society
- Ability of Serco to influence or control the risk.

Risks that could have a significant impact on Serco's business objectives are strategically important and are reported externally. Where this impact is combined with a high significance to society and Serco has a direct responsibility for the management of the risk, additional performance indicators are also included in external reporting. Examples of such risks include public safety, environmental protection and data protection.

Risk mitigation

Each risk in the Group register is assigned an owner at Board or senior management level and specific risk reduction and risk mitigation actions are identified.

The Board may ask for additional information in respect of risk reduction or mitigation actions or request that an audit is undertaken to provide additional assurance. Risk management techniques used include appropriate systems, staff, internal controls, public and media relations and business continuity planning. These techniques are designed with clarity of accountability and responsibility and with certain formal policies covering areas such as compliance, safety and environmental protection.

Serco's business units build and maintain an understanding of their operational risk profiles and are expected to fully understand the likelihood and potential impact of any operational incidents, at the same time making appropriate and informed decisions that balance the risks against the potential returns and opportunities. While operational risk can never be eliminated, the Group endeavours to minimise the impact by ensuring that appropriate infrastructure, controls, systems, staff and processes are in place.

Some of the key management and control techniques are set out below:

- The principles of clear delegation of authority and segregation of duties are fully reflected in the Group's operating processes
- Comprehensive business review processes ensure that our services and products meet customer expectations, performance criteria, operational effectiveness, regulatory requirements, investment returns, cash flow requirements and profitability
- An Investment Committee meets on a monthly basis to consider new or developing projects against a defined set of criteria
- There is a formal review and approval process for all proposals and business acquisitions including delegated authority for sign-off based on the financial value and capital requirement of the transaction and the assessed risk of the project
- Sound project management and change implementation disciplines are applied to all major development projects including new contract transitions, acquisitions, new technology applications, change programmes and other major initiatives
- The commitment and capability of staff is critical for the effective management of operational risk. Ongoing training and career development constantly improves the skills of our employees. Selective recruitment, succession planning and other human resource policies and practices are in place to ensure that staff skills are aligned with the current and future needs of the organisation
- Safety management systems in the Group's aviation, rail, defence, nuclear and marine businesses have been addressed by the appointment of safety specialists for each area who report directly to the Board and maintain and further develop the very high standards expected in these industries
- The Group's approach to health, safety and environmental protection is described in the Directors' Report. Qualified and experienced staff in each business unit provide advice and support on health, safety and environmental issues and undertake regular audits
- 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 the Group's business activities
- An Ethics Committee, comprising the Executive Team, has been established with responsibility for the review of ethical issues that may arise from the Group's current and possible future activities

- The Company Secretary manages the confidential reporting service, to which staff can report illegal, dangerous, dishonest or unethical activities
- A programme of internal audits confirms the extent to which key controls are applied across the Group. Audit priorities are established on the basis of risk assessments, regulatory requirements and business imperatives
- The operational risk framework tracks key 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.

The Group maintains insurance policies to provide for losses arising from circumstances such as damage or destruction of physical assets, theft, legal liability for third party loss and professional advice. The adequacy of the insurance cover is reviewed at regular intervals.

Corporate Assurance Group

The Corporate Assurance Group (CAG) oversees and reviews internal controls and risk policies, procedures and management frameworks and develops guidance, training material and management training to ensure the business needs are met. The Board recognises its responsibilities to shareholders and the wider community where social, environmental and ethical issues are very important. CAG is responsible for developing and overseeing the corporate responsibility activities within the Group.

Every quarter, CAG reports formally to the Board, providing analyses of the health, safety and environmental performance of the Group against targets and advises the Board on policy and future activities to enhance best practice. A separate resilience report covering risk, security, business continuity and crisis management is also submitted to the Board on a quarterly basis. CAG works closely with the internal audit function to provide an appropriate level of business assurance to the Board.

CAG sponsors five specialist groups:

- A Health, Safety and Environment Oversight Group, chaired by the Director, Health, Safety and Environment, and comprising senior assurance representatives from across the Group. During the year, this group met four times to review health, safety and environmental policy and procedures, and to review the performance of the operating divisions against safety and environmental targets
- A Risk Oversight Group, chaired by the Risk Director, comprising operational and assurance representatives from across the Group, which met twice during the year to review the Group risk register and key risk controls. This group provides additional assurance in relation to the system of internal control and risk management and enhances the Board's ability to discharge its responsibilities in relation to internal control
- An Aviation Safety Oversight Group, chaired by an independent aviation safety professional and comprising the aviation safety representatives from across the Group, which met once during the year. This group has been responsible for the implementation of the aviation safety management system across the Group and for transferring best practice between Serco's aviation operating companies
- A Transportation Safety Oversight Group, chaired by the Integrated Transport Non-Executive Director with Special Interest in Safety and comprising the rail and road safety representatives from across the Group, oversees the safety management systems within Serco's rail and road businesses in the United Kingdom, Middle East and Australia
- A Corporate Responsibility Steering Group, chaired by the Assurance Director, provides direction on projects that address the social and environmental issues affecting our staff and the communities within which we work.

Internal audit

During the first half of 2008, Grant Thornton continued to provide an outsourced internal audit function within the Group, in addition to that provided by internal peer review and CAG. On 1 July 2008, KPMG LLP took over responsibility for the outsourced internal audit programme with a revised scope of work. At the same time, a Head of Internal Audit was appointed with responsibility for coordinating the work carried out by KPMG and the audit programme carried out within the operating divisions. The risk-based audit programme has been designed to address the internal control and risk management processes and the recommendations of the Combined Code.

The outsourced internal auditors reported to the Audit Committee twice during the year. There were no material weaknesses identified as a result of the audits undertaken and corrective action has been taken where deficiencies were found. As a result of recommendations made by KPMG, the internal audit processes and reporting activities have been strengthened and more closely integrated with the risk management process.

Joint ventures

In addition to contracts held in Serco's name, the Group has material investments in a number of joint ventures. Where investments are not wholly owned by Serco, the Group can influence, but not control, management practices. Serco representatives within these companies ensure that the processes and procedures for identifying and managing risk are appropriate for the business and that internal controls exist and are regularly monitored. Employees from the Group's joint ventures participate in the Health, Safety and Environment Oversight Group, the Risk Oversight Group and the Transportation Safety Oversight Group.

Review of internal controls

The Board confirms that the actions it considers necessary have been taken to remedy such failings and weaknesses which it has determined to be significant from its review of the internal controls. The Board also confirms that it has not been advised of material weaknesses in that part of the internal control system that relates to financial reporting.

Corporate responsibility

Corporate responsibility is about living the values and principles that govern the way we operate and behave. Our approach reflects the importance corporate responsibility has to those with whom we come into contact. It is also good business practice, which we believe will ultimately help us deliver better returns to shareholders.

The responsibilities of CAG, which reports directly to the Board, include developing and overseeing our corporate responsibility activities. Our corporate responsibility model encompasses four elements:

- Safety – recognising our legal responsibility for the safety of our staff, sub-contractors and the general public for whom we have a duty of care
- People – addressing our legal and moral responsibility for our employees
- Community – addressing our social responsibility for the communities within which we operate
- Environment – recognising our legal and moral responsibility to protect the environment from damage as a direct result of our operations and to promote activities to protect and sustain the wider environment.

A summary of our performance in 2008 and targets and objectives for 2009 can be found in the 2008 Corporate Responsibility Review and at www.serco.com.

Directors, Secretary and Advisors

Chairman
Kevin Beeston

Directors
Leonard V. Broese van Groenou*
Tom Corcoran*
Baroness Ford of Cunninghame*^
Christopher Hyman
Andrew Jenner
David Richardson*

Secretary
Joanne Roberts

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

Auditors
Deloitte LLP
2 New Street Square
London
EC4A 3BZ

Investment Bankers
UBS Limited
1 Finsbury Avenue
London
EC2M 2PP

Stockbrokers
JPMorgan Cazenove Limited
20 Moorgate
London
EC2R 6DA

Merrill Lynch International
Merrill Lynch Financial Centre
2 King Edward Street
London
EC1A 1HQ

Principal Bankers
HSBC Bank PLC
8 Canada Square
London
E14 5HQ

Solicitors
Linklaters LLP
One Silk Street
London
EC2Y 8HQ

Registrars
Up to 20 March 2009:
Computershare Investor Services PLC
The Pavilions
PO Box 82
Bridgwater Road
Bristol
BS99 7NH

After 20 March 2009:
Equiniti
Aspect House
Spencer Road
Lancing
West Sussex
BN99 6DA

*Non-Executive Director
^Senior Independent Director

Corporate Governance Report

Introduction

In managing the affairs of the Group, the Board of Serco Group plc is committed to achieving high standards of corporate governance, integrity and business ethics for all its activities around the world. A fundamental part of the Group's corporate governance processes is the Ethics and Business Conduct Policy Standard that the Company and Group have adopted to support the highest standards of corporate governance.

Throughout 2008 Serco Group plc complied fully with the provisions of Section 1 of the 2006 Combined Code on Corporate Governance issued by the Financial Reporting Council (the Code).

The paragraphs below, together with the Business Review on pages 12 to 48 and the Remuneration Report on pages 63 to 78, provide details of how the Company has applied the principles and complies with the provisions of the Code.

The Board of Directors

Board composition

Currently the Board has seven members: the Chairman, two Executive Directors and four Non-Executive Directors. No individual or group of individuals dominates the Board's decision-making. With the exception of the Chairman who is presumed under the Code not to be independent, the Board considers all of the Non-Executive Directors to be independent. In coming to this conclusion the Board has determined that each Director is independent in character and judgement and there are no relationships or circumstances which are likely to affect, or could appear to affect, the Directors' judgements.

Each Director brings a valuable range of experience and expertise to the Board. The profiles of all Directors can be found on pages 60 and 61.

The role of the Board

The Board has responsibility for the overall management and performance of the Group, the approval of its long-term objectives and commercial strategy and for ensuring that any necessary corrective action is taken promptly.

Reporting to the Board, the Corporate Assurance Group (CAG) is tasked by the Group to develop and oversee corporate processes for the identification and management of business risks and the appropriate application of the Serco Management System (SMS) and corporate responsibility activities throughout the Group. The Business Review on pages 12 to 48 details the internal control and risk policies, procedures and management framework adopted by the Group.

The Corporate Responsibility Review, which covers the whole spectrum of corporate assurance processes and outcomes for 2008, is available online at www.serco.com and illustrates how Serco's approach to corporate assurance and responsibility translates from the Board into everyday working practices.

Conflicts of interest

At the Company's last annual general meeting shareholders approved amendments to the Articles of Association, which, in accordance with the Companies Act 2006, included provisions concerning conflicts of interest. In deciding whether to authorise a conflict or potential conflict of interest only non-interested Directors (i.e. those that have no interest in the matter under consideration) will be able to take the relevant decision; in taking the decision the Directors must act in a way they consider, in good faith, will be most likely to promote the Company's success. In addition, the Directors may impose conditions or limitations when giving authorisation if they think this is appropriate.

Reserved and delegated authorities

There is a formal schedule of matters reserved to the Board. This schedule, which is reviewed annually, includes approval of:

- Group strategy
- Annual financial and operating plans
- Major capital expenditure, acquisitions or divestments
- Annual and interim financial results
- Satisfying itself as to the integrity of financial information
- Dividend policy
- Ensuring adequate succession planning for the Board and senior management and appointing and removing Directors, the Company Secretary and Committee members
- Treasury policy
- Review of the effectiveness of the Group's system of internal control and risk management process
- Training and development of the Board and the Company Secretary.

Other specific responsibilities are delegated to Board Committees which operate within clearly defined terms of reference. Details of the responsibilities delegated to the Committees are given on pages 54 and 55.

Information flow

Senior executives below Board level attend certain Board meetings at which they make presentations on the results and strategies of their divisional units and functional areas of the Group. Board members are given appropriate documents in advance of each Board meeting and each Committee meeting, as appropriate.

Board meetings are routinely held four times a year over two days at a time and are structured to allow open discussion of the strategy, trading and financial performance and risk management of the Group.

Board and Committee meetings are held at varying locations and the opportunity is used to combine the formal business of the Board with site visits and divisional presentations and discussions. Additional Board meetings are scheduled if required, usually to discuss major transactions, if any.

The attendance of individual Directors at Board meetings held during the year which they were eligible to attend is shown in the table on page 52.

Company Secretary and independent advice

The Company Secretary is responsible for advising the Board on all corporate governance matters, ensuring that all Board procedures are followed, ensuring good information flow and facilitating induction programmes for Directors.

All Directors have access to the advice and services of the Company Secretary. The Board has approved a procedure for Directors to take independent professional advice, if necessary, at the Company's expense.

Chairman and Chief Executive

As Chairman, Kevin Beeston is responsible for:

- Ensuring the effective running of the Board, its agenda and processes
- Promoting the highest standards of corporate governance and ensuring appropriate communication with shareholders on these standards and the Group's overall performance
- Ensuring appropriate Director development and succession planning for the Board.

The Chief Executive, Christopher Hyman, is responsible for:

- The formation and implementation of the Group's global strategy
- Delivery of the Group's business plan
- Providing motivation and leadership to the operating divisions, chairing the Global Management Board and setting its style and tone
- Setting the overall policy and direction of Serco's business operations, investments and other activities within a framework of prudent and effective risk management and ensuring that divisions and functions control those risks satisfactorily
- Providing leadership and representation of the Group with major customers and industry organisations.

Senior Independent Director

Margaret Ford was appointed Senior Independent Director in October 2007. As part of her role, Margaret is available to shareholders if they have any issues or wish to discuss any aspects of the Company's business without the Executive Directors or Chairman present.

External directorships for Executive Directors

The Board considers that Executive Directors can gain valuable experience and knowledge through appropriate and limited non-executive appointments in other listed companies or independent sector organisations. The Board is careful to ensure that any such appointments do not compromise the effective management of the Group and that these are approved in advance of any appointments being taken up. Details of the fees received by Executive Directors for external appointments can be found in the Remuneration Report on page 69.

Significant other commitments of the Chairman

Kevin Beeston is non-executive Chairman of Partnerships in Care, Infinitas Learning BV and Domestic and General Ltd, and is a non-executive director of IMI plc. Kevin is also a member of the CBI President's Committee and Chairman of the CBI's Public Services Strategy Board. The Board continues to believe that Kevin holds a well-balanced portfolio of positions which allow him to appropriately perform his duties as Chairman.

Re-election of Directors

In accordance with the Company's Articles of Association, a Director must retire at the annual general meeting (but is eligible for re-appointment) if he or she has held office for more than 30 months (as at the date of the notice convening the annual general meeting) since he or she was appointed or last re-appointed. Any Directors appointed by the Board since the last annual general meeting must stand for re-election at the next annual general meeting. Any Non-Executive Directors who have served for more than nine years will be subject to annual re-election.

The names of the Directors retiring and standing for re-election at the 2009 Annual General Meeting are set out in the Notice of Annual General Meeting.

The Non-Executive Directors

Independence

All the Non-Executive Directors are independent of management and have no cross-directorships or significant links which could materially interfere with the exercise of independent judgement.

Term of appointment

All Non-Executive Directors are appointed for an initial term of three years. Thereafter, subject to satisfactory performance, they may serve one or two additional three-year terms, with a thorough review of their continued independence and suitability to continue as Non-Executive Directors being undertaken if they are to remain on the Board for more than nine years. The terms and conditions of the appointment of the Directors are summarised in the Remuneration Report on pages 69 and 70 and are available on request from the Company Secretary.

Meetings of Non-Executive Directors

Non-Executive Directors meet separately (without the Chairman or Executive Directors being present) at least once a year principally to appraise the Chairman's performance. This meeting is chaired by the Senior Independent Director.

Board meetings and attendance

The Board holds its meetings on a quarterly basis with ad hoc meetings in between if required. Board meetings are scheduled over two days and are held at varying Group operating locations usually including one overseas meeting per annum. This allows a thorough exposure to the Group's activities, customers and management. The frequency and content of Board meetings are reviewed by the Board annually.

The attendance of the individual Directors at Board and Committee meetings during 2008 was as follows:

	Board (6 meetings)[2]	Audit (3 meetings)	Remuneration (7 meetings)	Nomination (2 meetings)
Kevin Beeston	6	n/a	n/a	2
Leonard V. Broese van Groenou	5	3	7	2
Tom Corcoran	6	3	7	2
Margaret Ford	5	3	7	2
Christopher Hyman	6	n/a	n/a	n/a
Andrew Jenner	6	n/a	n/a	n/a
David Richardson	6	3	7	2
Grant Rumbles[3]	1	n/a	n/a	n/a

Notes:

1. n/a means that the specified Director is not a member of that Committee, although he or she may attend meetings at the invitation of the chairman of the Committee.
2. In addition to the six full Board Meetings there was one Board meeting, attended by the Executive Directors only, for the approval of the year-end results which had been considered previously by the full Board.
3. Grant Rumbles ceased being a Director with effect from 25 March 2008.

Board effectiveness

Induction

On joining the Board, Directors are given background information describing the Company and its activities. They receive an induction pack which includes information on all the governance processes of the Group, the roles and responsibilities of the Board, Committees and other management teams and a range of other appropriate information about the Group, its activities and its advisors. Meetings are also arranged with a range of key people from across the Group on a structured basis to assist with a Director's induction. Visits are also arranged, where possible, to a number of contracts around the country.

Continued professional development

During 2008 the Board members were all engaged in a range of training and professional development activities. These activities are considered by the Board, which also considers the training needs of the Company Secretary. All Board members are encouraged to attend relevant training courses at the Company's expense. The training and development needs of the Directors and the Company Secretary have previously been the remit of a separate committee of the Board. However, the Board considers itself to be best placed to most effectively perform this role without the need for a separate sub-committee and the use of the latter has therefore been discontinued.

Performance evaluation

The Group recognises the importance of a comprehensive evaluation process for the Board and ensures that comments and recommendations are considered carefully and implemented where appropriate to ensure its continued development. A rigorous evaluation of the Board and its Committees was undertaken in November 2008. This included the completion of an evaluation questionnaire, one-to-one meetings for all Directors held with the Chairman plus an evaluation of the Chairman's performance led by the Senior Independent Director (taking into account the views of both the Non-Executive and Executive Directors). The outcomes from the Board's appraisal were discussed fully at the following Board meeting, and recommendations from the evaluation will be implemented as soon as reasonably practicable.

All Directors feel that the Board and Company are open, professional and enjoyable to be a part of and that appropriate information is provided to the Board in the furtherance of its responsibilities. Its diversity, strong sense of value and good governance are also considered to be key strengths. While the areas for further development were few, it was noted that the balance and structure of the Board should be kept under review, particularly in light of the growing geographic and technical diversity of the Group.

In carrying out the performance evaluation process, the use of an independent evaluator was considered but the Board once again concluded that its own process was sufficiently rigorous.

Board committees

The Board has delegated authority to a number of permanent Committees to deal with matters in accordance with written terms of reference. The terms of reference for all Committees are reviewed on a regular basis by the Board to ensure they are still appropriate and reflect any changes in good practice and governance; these are available online at www.serco.com. Committees are authorised to obtain outside legal or other independent professional advice if they consider it necessary.

The Audit Committee and Audit Committee Report

Membership: The Audit Committee consists solely of independent Non-Executive Directors. It is chaired by David Richardson and comprises Margaret Ford, Leonard V. Broese van Groenou and Tom Corcoran.

The Chairman of the Committee has recent and relevant experience for this role. The Audit Committee met three times during the year.

At the invitation of the Committee, the Finance Director, the Head of Internal Audit, KPMG LLP (the Group's internal audit providers since July 2008), and Deloitte LLP (the external auditors), attend meetings. The Committee meets with each of the internal auditors, external auditors and the Head of Internal Audit separately at least once a year. All Directors have access to the minutes of the Audit Committee meetings.

Responsibilities: The main responsibilities of the Audit Committee are:

- To monitor the integrity of the financial statements of the Company, including interim management statements, and any formal announcements relating to the Company's financial performance, reviewing significant financial reporting judgements contained in them
- To review the internal audit programme and ensure that the internal audit function is adequately resourced and has appropriate standing with the Company
- To review management's and the internal auditors' reports on the effectiveness of systems for internal financial control, financial reporting and risk management
- To consider the appointment, re-appointment and removal of the external auditors and assess independence of the external auditors, ensuring that key partners are rotated at appropriate intervals
- To recommend the audit fee to the Board and pre-approve any fees in respect of non-audit services provided by the external auditors and to ensure that the provision of non-audit services does not impair the external auditors' independence or objectivity
- To discuss with the external auditors, before the audit commences, the nature and scope of the audit and to review the auditors' quality control procedures and steps taken by the auditors to respond to changes in regulatory and other requirements
- To oversee the process for selecting the external auditors and make appropriate recommendations through the Board to the shareholders to consider at the annual general meeting.

Additionally, in accordance with the Combined Code, the Committee is responsible for a formal whistleblowing policy and procedure which applies throughout the Group. Responsibility for the operation of this policy has been delegated to the Company Secretary.

Members of the Audit Committee have received updates on accounting standards and generally accepted accounting practice on a quarterly basis as part of the Finance Director's report to the Board, and also on a half-yearly basis from the external auditors.

During 2008 the Audit Committee discharged fully its responsibilities listed above and, in doing so, considered the following:

- Corporate Governance Report and statement of Directors' Responsibilities for inclusion in the 2007 Annual Review and Accounts
- 2008 Interim Statement and Auditors' report thereon
- 2008 external audit fees
- Review of the whistleblowing policy
- Assessment of the Audit Committee and the external and internal auditors
- 2008 internal audit programme and the proposed 2009 programme
- The continuing independence of the external auditors.

As part of a review of the Company's internal audit function and a move to a risk-based approach, in May 2008 the Company appointed a Head of Internal Audit and, with effect from July 2008, appointed a new external provider of internal audit services, KPMG.

Non-audit services: The Committee has reconfirmed its policy on the provision of audit and non-audit services by Deloitte. It determined three categories of services; Approved (eg. audit and related assurance services), Permitted (eg. tax compliance and due diligence) and Not Permitted (eg. IT services and quasi management services). The Committee, the Company, and Deloitte all monitor compliance with the policy and review at each meeting the fees earned and the estimates for the year. The Group has complied with the policy throughout the year. Where appropriate non-audit services have been provided by companies other than Deloitte LLP to safeguard auditor objectivity and independence.

Auditors' independence: The independence, objectivity and effectiveness of the external auditors have been examined by the Committee and discussions were held regarding their terms of engagement, remuneration and proposal for partner rotation. The Committee considered, specifically, the contract to provide office services to Deloitte LLP and was satisfied that no conflict existed.

The Committee recommended to the Board that Deloitte LLP be proposed for re-appointment at the forthcoming 2009 Annual General Meeting. This recommendation has been accepted and will be proposed to shareholders.

The Nomination Committee

Membership: The Nomination Committee is chaired by Kevin Beeston and comprises Margaret Ford, David Richardson, Leonard V. Broese van Groenou and Tom Corcoran. The Committee met twice during 2008.

Responsibilities: Matters considered during the year included succession and contingency planning, Board structure and composition and the departure of Grant Rumbles.

No appointments were made to the Board during the year. The Committee has responsibility for the identification and nomination, for the approval of the Board, of candidates to fill board vacancies as and when they arise, engaging external search consultants as and when necessary.

The Remuneration Committee

Details of the Remuneration Committee and its policies together with the Directors' remuneration, emoluments and interests in the Company's share capital are set out in the Remuneration Report on pages 63 to 78.

Executive Committees

The Board has delegated responsibility for the day-to-day management of the business to the Global Management Board (GMB).

The GMB is chaired by the Chief Executive, Christopher Hyman, and its membership currently comprises 17 senior managers representing each of the Group's operating divisions and a number of functional heads, and includes both Executive Directors. The GMB meets formally four times a year, over two days at a time, to review the Group's activities and discuss management and operational issues.

Representatives from across the Serco business are invited to the meetings to discuss aspects of their business or give presentations on specific topics. The GMB is able to take a broad view of the business due to its membership from across the Group.

A senior group of the GMB, the Executive Team, which is chaired by the Chief Executive and comprises four members including the Executive Directors, is responsible for the oversight of all aspects of the day-to-day operations and trading of the Group. The Executive Team met 12 times during the year.

Relationship with shareholders

The Company's relationship with shareholders is given a high priority. The Annual Review and Accounts is available to all shareholders and a shorter Annual Review and Summary Financial Statement is also available currently, by election or on request.

Regular trading updates are published ahead of closed periods and before the annual general meeting by press release.

In addition, press releases and stock exchange announcements are made regarding significant contracts or transactions. All trading announcements are also posted on the Group's website www.serco.com.

The Company is currently reviewing its shareholder communications, including a greater use of electronic means, in accordance with the amendment to the Articles of Association approved by shareholders at the annual general meeting in 2007. Any proposed changes will be communicated fully prior to implementation.

Annual General Meeting

Individual shareholders have the opportunity at the annual general meeting to question the Chairman and through him the chairs of the various Board committees and other Directors.

Details of the meeting are set out in the notice of annual general meeting which is sent to shareholders and which contains the text of the resolutions to be proposed and explanatory notes.

Shareholders attending will be advised of the number of proxy votes lodged for each resolution, in the categories "for" and "against" together with the number of "votes withheld". This information is also posted on the Group's website www.serco.com.

Institutional investors

The Chief Executive and Finance Director have regular dialogue with institutional investors. The Chairman also meets with institutional investors from time to time and as required. The Company's investor relations programme and day-to-day activities are managed by the Head of Investor Relations. As part of the role of Senior Independent Director, Margaret Ford, is also available to meet shareholders should it be required.

In addition, during 2008, the Chairman of the Remuneration Committee contacted the Company's largest shareholders (and representative bodies) in connection with the Company's triennial review of executive remuneration. Further details can be found in the Remuneration Report.

The Board receives an investor relations report on a quarterly basis. This reviews share price movements and valuation, changes in the share register, the Company's recent and planned investor relations activities, communication with shareholders, analyst recommendations and significant news from the market and support services sector. The report ensures that the Board has a clear understanding of the Company's investor relations performance.

Group website

The Group website www.serco.com is a primary source of information on the Group. The site includes an area tailored for investors, including information such as an archive of all reports, announcements, presentations and webcasts, share price tools, the terms of reference for all Board committees and information on voting at the 2009 Annual General Meeting. It also has a link directly to the Company's registrars, allowing shareholders to view their shareholding online and to vote on the resolutions set out in the Notice of Annual General Meeting.

Business conduct

Serco Group operates within a management system that defines the policies, standards and processes to be applied where we operate. Integral to this are our policies on Ethics and Business Conduct and Human Rights that apply to all business divisions, operating companies and business units throughout the world.

These two policies outline the Group's position on a wide range of ethical and legal issues including conflicts of interest, financial inducements, human rights and legal and regulatory compliance. They apply to Directors and to all employees regardless of their position or location.

Recognising that ethical dilemmas may arise in a growing company the Group has introduced an Ethics Consultation Process that is to be followed to determine the Group's position on particular issues. To support this process an Ethics Committee has been established comprising the Executive Team, with a quorum of three and chaired by the Chief Executive. As the leadership of the Company, the Executive Team will make any fine judgements about what it considers acceptable or otherwise.

Serco has established a dedicated whistleblowing hotline so that employees can seek guidance or express any concerns on Group-related issues.

The Company Secretary investigates any issues raised independently and reports back to the Board. Reports can be made anonymously and without fear of retaliation.

The Group maintains a position of impartiality with respect to party politics. Accordingly, it does not contribute funds to any political party. It does, however, contribute to the public debate of policy issues that may affect it in the countries in which it operates.

Internal control and risk management

Further to the comments above regarding Corporate Assurance, details of the Group's internal control and risk management processes are contained in pages 44 to 49 of the Business Review. The Board confirms that the actions it considers necessary have been taken to remedy any failings and weaknesses which it has determined to be significant from its review of the Group's internal controls and risk management processes.

Going concern

As discussed further on page 43 of the Finance Review, the Directors have acknowledged the guidance on going concern and financial reporting published by the Financial Reporting Council in November 2008. Whilst the current economic environment is uncertain, the Group is well placed to manage its business risks successfully, and has adequate resources to continue in operational existence for the foreseeable future, given that it has a balanced portfolio of principally long-term contracts, an order book of £16.3bn, over 90% of its revenues derived from governments and substantial debt financing committed for the medium-term. As at 31 December 2008, the Group as a whole had a revenue visibility of 90% for the next 12 month period based upon the order book. Visibility of planned 2010 and 2011 revenues are already 76% and 65% respectively. Accordingly, the Group has adopted the going concern basis in preparing the Annual Review and Accounts.

Approved by the Board of Directors and signed on its behalf by:

Joanne Roberts
Secretary
26 February 2009

Directors' Report

Annual Review and Accounts

The Directors have pleasure in presenting the Annual Review and Accounts of the Group for the year ended 31 December 2008. Comparative figures used in this report are for the year ended 31 December 2007.

Activities

Serco Group plc is a holding company which operates via its subsidiaries and its joint ventures to improve services by managing people, processes, technology and assets more effectively. Serco supports governments, agencies and companies by offering operational, management and consulting expertise in the aviation, defence, education, health, home affairs, local government, nuclear, science, technology, transport and commercial sectors.

The Chairman's Statement on pages 10 and 11 and the Business Review on pages 12 to 48 report on the activities during the year, post balance sheet events and likely future developments. The information in these reports which is required to fulfil the requirements of the Business Review is incorporated in this Directors' Report by reference.

Share capital

The authorised and issued share capital of the Company, together with the details of shares issued during the year is shown in note 30 to the Financial Statements.

The powers of the Directors to issue or buy back shares is restricted to that approved at the Company's Annual General Meeting.

Dividends

An interim dividend of 1.48p (2007 – 1.213p) per ordinary share was paid on 17 October 2008. The Directors recommend a final dividend of 3.52p (2007 – 3.02p) per ordinary share which, if approved by shareholders at the Annual General Meeting, will be paid on 20 May 2009 to those shareholders on the register at the close of business on 6 March 2009.

Substantial shareholdings

As at 26 February 2009* the Company had been notified under Rule 5 of the Disclosure Rules and Transparency Rules of the Financial Services Authority of the following holdings of voting rights in its shares:

	No. of shares (millions)	% held
Baillie Gifford & Co	29.0	5.96
Newton Investment Management Limited	28.9	5.93
Fidelity International Limited	23.9	4.93
HBOS plc	20.5	4.22
Legal & General Group plc	19.5	4.00
AEGON UK plc Group of Companies	18.3	3.78

The Directors are unaware of any restrictions on transfer of securities in the Company or on voting rights. There are also no known agreements between holders of the Company's securities which may result in such restrictions.

Directors

The current members of the Board together with biographical details of each Director are set out on pages 60 and 61. Grant Rumbles ceased being a Director with effect from 25 March 2008 and subsequently left Serco employment on 16 May 2008.

Directors' interests

With the exception of the Executive Directors' service contracts and the Non-Executive Directors' letters of appointment, there are no contracts in which any Director has an interest.

Certain change in control conditions are included in the service contracts of Directors which provide compensation or reduction of notice periods in the event of a change in control of the Company.

Details of the Directors' interests in the ordinary shares and options over the ordinary shares of the Company are set out in the Remuneration Report on pages 71 to 75.

Annual General Meeting

The Annual General Meeting of the Company will be held at the Queen Elizabeth II Conference Centre, London on 12 May 2009 at 11.00am.

The Notice of Annual General Meeting together with explanatory notes is sent to shareholders with this Review.

Financial risk policies

A summary of the Group's treasury policies and objectives relating to financial risk management, including exposure to associated risks, is on pages 112 to 115.

Employment policies

The Board is committed to maintaining a working environment where staff are individually valued and recognised. Group companies and divisions operate within a framework of human resources policies, practices and regulations appropriate to their own market sector and country of operation.

The Group is committed to ensuring equal opportunity, honouring the rights of the individual and fostering partnership and trust in every working relationship. Policies and procedures for recruitment, training and career development promote equality of opportunity regardless of gender, sexual orientation, age, marital status, disability, race, religion or other beliefs and ethnic or national origin.

The Group gives full consideration to applications for employment, career development and promotion, received from the disabled and offers employment when suitable opportunities arise. If employees become disabled during their service with the Group, wherever practicable, arrangements are made to continue their employment and training.

The Group remains proud of its record of managing employee relations and continues to believe that the structure of individual and collective consultation and negotiation are best developed at a local level.

Over the years, the Group has demonstrated that working with trade unions and creating effective partnerships allows improvements to be delivered in business performance as well as terms and conditions of employment. Where employees choose not to belong to a trade union, employee communication forums such as works councils exist to ensure involvement of staff within the business.

Participation by staff in the success of the Group is encouraged by the availability of Sharesave Schemes, and a Share Option Scheme and Long Term Incentive Plan for senior management, which effectively align their interests with those of shareholders by requiring that performance criteria are achieved prior to exercise.

Corporate responsibility

The Group maintains a focus on corporate responsibility through a structure model that is applied across the business. Our corporate responsibility model focuses on our people, safety, the environment and the communities we serve. This model forms an integral part of our management system and is supported by defined policies in all of the areas it covers. These are applied within the context of our policies on Ethics and Business Conduct and Human Rights. Activities are reported quarterly as part of our internal assurance reporting process.

Further information on our approach to corporate responsibility and how we have delivered our commitments is contained in the Corporate Responsibility Review which is available online at www.serco.com. This site also provides an overview of our approach to corporate responsibility, our management system and our policies.

Creditor payment policies

The Group requires each of its business units to negotiate and agree terms and conditions for payment for the supply of capital and revenue items just as keenly as they negotiate prices and other commercial matters.

Suppliers are made aware of the terms and the way in which disputes are to be settled. Payment is then made in accordance with those terms.

The Group's average creditor payment terms in 2008 were 28 days (2007: 24 days).

Donations

The Group continues to encourage all staff to participate in their local communities and has a process to capture investment on a worldwide basis. This measure is based upon the Business in the Community (BitC) reporting format.

The value of this investment in 2008 at £1,767,168 (2007: £1,066,527) represents 1.3% of the Group's pre-tax profit.

During the year neither the Company nor the Group made political donations and they intend to continue with this policy. The US businesses which joined the Group in 2008 as part of the acquisition of SI International have a Political Action Committee (PAC) which is funded entirely by employees and their spouses. No funds are provided to the PAC by Serco, nor will they be, and any administrative services provided to the PAC by the US business are fully charged to and paid for by the PAC, and the Company does not therefore consider these to be political donations. Employee contributions are entirely voluntary and no pressure is placed on employees to participate. Under US law, an employee-funded PAC must bear the name of the employing company.

Financial Statements

At the date of this Report, as far as each Director is aware, there is no relevant audit information of which the Group's auditors are unaware. Each Director has taken all the steps that he/she ought to have taken as a Director in order to make himself / herself aware of any relevant audit information and to establish that the Group's auditors are aware of that information.

Auditors

Deloitte LLP have expressed their willingness to continue in office as auditors and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

Approved by the Board of Directors and signed on its behalf by:

JRoberts

Joanne Roberts
Secretary
26 February 2009

*As at 9 March 2009, the Company had been informed that the notifiable interests of Legal & General Group plc were 3.96%; there were no other changes or additions to these notifiable interests.

Directors' profiles

From left to right:
David Richardson Non-Executive Director
Tom Corcoran Non-Executive Director
Christopher Hyman Chief Executive
Margaret, Baroness Ford of Cunninghame Non-Executive Director
Kevin Beeston Chairman
Leonard V. Broese van Groenou Non-Executive Director
Andrew Jenner Finance Director
Joanne Roberts Company Secretary

Kevin Beeston FCMA (46)

Chairman(3)

Kevin Beeston became Non-Executive Chairman of Serco Group plc in September 2007, having previously served as the Group's Executive Chairman, Chief Executive and Finance Director since joining the Group in 1985.

He is a member of the CBI President's Committee and Chairman of the CBI's Public Services Strategy Board, which promotes the role business has in transforming the UK's public services.

In addition, he is the non-executive Chairman of Partnerships in Care, Infinitas Learning BV and Domestic and General Ltd, and is a non-executive director of IMI plc.

Christopher Hyman CA (SA) (45)

Chief Executive

Christopher Hyman was appointed Chief Executive of Serco Group plc in 2002. He is also chairman of the Prince of Wales' charity In Kind Direct, and a non-executive director for Habitat for Humanity and Africa Foundation. Earlier this year Christopher was appointed National Ambassador by the Prince of Wales for Business in the Community. He is also a member of the UK Government's Honours Advisory Committee for Economy and UK Commission for Employment and Skills.

Christopher graduated from Natal University in Durban, South Africa and qualified as a chartered accountant, serving with Arthur Andersen and Ernst & Young before joining Serco in 1994 as the European Finance Director. He was appointed Group Company Secretary in 1996, Corporate Finance Director in 1997 and Group Finance Director in April 1999. He is responsible for setting the vision and strategy of the Group.

Andrew Jenner ACA (40)

Finance Director

Andrew joined Serco in 1996 as Group Financial Controller, having previously worked for Unilever and Deloitte & Touche LLP. He became Corporate Finance Director with additional responsibility for treasury activities in 1999 and Group Finance Director in May 2002. Andrew shares responsibility for our relationship with shareholders and the City with the Chief Executive. He is also responsible for the Group's PFI investment business. Andrew is a non-executive director of GallifordTry plc.

Tom Corcoran BA PhD (64)

Non-Executive Director(1)(2)(3)

Tom joined Serco in December 2007 as a Non-Executive Director. He brings 40 years of global business experience, particularly in the US aerospace and defence contracting industry. He is currently Senior Advisor to private equity firm The Carlyle Group and President of Corcoran Enterprises, LLC, a management consulting firm.

Tom has held senior positions in the aerospace, defence and electronics industries including Chairman and Chief Executive Officer of Allegheny Teledyne and President and Chief Operating Officer of Lockheed Martin’s Electronic and Space Sectors. During his 26 years with General Electric, Tom held senior management positions including Vice President and General Manager of GE's Aerospace operations.

He is also a non-executive director of Aer Lingus Ltd, L3 Communications Holdings Inc, Labarge Inc, ARINC Inc. and GenCorp Inc.

Leonard V. Broese van Groenou MSc (62)

Non-Executive Director(1)(2)(3)

Leonard joined Serco as a Non-Executive Director in April 2006.

Leonard was previously Vice-President Human Resources and a member of the corporate executive committee of Pennsylvania-based Air Products, a New York listed company serving customers in technology, energy, healthcare and industrial markets worldwide where he served for nearly 30 years. His career at Air Products spans numerous international roles including financial control, business planning, operational management and human resources. He is the Chairman of the Netherlands Benevolent Society.

Baroness Ford of Cunninghame MA MPhil (51)

Senior Independent Director(1)(2)(3)

Margaret joined Serco in October 2003 as a Non-Executive Director. She spent her early career in a variety of roles either in the public sector or as an advisor to Government and is a specialist in leadership development, culture change and public sector reform. From 1997 to 2000 she was Chairman of Lothian Health Board and from 2000 to 2003 was a non-executive director of Ofgem. In December 2007 Margaret retired from English Partnerships, the national regeneration agency, after six highly successful years. From 2000 to 2005 Margaret was a director of Good Practice Limited, the publishing company that she founded.

Margaret is Managing Director, Social Infrastructure and Development, Royal Bank of Canada Capital Markets and Chairman of Irvine Bay Urban Regeneration Company. She is also a non-executive director of Grainger plc.

David Richardson BSc FCA (57)

Non-Executive Director(1)(2)(3)

David joined Serco as a Non-Executive Director in June 2003.

He has previously held the position of Finance Director of Whitbread, where his roles in a 20-year career have included eight years as Strategy Director. David was instrumental in transforming Whitbread from a brewing and pubs company into a market leader in hotels, restaurants and leisure clubs.

David is currently a non-executive director of Dairy Crest Group plc, Forth Ports PLC and Tomkins plc.

(1) Member of the Audit Committee
(2) Member of the Remuneration Committee
(3) Member of the Nomination Committee

Directors' responsibilities

The Directors are responsible for preparing the Annual Review, Directors' Report, Remuneration Report and the Financial Statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. The Directors are required by the IAS Regulation to prepare the Group Financial Statements under International Financial Reporting Standards (IFRS) as adopted by the European Union. The Group financial statements are also required by law to be properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation.

International Accounting Standard 1 requires that IFRS financial statements present fairly for each financial year the Group's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the Preparation and Presentation of Financial Statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRSs.

Directors are also required to:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information; and
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's financial position and financial performance.

The Directors have elected to prepare the parent company Financial Statements in accordance with United Kingdom Generally Accepted Accounting Practice. The parent company Financial Statements are required by law to give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these Financial Statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed; and
- prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

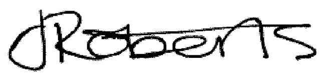
The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the parent company Financial Statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of Financial Statements may differ from legislation in other jurisdictions.

We confirm to the best of our knowledge:

1. the Financial Statements, prepared in accordance with the applicable set of accounting standards, 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
2. the management report, which is incorporated into 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 they face.

Approved by the Board of Directors and signed on its behalf by:



Joanne Roberts
Secretary
26 February 2009

Remuneration Report

Dear Shareholder

I am very happy to present the Directors' Remuneration Report. As reported in the Business Review, in 2008 Serco has delivered strong operational and financial performance while continuing to increase its presence in existing and new markets. The Company delivered another year of double digit revenue growth, enhanced its margins, generated strong free cash flow and strengthened its funding position. In addition it won a number of significant contracts in new markets, such as the formation of a partnership with Guy's & St Thomas' NHS Foundation Trust through which it will target the significant national pathology market, valued at around £2.5bn. It has additionally broadened further its service offerings into children's services, UK homeland security and occupational health. Serco's international footprint in the US, Australia and the Middle East has also been extended. Over the last three years revenue has increased from £2.26bn to £3.1bn, profit before tax increased by 75% and market capitalisation has exceeded £2bn. In December 2008 Serco firmly entered the FTSE 100.

Following the departure of Serco's Chief Operating Officer in the first half of the year, the structure of the senior management team has been changed. Further, the Remuneration Committee has spent a great deal of time on a major review of executive remuneration and embarked on a lengthy and helpful consultation exercise with our largest shareholders. The discussions and the views that have been exchanged have been of great value to us and changes have been made to the new policy in light of shareholders' opinions.

Several shareholders have expressed concerns about the timing of the changes. Indeed the Remuneration Committee has debated whether revised remuneration arrangements should be implemented for 2009 against the backdrop of turmoil in the global financial markets and the resulting impact on the economies of many of the countries in which we operate. We hope that we have demonstrated why we believe that shareholders' interests are best served by making changes now and doing so decisively. Serco's strong performance over the last three years owes much to the leadership of the senior team. We believe that the changes to remuneration are necessary to ensure Serco's continued success over the next three years, especially in a difficult economic climate and to ensure that we focus Serco's Leaders on Serco's future growth and reward them appropriately for their contribution.

The changes are designed to ensure that the structure and the level of remuneration further align the interests of management with those of shareholders by:

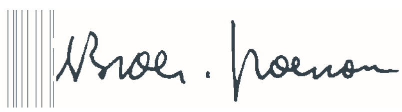
- Increasing the emphasis on performance, both in the short and long term;
- Improving alignment by increasing the proportion of long-term remuneration;
- Encouraging Executive Directors to defer part of their annual bonus into shares; and
- Increasing the share ownership requirement for the Chief Executive to two times salary.

The changes are described in this Report and, in respect of the proposed new share plans, in more detail in the Notice of Annual General Meeting.

One key modification is the change to the comparator group for pay benchmarking purposes. We have always sought to benchmark total remuneration against companies of broadly similar size and business fit. The comparator group we had been using comprised fourteen companies and, as Serco has grown, the group ceased to reflect the breadth of Serco's services. Furthermore Serco had become large relative to the companies in the group. An industry peer group was ruled out (both for pay comparisons and for benchmarking our performance) again on the basis that too few companies have Serco's breadth of coverage. Hence the Committee has chosen a robust group of around 30 companies in the FTSE 51-130 which are much more similar to Serco in terms of turnover, growth profile and market capitalisation. After rigorous analysis, the companies in the comparator group are viewed by the Committee as an effective proxy for this FTSE group. It is also important to the Committee that the same comparator group is used to benchmark the arrangements of employees more broadly. If Serco's size and scope changes, for better or for worse, this comparator group will of course be reviewed.

The Remuneration Committee believes that this investment in remuneration that we are recommending to shareholders, together with the increased emphasis on performance, will make an important contribution to Serco's continuing success.

Yours sincerely



Leonard V. Broese van Groenou
Chairman of Remuneration Committee

Introduction

The following Report details the remuneration policy and the actual remuneration of the Directors of the Group for the year ended 31 December 2008. In preparing this Report, consideration has been given to the disclosure requirements of the 2006 Combined Code and Schedule 7A of the Companies Act 1985. A resolution to approve this Report will be proposed at the Annual General Meeting on 12 May 2009.

The Remuneration Committee

The Remuneration Committee (the Committee) consists solely of independent Non-Executive Directors. It is chaired by Leonard V. Broese van Groenou and comprises Margaret Ford, David Richardson and Tom Corcoran.

The Chairman of the Company and the Executive Directors may attend meetings of the Committee at its discretion and as appropriate. They are not in attendance when their own remuneration arrangements are discussed.

The Committee met seven times during the year. The terms of reference of the Committee, a copy of which can be found on the Group's website, are reviewed annually to ensure that they meet best practice. Details of the Directors' attendance at the Committee meetings can be found in the Corporate Governance Report on page 52.

The Committee determines the overall remuneration policy for senior management and the individual remuneration of the Chairman and the Executive Directors. This includes base salary, bonus, long-term incentives, pensions, benefits and terms of employment (including those terms on which service may be terminated).

Advisors to the Remuneration Committee

The Committee has been advised by Towers Perrin who were appointed by the Committee in May 2008 following a competitive tendering process. Towers Perrin has provided advice to the Committee throughout the triennial review process on the overall remuneration policy and philosophy and has carried out benchmarking exercises on the Executive Directors' remuneration packages.

Geoff Lloyd (Group Human Resources Director) also provides advice and guidance to the Committee.

Remuneration policy

As indicated in last year's Remuneration Report, during 2008 the Committee carried out its comprehensive triennial review of executive remuneration and of the principles which form the basis of the Company's remuneration policy. The objective has been to ensure that the Group's arrangements are aligned with the three-year business plan and best practice.

As a result of the review, several changes are proposed both to the structure and the levels of remuneration of Executive Directors. These are described in this report and, where appropriate, in the Notice of Annual General Meeting.

Serco's remuneration policy adopts the following principles which are that executive remuneration should:

- Support Serco's long-term future growth, strategy and values;
- Align the financial interests of executives and shareholders;
- Provide market competitive reward opportunities for performance in line with expectations and deliver significant financial rewards for sustained out-performance;
- Enable Serco to recruit and retain the best in all our chosen markets;
- Be based on a clear rationale which participants, shareholders and other stakeholders are able to understand and support.

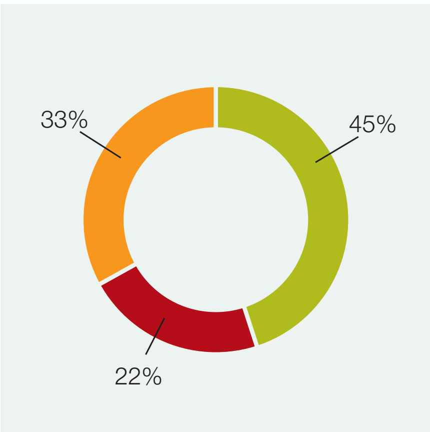
In setting the remuneration of the Executive Directors, in particular the non-financial objectives relating to the annual bonus scheme, the Remuneration Committee is able to consider corporate performance on safety, environmental, social and corporate governance. The Committee retains discretion to reduce bonuses or the vesting of awards under the share plans if performance in these areas is unsatisfactory.

The elements of remuneration

Composition

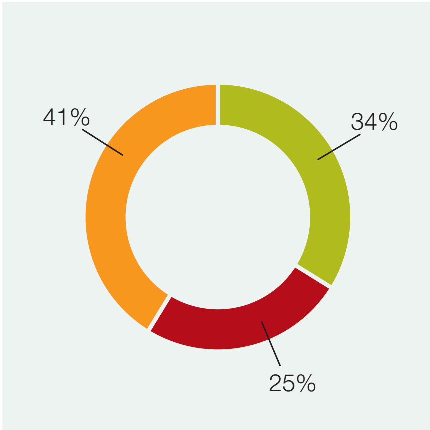
The current remuneration package for Executive Directors consists of base salary, annual bonus, longer term share-based incentives, pensions and other benefits. The Group's policy is to ensure that a significant proportion of the package is related to performance.

The relative proportions of the performance-related and fixed elements of remuneration (excluding pension and other benefits) for Executive Directors - showing the current and future position and assuming 'on-target' remuneration - are shown in the following charts.

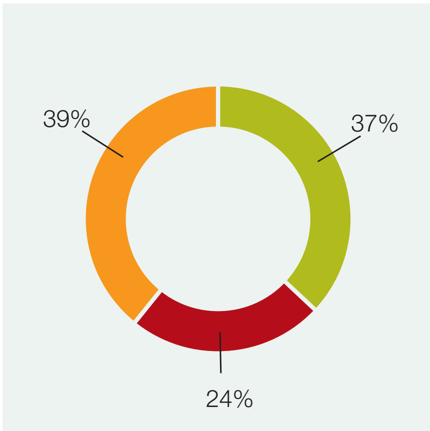


- Base salary
- Performance-related annual bonus
- Performance-related long-term incentives (expected value)

Proposed remuneration for Chief Executive



Proposed remuneration for Finance Director



Base salary

As a consequence of the triennial review, the Committee's policy is to set the base salaries of the Executive Directors so as to ensure that total target remuneration is competitive.

A new comparator group has been adopted which comprises the companies within the FTSE 51 to 130 that are in the proprietary database of the Committee's advisors and covers a range of roles at and below board level. This is a group of approximately 30 companies of broadly similar size and scope to Serco in terms of turnover, growth profile and market capitalisation. The new comparator group gives access to a more robust and stable data set and will be used by Serco to benchmark other roles below executive level across the Group.

Base salaries are normally reviewed annually. The Committee takes note of relative pay and employment conditions within the comparator group and the Company when determining salaries.

With effect from 1 September 2008, the base salaries for Christopher Hyman and Andrew Jenner were increased to £645,000 and £380,000, increases of 15% and 10% respectively. These increases were determined with consideration to the following:

- Serco's strong performance in 2008;
- Serco's steady growth and performance over the past three years;
- The market position of these new salaries, which is below median against the new comparator group; and
- The overall impact on total target remuneration which, subject to shareholders' approval of the new long-term plans, will be above median only if Executive Directors defer half their earned bonus.

Annual bonus

Bonus is earned only on the basis of achievement of a mix of financial and non-financial objectives which are weighted 80% and 20% respectively.

Financial measures are based on the Serco Group results and the non-financial measures are team-based. The three financial measures for 2008 were based on turnover, adjusted profit before tax and amortisation, and cash conversion. These measures reflect the growth and margin improvement strategies of the business. The standards of performance set are designed to be stretching. The non-financial goals set for 2008 assessed performance against a number of strategically important areas.

For 2008, the maximum annual bonus award was 100% of salary. On the basis of Serco's performance in 2008, annual awards of 82% of salary have been determined. The Executive Directors delivered an excellent financial performance that exceeded target. Serco's financial performance for the year is described in more detail in the Business Review starting on page 12. The Executive Directors also delivered in full against a number of strategic objectives in the areas of leadership development, new business wins and investor relations.

Annual bonuses are not pensionable.

Changes to annual bonus for 2009

Following the triennial review, annual bonus potential will be increased from 100% to 150% of base salary for the Chief Executive and to 130% of base salary for the Finance Director. Payments for target performance will also increase to 75% and 65% of base salary respectively. The level of difficulty and the standard of performance required to achieve target performance will also increase. The mix of measures will remain as described above. The measure of profit will be profit before tax, adjusted for exceptional items where appropriate. Beyond this, the bonus plan will not change.

The change to annual bonus is designed to increase the emphasis on performance and to balance reward for short term and longer term performance in combination with the proposed new Deferred Bonus Plan (see below). The increase to annual bonus, linked to challenging annual performance measures, places greater emphasis and focus on short-term operational performance which is key to delivering Serco's longer term performance.

Share-based remuneration

Long-term share incentives are awarded to Executive Directors under the Serco Group plc 2006 Long Term Incentive Plan (LTIP) and the Serco Group plc 2005 Executive Option Plan (EOP). All grants and awards are made pursuant to the rules of the applicable plans and in accordance with the Model Code and policies in relation to the treatment of the leavers have been adopted. The measurement of the performance targets is undertaken by Mercer for the 2006 Long Term Incentive Plan, and audited by Deloitte LLP in relation the 2005 Executive Option Plan. The conditions relating to the plans are detailed below.

Long Term Incentive Plan

The LTIP awards granted to Executive Directors are calculated at 100% of salary at the time of grant. The vesting of awards depends on the Group's Total Shareholder Return (TSR) measured relative to the top 250 companies in the FTSE, as ranked by market capitalisation, excluding those in certain sectors such as oil and gas and financial services.

The Committee has discretion to vary the proportion of awards that vest if it considers that the TSR performance measure does not appropriately reflect the underlying financial performance of the Group.

For awards that completed their performance period on 31 December 2008, the Group's TSR performance relative to its comparator group was in the top decile, and therefore 200% of the awards will vest.

No awards were made under this plan in 2008.

There is no re-testing under the LTIP.

Executive Option Plan

Options granted under the EOP may be exercised after the third anniversary of grant, depending upon the achievement of a financial performance target over three years. The options are granted at market value and awards made to Executive Directors are based on 100% of salary as at the 31 December prior to grant.

For awards granted in 2008, achievement of the performance is measured by reference to the Group's Earnings Per Share (EPS) performance relative to the Retail Price Index (RPI) over the three-year performance period.

The vesting of the grants is based on the following schedule:

- If the level of EPS growth is less than RPI + 5% per annum, none of the options may be exercised
- If the level of EPS growth is equal to RPI + 5% per annum, 40% of the options may be exercised
- If the level of EPS growth is equal to RPI + 10% per annum, all of the options may be exercised

- For an EPS growth of between RPI + 5% and RPI + 10% per annum, a proportion of the options between 40% and 100% may be exercised.

For option grants which completed their performance period on 31 December 2008, the Group's EPS growth was 18.13% per annum over the three-year performance period which resulted in all options vesting. The level at which maximum vesting would occur was 13.13% per annum.

The Committee considers that TSR and EPS are the key performance indicators for Serco and are most relevant for measuring relative shareholder value created and the Group's underlying financial performance respectively.

Relative TSR measures share price growth and dividend performance against a broad range of FTSE companies, and provides alignment between the interests of shareholders and Executive Directors. EPS is a key operational measure for Serco, and focuses Executive Directors on sustainable, profitable growth.

Changes to share-based remuneration from 2009

No further awards will be made to Executive Directors under the Serco Group plc 2005 Executive Option Plan or the Serco Group plc 2006 Long Term Incentive Plan provided shareholders approve the proposed new share plans.

Two new plans will, subject to shareholder approval, replace the current long-term share plans. Under the Deferred Bonus Plan, Executive Directors will be invited to defer up to half of any bonus earned. To encourage investment, Executive Directors will normally be eligible for an award of 'matching' shares at the end of a three-year period, only if they are still in employment with Serco and two performance measures have been met. The two measures are independent and each determines the vesting of half of the matching shares. The measures are TSR measured against the companies in the FTSE 51 to 130 (excluding investment trusts) and EPS growth. The structure for vesting is the same for both measures. An award of matching shares of one half of the gross value of the bonus deferred will vest for median or threshold performance and matching shares with a value of two times the gross value of the deferred bonus vest for upper quartile or superior performance at the top end of the range. The EPS performance range for 2009-2011 is shown in the Notice of Annual General Meeting and has been set on the basis of Serco's business plan and the expectations of brokers and shareholders. The definition of EPS is basic EPS excluding acquisitions and before amortisation of non acquired intangibles.

The Serco Group plc 2006 Long Term Incentive Plan (LTIP) will, subject to shareholder approval, be replaced by a new Performance Share Plan. Annual awards under the plan will normally have a face value on grant of 200% of base salary for the Chief Executive and 175% of base salary for the Finance Director. The normal limit on annual awards for Executive Directors will be subject to a cap of 200% of salary. The shares will normally only vest at the end of a three-year period if the Executive Directors are still in employment with Serco and two performance measures have been met. The two measures are independent. The measures are TSR measured against the companies in the FTSE 51 to 130 (excluding investment trusts) and EPS growth. Relative TSR performance determines the vesting of 70% of the shares and EPS the remainder. The structure for vesting is the same for both measures. The shares will vest in full only if Serco's performance is upper quartile or, in the case of EPS, superior and at the top end of the range. Median or threshold performance will trigger the vesting of 25% of the award.

Dividends will be reinvested and distributed only in respect of shares that vest under both plans at the end of the performance period.

The Remuneration Committee decided that the case for relative TSR and EPS as the performance measures for long-term share-based plans remains strong.

Relative TSR and EPS growth carry equal weight in respect of the matching shares awarded under the Deferred Bonus Plan. This is to ensure a balance of internal and external measures and hence sufficient 'line-of-sight' to encourage investment in the plan. In the case of the LTIP, greater weight has been placed on relative TSR to underscore the importance of longer term alignment with shareholders' interests.

As now, the Committee will have discretion to vary the proportion of awards that vest under both the Performance Share Plan and the Deferred Bonus Plan, to ensure that the outcomes are fair, and appropriately reflect the underlying financial performance of the Group.

The provisions of the rules of both plans in respect of 'good' leavers and in the event of a change of control are detailed in the Notice of Annual General Meeting but, in short, time pro rating (where the performance period is truncated) and performance will normally apply.

The changes will mean that total target remuneration is between median and upper quartile if Executive Directors invest in the Deferred Bonus Plan and at median if they do not, which the Remuneration Committee believes is reasonable.

Sharesave Scheme

The Group operates a Sharesave Scheme. No performance conditions are attached to options granted under the Scheme as it is an all-employee scheme. Options granted to Scheme participants are normally set at a discount of 10% to the market value of shares at grant. None of the Directors participate in the Sharesave Scheme. Options were granted in July 2008 under the Sharesave Scheme to 8,123 participants.

Share ownership policy

In light of the proposed changes to the Executive Directors' remuneration, the share ownership requirement for the Chief Executive has been increased from one to two times base salary. The requirement for the Finance Director remains one times base salary. Executive Directors will be required to retain in shares 50% of the net value of any performance shares or options exercised until they have satisfied the shareholding requirement.

At the end of the year, by reference to the share price at that date (450.50p), Executive Directors' share ownership levels were as follows:

	Ordinary shareholding at 31 December 2008	Ordinary shareholding as a % of salary
Chief Executive	166,440	116%
Finance Director	104,874	124%

Pensions, life assurance and other benefits

Serco operates both defined benefit and defined contribution pension schemes. The Executive Directors participate in the Serco Pension and Life Assurance Scheme (SPLAS). This is a funded, defined benefit scheme, which provides for a target pension of two-thirds of pensionable salary following a full career. Members contribute to the scheme at rates varying according to the section of the scheme.

Christopher Hyman and Andrew Jenner contributed to the scheme at a rate of 9.5% of pensionable salary in 2008.

From 1 January 2007 Serco also introduced SMART whereby all members were given the option to have their pension contributions paid by salary sacrifice. Under this arrangement the member makes no normal pension contributions, Serco makes additional contributions to SPLAS equal to those that the member would otherwise have made and the member's contractual pay is reduced by the amount of these contributions. Both Christopher Hyman and Andrew Jenner opted to have their contributions paid by SMART.

Kevin Beeston's pension benefits accrued prior to 6 April 2006 exceeded the new Lifetime Allowance, which came into force at that date, and he opted to cease paying contributions and accruing benefits in the pension scheme after 6 April 2006.

Kevin Beeston remains entitled to lump sum and widow's pension benefits should he die before retirement and while still employed by or an officer of Serco.

The Chairman and Executive Directors receive a range of other benefits which include a car, private medical insurance, permanent health insurance, life cover, an annual allowance for independent financial advice and voluntary health checks every two years. The Executive Directors are also entitled to 25 days' holiday per year.

Service contracts and compensation

Each Executive Director has a rolling service contract and these contracts will be available for inspection prior to the start of and after the Company's Annual General Meeting. The service contracts have a notice period of 12 months.

Under the service contracts for the Executive Directors, the Company reserves the right to make a payment in lieu of notice. In addition, where a Director leaves the Company following a change of control, whether or not he is dismissed or he elects to leave on notice, he will be entitled to receive a payment equivalent of up to one year's remuneration. The service contracts do not provide for termination payments to be made in any other circumstances.

Service contracts have been reviewed and are being amended with the agreement of the Executive Directors, to ensure they appropriately reflect best practice. There have been no payments made during the year in relation to compensation for loss of office.

A summary of details relating to each Director who served during the year is provided below:

Name of Director	Date joined Company	Date of Appointment to the Board	Date of Contract	Unexpired term at 31 December 2008
Christopher Hyman	30 August 1994	1 April 1999	21 July 2003	Rolling contract of 12 months notice period
Andrew Jenner	4 November 1996	3 May 2002	21 July 2003	Rolling contract of 12 months notice period
Grant Rumbles (1)	3 July 1982	3 July 2007	3 July 2007	N/A

(1) Grant Rumbles ceased being a Director with effect from 25 March 2008 and subsequently left Serco employment on 16 May 2008. His termination payment was in accordance with his contractual entitlement and is reported on page 71.

External appointments

The Board believes that the Group can benefit from its Executive Directors holding appropriate non-executive directorships of companies or independent bodies. Such appointments are subject to the approval of the Board. Fees are retained by the Executive Director concerned.

Christopher Hyman was a non-executive director in United Business Media plc until his resignation in May 2008. Fees payable in the year were £20,308.

Andrew Jenner was appointed non-executive director of GallifordTry plc on 1 January 2009. Fees due in 2009 are £38,800.

No other fee-paying external positions were held by any of the Executive Directors.

The Chairman and Non-Executive Directors

The Group's policy is that the fees of the Chairman and the Non-Executive Directors, which are determined by the Board, are set at a level which will attract individuals with the necessary experience and ability to make a substantial contribution to the Group's affairs.

Non-Executive Directors of the Group are initially appointed for a three-year term, and that appointment may be terminated on three months' written notice. The renewal of appointments is not automatic, and Non-Executive Directors are required to retire and stand for re-election in accordance with the Company's Articles of Association, and the Combined Code on Corporate Governance.

As at 31 December 2008, the Non-Executive Directors of the Group had no personal financial interest in the matters determined by the Board, there are no conflicts of interest arising from cross-directorships and no involvement in the day-to-day running of the Group. The Non-Executive Directors do not participate in the Group's incentive or pension schemes, or receive other benefits except as described.

Current Fee Structure

Non-Executive Directors' remuneration consists of cash fees paid monthly with increments for positions of additional responsibility. In addition, reasonable travel and related business expenses are paid. No bonuses are paid to Non-Executive Directors. The Board believe that payment of fees on a cash-only basis remains appropriate as opposed to the partial payment of fees in shares.

Non-Executive Directors are encouraged to hold shares in the Group but are not subject to a shareholding requirement. Non-Executive Directors' fees are not performance related.

The fees and terms of engagement of Non-Executive Directors are reviewed on an annual basis, taking into consideration market practice and approved by the Board.

The standard annual fees payable for the Chairman and Non-Executive Directors during the financial year under review are shown in the table below. The Chairman's fee was increased with effect from 1 September 2008 in light of his current responsibilities, the time commitment to Serco and competitive market practice.

	1 January 2008 to 31 August 2008 £	From 1 September 2008 to date £
Chairman(1)	200,000	230,000

	1 January 2008 to date £
Board member	45,000
Committee Chairmanship	10,000
Senior Independent Director	10,000

(1) The Chairman receives a range of other benefits which include a car, private medical insurance, permanent health insurance, life cover, an annual allowance for independent financial advice, and voluntary health checks every two years.

A summary of details relating to each Non-Executive Director who served during the year is provided below:

	Date of Appointment to the Board	Date of Letter of Appointment	Unexpired term at 31 December 2008
Chairman:			
Kevin Beeston	29 February 1996	1 September 2007	20 months
Non-Executive Directors(1):			
Margaret Ford	8 October 2003	7 October 2003	9 months
Leonard V. Broese van Groenou	3 April 2006	20 February 2006	3 months
David Richardson	2 June 2003	29 May 2003	5 months
Tom Corcoran	3 December 2007	3 December 2007	23 months

(1) Non-Executive Directors have a three-month notice period and no compensation or other benefits are payable on early termination.

Directors' remuneration

This section has been audited by Deloitte LLP.

The remuneration of the Directors for the year was as follows:

	Note	Remuneration £	Fees £	Bonus £	Termination arrangements £	Total estimated value of any non cash benefits £	Total remuneration excluding pensions 2008 £	Total remuneration excluding pensions 2007 £
Kevin Beeston	2	210,000	Nil	Nil	N/A	62,797	272,797	905,451
Christopher Hyman	1,2	588,333	Nil	528,900	N/A	62,872	1,180,105	1,093,740
Andrew Jenner	1,2	356,666	Nil	311,600	N/A	63,186	731,452	697,002
Grant Rumbles	1,2	117,197	Nil	80,000	706,600	26,193	929,990	348,511
Leonard V. Broese van Groenou		Nil	55,000	Nil	N/A	Nil	55,000	45,000
Margaret Ford		Nil	55,000	Nil	N/A	Nil	55,000	53,333
David Richardson		Nil	55,000	Nil	N/A	Nil	55,000	53,333
Tom Corcoran		Nil	45,000	Nil	N/A	Nil	45,000	3,750
Total		1,272,196	210,000	920,500	706,600	215,048	3,324,344	3,200,120

Notes:

1. The bonuses shown include performance bonuses earned in the period under review, but not paid in the financial year.
2. The value of the non cash benefits relates to the provision of a car allowance (now fully inclusive of all scheme costs including insurance and maintenance) and private healthcare.
3. Grant Rumbles ceased being a Director with effect from 25 March 2008 and subsequently left Serco employment on 16 May 2008. The payment to him detailed under Termination arrangements consisted only of amounts in lieu of notice (basic salary and all benefits).
4. Remuneration is shown gross of salary sacrificed under the SMART scheme. See page 68.

Directors' shareholdings

The Directors' interests in the shares of the Company are detailed in the following table.

	Note 1, 2	Ordinary shares of 2p each fully paid at 1 January 2008	Ordinary shares of 2p each fully paid at 31 December 2008
Kevin Beeston		138,218	100,000
Leonard V. Broese van Groenou		3,375	5,375
Margaret Ford		11,686	14,481
Christopher Hyman	3	156,457	166,440
Andrew Jenner	3	97,062	104,874
David Richardson		10,000	15,000
Tom Corcoran		Nil	4,000

Notes:

1. As at 9 March 2009 the shareholdings of those Directors in office have not changed.
2. Ordinary shares are beneficial holdings which include the Directors' personal holdings and those of their spouses and minor children.
3. 17,749 of Christopher Hyman's and 10,649 of Andrew Jenner's shares are held in trust on their behalf under the terms of their participation in the 2003 Deferred Bonus Scheme. Provided such shares remain in trust for three years and subject to certain performance conditions, they are also granted an award over an equivalent number of shares.

Share-based incentives

This section has been audited by Deloitte LLP.

The total share options granted to each person who has served as a Director of the Company at any time in the financial year were as follows:

(i) Serco Group plc 2003 Deferred Bonus Scheme (DBS)

Conditional rights to receive matching shares over Serco Group plc's ordinary shares under the DBS held by Directors at 31 December 2008 were as follows:

	Awards held at 1 January 2008	Market price at grant (pence)	Vested during the period	Market price on vesting (pence)	Awards held at 31 December 2008	Performance period	Earliest vesting date
Christopher Hyman	10,030	242	10,030	443	-	1 Jan 2005 – 31 Dec 2007	9 Mar 2008
	17,749	334	-	-	17,749	1 Jan 2006 – 31 Dec 2008	22 Mar 2009
Andrew Jenner	6,018	242	6,018	443	-	1 Jan 2005 – 31 Dec 2007	9 Mar 2008
	10,649	334	-	-	10,649	1 Jan 2006 – 31 Dec 2008	22 Mar 2009

Notes:
1. The DBS has now been closed and no further awards will be made under its terms.
2. The awards shown in the table are the maximum number of shares that can vest under the performance conditions.
3. The performance condition for matching shares is TSR relative to the companies comprising the FTSE 350 and is measured over the three year deferral period.
4. On 31 December 2008 the performance conditions attached to the awards made on 22 March 2006 were satisfied though the awards may not be exercised until 22 March 2009. TSR performance relative to the comparator group was in the upper quartile (93rd percentile). A one for one match of shares deferred will be made in March 2009.

(ii) Serco Group plc 2006 Long Term Incentive Plan (LTIP)

The conditional rights to Serco Group plc ordinary shares under the LTIP held by Directors at 31 December 2008 were as follows:

	Awards held at 1 January 2008	Market price on grant (pence)	Awards held at 31 December 2008 or date of cessation if earlier	Performance period	Earliest vesting date	Latest exercise date
Kevin Beeston	147,928	349	147,928	1 Jan 2006 – 31 Dec 2008	5 May 2009	4 May 2016
	145,205	373	145,205	1 Jan 2007 – 31 Dec 2009	31 Dec 2009	28 Nov 2016
Christopher Hyman	147,928	349	147,928	1 Jan 2006 – 31 Dec 2008	5 May 2009	4 May 2016
	145,205	373	145,205	1 Jan 2007 – 31 Dec 2009	31 Dec 2009	28 Nov 2016
	122,874	456	122,874	1 Jan 2008 – 31 Dec 2010	31 Dec 2010	11 Nov 2017
Andrew Jenner	88,757	349	88,757	1 Jan 2006 – 31 Dec 2008	5 May 2009	4 May 2016
	89,589	373	89,589	1 Jan 2007 – 31 Dec 2009	31 Dec 2009	28 Nov 2016
	75,699	456	75,699	1 Jan 2008 – 31 Dec 2010	31 Dec 2010	11 Nov 2017
Grant Rumbles	43,550	349	43,550	1 Jan 2006 – 31 Dec 2008	5 May 2009	30 Sep 2009
	33,892	510	33,892	1 Jan 2007 – 31 Dec 2009	8 May 2010	30 Sep 2009
	70,213	456	70,213	1 Jan 2008 – 31 Dec 2010	31 Dec 2010	30 Sep 2009

Notes:
1. Awards take the form of nominal cost options.
2. Awards made are calculated at 100% of salary at the time of grant.
3. The TSR performance condition is measured relative to the top 250 companies in the FTSE, as ranked by market capitalisation, excluding those in certain sectors which are not comparable with the Group.
4. No awards were granted, lapsed or exercised during the period.
5. Grant Rumbles ceased being a Director with effect from 25 March 2008 and subsequently left Serco employment on 16 May 2008. All awards held by Grant Rumbles, with the exception of that made on 12 November 2007, were granted prior to him being appointed Executive Director. An award made on 8 May 2007 relates to the three year performance period commencing 1 January 2007. Awards that expire prior to the completion of the performance period will be pro-rated.
6. On 31 December 2008 the performance conditions attached to the awards made on 5 May 2006 were satisfied though the awards may not be exercised until 5 May 2009. Top decile performance was achieved resulting in 200% of the award vesting.
7. Awards held by Kevin Beeston relate to his tenure as an Executive Director prior to September 2007.

(iii) Serco Group plc Long Term Incentive Scheme (LTIS)

The LTIS has been superseded by the LTIP. The last award to Executive Directors under the LTIS was made in June 2005.

	Awards held at 1 January 2008	Market price on grant (pence)	Market price on vesting (pence)	Awards held at 31 December 2008 or date of cessation if earlier	Performance period	Earliest vesting date	Date of expiry of awards
Kevin Beeston	38,736	426	153	-	1 Jan 2000 – 31 Dec 2002	31 Dec 2002	4 Apr 2010
	50,797*	490	172	-	1 Jan 2001 – 31 Dec 2003	31 Dec 2003	23 Nov 2010
	40,898*	465	240	-	1 Jan 2002 – 31 Dec 2004	31 Dec 2004	15 Nov 2011
	103,467*	153	314	103,467	1 Jan 2003 – 31 Dec 2005	31 Dec 2005	5 May 2013
	173,142*	175	382	-	1 Jan 2004 – 31 Dec 2006	31 Dec 2006	26 Nov 2013
	119,411	231	462	119,411	1 Jan 2005 – 31 Dec 2007	31 Dec 2007	21 Dec 2014
Christopher Hyman	32,868	426	153	32,868	1 Jan 2000 – 31 Dec 2002	31 Dec 2002	4 Apr 2010
	43,540*	490	172	43,540	1 Jan 2001 – 31 Dec 2003	31 Dec 2003	23 Nov 2010
	35,056*	465	240	35,056	1 Jan 2002 – 31 Dec 2004	31 Dec 2004	15 Nov 2011
	103,467*	153	314	103,467	1 Jan 2003 – 31 Dec 2005	31 Dec 2005	5 May 2013
	173,142*	175	382	173,142	1 Jan 2004 – 31 Dec 2006	31 Dec 2006	26 Nov 2013
	119,411	231	462	119,411	1 Jan 2005 – 31 Dec 2007	31 Dec 2007	21 Dec 2014
Andrew Jenner	62,081*	153	314	62,081	1 Jan 2003 – 31 Dec 2005	31 Dec 2005	5 May 2013
	105,138*	175	382	105,138	1 Jan 2004 – 31 Dec 2006	31 Dec 2006	26 Nov 2013
	76,101	231	462	76,101	1 Jan 2005 – 31 Dec 2007	31 Dec 2007	21 Dec 2014
Grant Rumbles	45,454	231	462	45,454	1 Jan 2005 – 31 Dec 2007	31 Dec 2007	30 Mar 2010

Notes:

1. The awards shown in the table have all vested.
2. For awards made in relation to performance periods commencing up to and including 1 January 2002 the extent to which an award will vest is measured by reference to the absolute growth in the Group's EPS over the performance period of three financial years. For awards granted on or after 1 January 2003, achievement of the performance is measured by reference to the Group's TSR performance relative to the companies comprising the FTSE 350 at the start of the performance period.
3. No awards were granted or lapsed during the year.
4. For those awards marked with an (*) approximately 14.67% (13.50% for prior year grants) of the options granted under the LTIS represent supplementary awards, granted for the sole purpose of compensating participants for agreeing to bear the Company's liability to employers' National Insurance Contributions upon the exercise of the underlying LTIS awards. These awards can only be exercised in conjunction with and to the extent of the underlying award.
5. Awards take the form of nominal cost options.
6. Awards made are calculated at 100% of salary at the time of grant.
7. Grant Rumbles ceased being a Director with effect from 25 March 2008 and subsequently left Serco employment on 16 May 2008. Awards that expire prior to the completion of the performance period will be pro-rated.
8. Awards held by Kevin Beeston relate to his tenure as an Executive Director prior to September 2007.

(iv) Serco Group plc 1998 and 2005 Executive Option Plan (EOP)

Options over Serco Group plc ordinary shares granted under the 1998 Executive Option Plan and the 2005 Executive Option Plan and held by Directors at 1 January 2008 and 31 December 2008 were as follows:

	Awards held at 1 January 2008	Granted during period	Exercised during period	Awards held at 31 December 2008 or date of cessation if earlier	Market price on exercise date (pence)	Exercise price (pence)	Date from which exercisable	Date of expiry of options
Kevin Beeston	68,922	-	68,922	-	451	218	21 May 2001	20 May 2008
	76,734	-	76,734	-	424	245	1 Apr 2002	31 Mar 2009
	58,764	-	-	58,764	-	426	5 Apr 2003	4 Apr 2010
	91,321*	-	-	91,321	-	435	28 Mar 2004	27 Mar 2011
	135,768*	-	-	135,768	-	264	3 May 2005	2 May 2012
	289,515*	-	-	289,515	-	153	6 May 2006	5 May 2013
	219,320*	-	-	219,320	-	217	3 Mar 2007	2 Mar 2014
	183,404	-	-	183,404	-	235	29 Apr 2008	28 Apr 2015
	147,492	-	-	147,492	-	339	5 May 2009	4 May 2016
	120,798	-	-	120,798	-	439	19 Mar 2010	18 Mar 2017
Christopher Hyman	39,078	-	39,078	-	450	218	21 May 2001	20 May 2008
	40,812	-	-	40,812	-	245	1 Apr 2002	31 Mar 2009
	49,830	-	-	49,830	-	426	5 Apr 2003	4 Apr 2010
	78,275*	-	-	78,275	-	435	28 Mar 2004	27 Mar 2011
	116,373*	-	-	116,373	-	264	3 May 2005	2 May 2012
	289,515*	-	-	289,515	-	153	6 May 2006	5 May 2013
	219,320*	-	-	219,320	-	217	3 Mar 2007	2 Mar 2014
	183,404	-	-	183,404	-	235	29 Apr 2008	28 Apr 2015
	147,492	-	-	147,492	-	339	5 May 2009	4 May 2016
	120,798	-	-	120,798	-	439	19 Mar 2010	18 Mar 2017
	-	123,076	-	123,076	-	455	27 Feb 2011	26 Feb 2018
Andrew Jenner	7,422	-	7,422	-	414	245	1 Apr 2002	31 Mar 2009
	12,336	-	-	12,336	-	426	5 Apr 2003	4 Apr 2010
	18,524*	-	-	18,524	-	435	28 Mar 2004	27 Mar 2011
	69,824*	-	-	69,824	-	264	3 May 2005	2 May 2012
	173,709*	-	-	173,709	-	153	6 May 2006	5 May 2013
	133,178*	-	-	133,178	-	217	3 Mar 2007	2 Mar 2014
	116,885	-	-	116,885	-	235	29 Apr 2008	28 Apr 2015
	88,495	-	-	88,495	-	339	5 May 2009	4 May 2016
	74,530	-	-	74,530	-	439	19 Mar 2010	18 Mar 2017
	-	75,824	-	75,824	-	455	27 Feb 2011	26 Feb 2018

(iv) Serco Group plc 1998 and 2005 Executive Option Plan (EOP) (continued)

	Awards held at 1 January 2008	Granted during period	Exercised during period	Awards held at 31 December 2008 or date of cessation if earlier	Market price on exercise date (pence)	Exercise price (pence)	Date from which exercisable	Date of expiry of options
Grant Rumbles	4,002	-	-	4,002	-	218	21 May 2001	20 May 2008
	12,336	-	-	12,336	-	245	1 Apr 2002	31 Mar 2009
	9,954	-	-	9,954	-	426	5 Apr 2003	30 Sep 2009
	13,113	-	-	13,113	-	408	20 Mar 2004	30 Sep 2009
	26,099*	-	-	26,099	-	264	3 May 2005	30 Sep 2009
	12,453*	-	-	12,453	-	165	6 Sep 2005	30 Sep 2009
	52,639*	-	-	52,639	-	153	6 May 2006	30 Sep 2009
	58,387	-	-	58,387	-	214	30 Apr 2007	30 Sep 2009
	89,361	-	-	89,361	-	235	29 Apr 2008	30 Sep 2009
	67,846	-	-	67,846	-	339	5 May 2009	4 Nov 2009
	61,538	-	-	61,538	-	439	19 Mar 2010	18 Sep 2010
	-	70,329	-	70,329	-	455	27 Feb 2011	26 Aug 2011

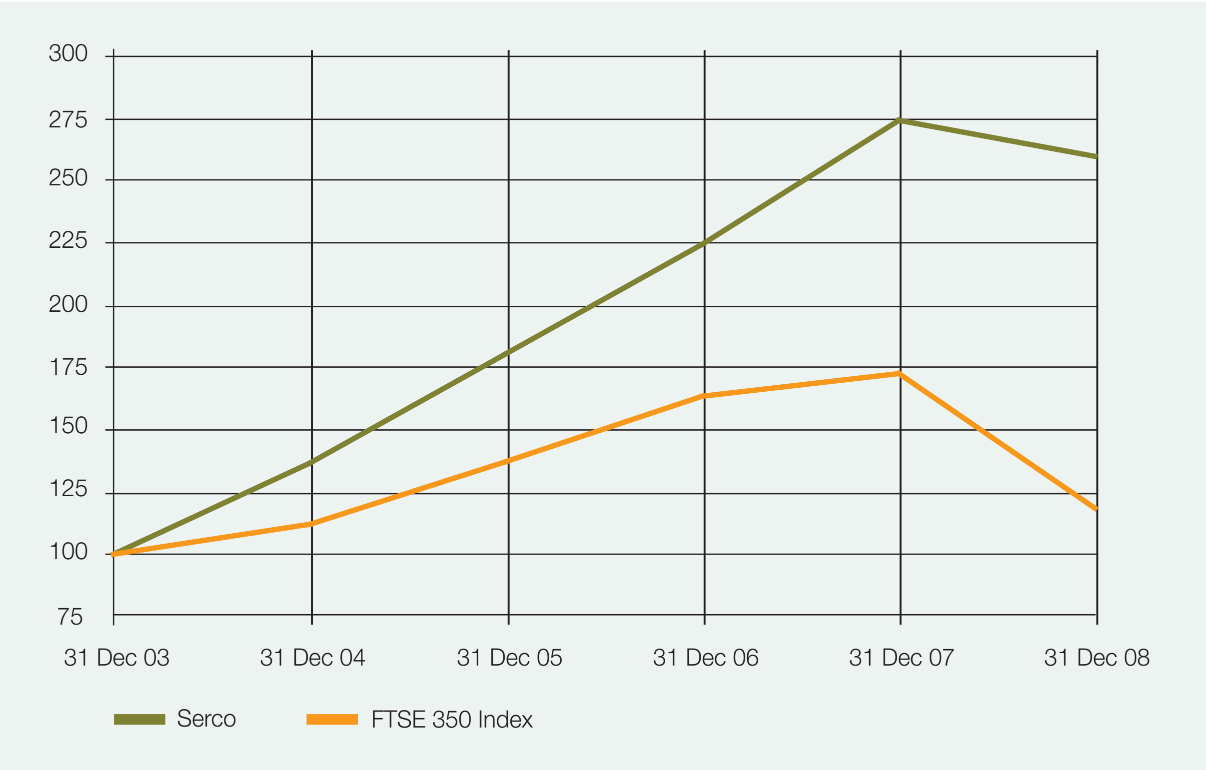
Notes:

1. The awards shown in the table are the maximum number of shares that can vest under the performance conditions.
2. The performance conditions attached to the awards are described on pages 66 and 67.
3. For those options marked with an (*) approximately 14.67% (13.50% for prior year grants) of the options granted under the Plan represent supplementary options, granted for the sole purpose of compensating participants for agreeing to bear the Company's liability to employers' National Insurance Contributions upon the exercise of the underlying Plan awards. These options can only be exercised in conjunction with and to the extent of the underlying option.
4. No payment was made for the grant of the awards.
5. Grants of options under the Executive Option Plans are calculated at 100% of salary at the time of grant.
6. The market price of the Company's ordinary shares at the close of business on 31 December 2008 was 450.50p and the range during the year to 31 December 2008 was 326.00p to 472.00p.
7. Grant Rumbles ceased being a Director with effect from 25 March 2008 and subsequently left Serco employment on 16 May 2008. All awards held by Grant Rumbles were granted prior to him being appointed Executive Director. Awards that expire prior to the completion of the performance period will be pro-rated.
8. Awards during the year were made on 28 February 2008.
9. Awards held by Kevin Beeston relate to his tenure as an Executive Director prior to September 2007.

Comparison of total shareholder returns

Serco Group plc Total Shareholder Return (TSR) vs FTSE 350 Total Return Index

Value of investment of £100 on 31 December 2003



In drawing this graph, it has been assumed that all dividends paid have been reinvested. The TSR level shown at 31 December each year is the average of the closing daily TSR levels for the 30-day period up to and including that date. The Company's TSR is compared to that of the FTSE 350 Index, which is a broad equity market index of which it is a constituent.

As detailed earlier, TSR is defined as the return shareholders would receive if they held a notional number of shares, and received dividends on those shares over a period of time. It measures the percentage growth in the Company's share price together with the value of any dividends paid, assuming that the dividends are reinvested into the Company's shares.

Pensions and life assurance

This section has been audited by Deloitte LLP.

The Directors receive pension and life assurance benefits consistent with those provided by other leading companies.

The details of the defined benefit schemes operated by the Group are set out in the note on page 118. In the event of death in service, the Serco Supplementary Death Benefit Scheme provides for a lump sum payment.

The accrued pension benefits of all Directors under the Serco Pension and Life Assurance Scheme, which is a defined benefit scheme, are as follows:

	Transfer value of accrued benefits at 31 December 2008 (1) £	Transfer value of accrued benefits at 31 December 2007 (2) £	Director's contributions for the year (3) £	Increase in transfer value during the year (4) = (1)-(2)-(3) £	Gross increase in accrued pension during the year (5) £	Increase in accrued pension during the year, net of inflation (6) £	Value of increase in accrual over the year (7) £	Total accrued pension at year end (8) £
Kevin Beeston	3,591,340	2,921,990	-	669,350	6,580	-	-	278,686
Christopher Hyman	1,275,901	776,483	-	499,418	21,150	19,686	307,455	81,694
Andrew Jenner	628,494	363,309	-	265,185	12,773	11,989	166,652	45,213
Grant Rumbles	2,720,190	2,164,769	-	555,421	6,949	3,566	66,071	146,833

Notes:

(a) The total accrued pension shown is that which would be paid annually on retirement, based on pensionable service to the end of this year, or for Kevin Beeston and Grant Rumbles, to 5 April 2006 when they opted out of the scheme. The increase in accrued pension during the year is shown both as a gross increase and excluding any increase in respect of inflation.

(b) The pension which Kevin Beeston had accrued up to 5 April 2006 is increased in line with his pensionable remuneration (averaged over three years) since 5 April 2006. The increase in his accrued pension over the year to 31 December 2008 is entirely due to inflation.

(c) Grant Rumbles ceased being a Director with effect from 25 March 2008 and subsequently left Serco employment on 16 May 2008. The pensions note covers accrual over the period to leaving employment. The pension which Grant Rumbles had accrued up to 5 April 2006 was increased in line with his pensionable remuneration (averaged over three years) from 5 April 2006 to 16 May 2008 when he left service.

(d) The increase in the accrued pensions of Christopher Hyman and Andrew Jenner allow for both the increase in their pensionable salaries over the year and for the accrual of a further year's pensionable service as a result of a further year's active membership of the Scheme.

(e) Transfer values have been calculated in accordance with the amended transfer value regulations which apply after 1 October 2008. The assumptions to be used for calculating transfer values after this date were agreed by the Trustees and the methodology for setting these assumptions has remained the same as for last year's calculations. The difference between the transfer values at the beginning and end of the year, shown in (4), includes not only the effect of the increase in accrual and salaries, but also the effect of fluctuations in the transfer value due to factors beyond the control of the Company and the Directors, such as stock market movements.

(f) The value of the net increase in accrual represents the incremental value to the Director of his service during the year, calculated on the assumption that his service terminated at the year end, or 5 April 2006 in the case of Kevin Beeston and Grant Rumbles. It is based on the increase in the accrued pension net of inflation.

(g) Transfer values disclosed do not represent the sum paid or payable to the individual Director. Instead, they represent a potential liability of the pension scheme.

(h) All Directors who are currently active members of the Scheme have opted to have their contributions paid by the Company under a salary sacrifice arrangement and hence no contributions were paid by the Directors during the year.

Share dilution

Awards granted under the Serco Group plc share plans are met either by the issue of new shares or by shares held in trust when awards vest. The Committee monitors the number of shares issued under its various share plans and their impact on dilution limits. The relevant dilution limits established by the Association of British Insurers in respect of all share plans (10% in any rolling ten year period) and discretionary share plans (5% in any rolling ten year period) were, based on the Company's issued share capital at 31 December 2008, 5.13% and 3.83% respectively.

The Group has an employee benefit trust which is administered by an independent trustee and which holds ordinary shares in the Company to meet various obligations under the share plans.

In July 2008 a loan of £9 million was made to the employee benefit trust to ensure sufficient shares were available to meet its ongoing liabilities.

The trust held 4,849,759 and 5,650,253 ordinary shares at 1 January 2008 and 31 December 2008 respectively.

Approved by the Board of Directors and signed on its behalf by:

J Roberts

Joanne Roberts
Secretary
26 February 2009

Independent Auditors' Report

Independent Auditors' Report to the members of Serco Group plc

We have audited the Group Financial Statements of Serco Group plc for the year ended 31 December 2008 which comprise the Consolidated Income Statement, the Consolidated Statement of Recognised Income and Expense, the Consolidated Balance Sheet, the Consolidated Cash Flow Statement and the related notes 1 to 38. These Group Financial Statements have been prepared under the accounting policies set out therein. We have also audited the information in the Remuneration Report that is described as having been audited.

We have reported separately on the parent Company Financial Statements of Serco Group plc for the year ended 31 December 2008.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an Auditors' Report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and Auditors

The Directors' responsibilities for preparing the Annual Review and Accounts, the Remuneration Report and the Group Financial Statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the statement of Directors' Responsibilities.

Our responsibility is to audit the Group Financial Statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the Group Financial Statements give a true and fair view, whether the Group Financial Statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation, and whether the part of the Remuneration Report described as having been audited has been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the Group Financial Statements. The information given in the Directors' Report includes that specific information presented in the Chairman's Statement and the Business Review that is cross referred from the Directors' Report.

In addition we report to you if, in our opinion, we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed.

We review whether the Corporate Governance Report reflects the Company's compliance with the nine provisions of the 2006 Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

Independent Auditors' Report (continued)

We read the other information contained in the Annual Review and Accounts as described in the contents section and consider whether it is consistent with the audited Group Financial Statements. The other information comprises only the Directors' Report, the Chairman's Statement, the unaudited part of the Remuneration Report, the Business Review and the Corporate Governance Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Group Financial Statements. Our responsibilities do not extend to any further information outside the Annual Review and Accounts.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Group Financial Statements and the part of the Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the Group Financial Statements, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Group Financial Statements and the part of the Remuneration Report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the Group Financial Statements and the part of the Remuneration Report to be audited.

Opinion

In our opinion:

- the Group Financial Statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 31 December 2008 and of its profit for the year then ended;
- the Group Financial Statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation;
- the part of the Remuneration Report described as having been audited has been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the Group Financial Statements.

Deloitte LLP

Deloitte LLP
Chartered Accountants and Registered Auditors
London, United Kingdom

26 February 2009

Consolidated Income Statement

For the year ended 31 December 2008

	Note	2008 £m	2007 £m
Continuing operations			
Revenue	4,5	**3,123.5**	2,810.7
Cost of sales		**(2,666.7)**	(2,404.5)
Gross profit		**456.8**	406.2
Administrative expenses		**(291.6)**	(264.2)
Other expenses – amortisation of intangibles arising on acquisition	14	**(9.2)**	(8.6)
Total administrative expenses		**(300.8)**	(272.8)
Operating profit	5,6	**156.0**	133.4
Investment revenue	8	**8.2**	12.2
Finance costs	9	**(28.1)**	(31.0)
Profit before tax		**136.1**	114.6
Tax	10	**(36.5)**	(32.2)
Profit for the year		**99.6**	82.4
Attributable to:			
Equity holders of the parent		**99.5**	81.9
Minority interest		**0.1**	0.5
Earnings per share (EPS)			
Basic EPS	12	**20.49p**	16.98p
Diluted EPS	12	**20.18p**	16.74p

Consolidated Statement of Recognised Income and Expense

For the year ended 31 December 2008

	Note	2008 £m	2007 £m
Net actuarial gain on defined benefit pension schemes	28,32	**8.7**	62.2
Actuarial gain/(loss) on reimbursable rights	28,32	**50.6**	(19.4)
Net exchange gain on translation of foreign operations	32	**54.1**	12.8
Net fair value gain on cash flow hedges during the year	32	**14.2**	9.0
Tax charge on items taken directly to equity	32	**(21.3)**	(11.5)
Recycling of cumulative net hedging reserve on disposal	32	**(0.7)**	-
Net income recognised directly in equity		**105.6**	53.1
Profit for the year		**99.6**	82.4
Total recognised income and expense for the year		**205.2**	135.5
Attributable to:			
Equity holders of the parent		**205.1**	134.9
Minority interest		**0.1**	0.6

Consolidated Balance Sheet

At 31 December 2008

	Note	2008 £m	2007 £m
Non-current assets			
Goodwill	13	**964.7**	542.1
Other intangible assets	14	**191.3**	139.4
Property, plant and equipment	17	**115.4**	95.1
Trade and other receivables	20	**121.1**	104.6
Retirement benefit assets	28	**62.4**	-
Deferred tax assets	23	**19.6**	51.6
Derivative financial instruments	27	**5.6**	1.2
		1,480.1	934.0
Current assets			
Inventories	19	**50.2**	46.3
Trade and other receivables	20	**719.5**	573.6
Cash and cash equivalents	21	**250.8**	185.0
Derivative financial instruments	27	**5.0**	1.5
		1,025.5	806.4
Total assets		**2,505.6**	1,740.4
Current liabilities			
Trade and other payables	25	**(754.7)**	(670.0)
Current tax liabilities		**(19.5)**	(14.8)
Obligations under finance leases	24	**(4.5)**	(7.7)
Loans	22	**(36.8)**	(13.5)
Derivative financial instruments	27	**(4.2)**	(2.1)
		(819.7)	(708.1)
Non-current liabilities			
Trade and other payables	25	**(35.5)**	(13.3)
Obligations under finance leases	24	**(12.7)**	(8.7)
Loans	22	**(710.9)**	(317.4)
Derivative financial instruments	27	**(0.4)**	(11.2)
Retirement benefit obligations	28	**(177.1)**	(142.6)
Provisions	29	**(38.1)**	(18.6)
Deferred tax liabilities	23	**(25.9)**	(22.0)
		(1,000.6)	(533.8)
Total liabilities		**(1,820.3)**	(1,241.9)
Net assets		**685.3**	498.5
Equity			
Share capital	30	**9.7**	9.7
Share premium account	31	**301.1**	299.3
Capital redemption reserve		**0.1**	0.1
Retained earnings	32	**339.8**	260.6
Retirement benefit obligations reserve	32	**(47.7)**	(90.2)
Share-based payment reserve	32	**40.0**	34.6
Own shares reserve	32	**(19.7)**	(15.1)
Hedging and translation reserve	32	**61.9**	(1.8)
Equity attributable to equity holders of the parent		**685.2**	497.2
Minority interest	32	**0.1**	1.3
Total equity		**685.3**	498.5

The Financial Statements were approved by the Board of Directors on 26 February 2009 and signed on its behalf by:

Christopher Hyman
Chief Executive

Andrew Jenner
Finance Director

Consolidated Cash Flow Statement

For the year ended 31 December 2008

	Note	2008 £m	2007 £m
Net cash inflow from operating activities	33	**162.6**	134.1
Investing activities			
Interest received		**7.3**	10.3
Disposal of business undertakings	16	**1.9**	2.5
Proceeds from disposal of intangible assets		**-**	1.7
Proceeds from disposal of property, plant and equipment		**17.5**	2.9
Acquisition of subsidiaries, net of cash acquired	15	**(322.2)**	(9.1)
Purchase of other intangible assets		**(20.4)**	(30.6)
Purchase of property, plant and equipment		**(32.6)**	(26.2)
Net cash outflow from investing activities		**(348.5)**	(48.5)
Financing activities			
Interest paid		**(30.3)**	(34.2)
Dividends paid	11	**(21.6)**	(17.9)
Dividend paid to minority interest		**-**	(1.2)
Repayment of loans		**(78.6)**	(74.6)
Repayment of non recourse loans		**(7.5)**	(8.3)
New loan advances		**397.4**	2.2
Other financing		**(17.0)**	-
Capital element of finance lease repayments		**(8.6)**	(8.4)
Purchase of own shares for employee benefit trust (ESOP)		**(9.2)**	-
Proceeds from issue of share capital and exercise of share options		**5.4**	17.1
Net cash inflow/(outflow) from financing activities		**230.0**	(125.3)
Net increase/(decrease) in cash and cash equivalents		**44.1**	(39.7)
Cash and cash equivalents at beginning of year		**185.0**	217.9
Net exchange gain		**21.7**	6.8
Cash and cash equivalents at end of year	21	**250.8**	185.0

Notes to the Consolidated Financial Statements

1. General information

Serco Group plc (the Group) is a company incorporated in the United Kingdom under the Companies Act 1985. The address of the registered office is Serco House, 16 Bartley Wood Business Park, Bartley Way, Hook, Hampshire, RG27 9UY.

These Consolidated Financial Statements (the financial statements) are presented in pounds Sterling because this is the currency of the primary economic environment in which the Group operates. Foreign operations are included in accordance with the policies set out in note 2.

2. Significant accounting policies

Basis of accounting

The financial statements on pages 81 to 135 have been prepared in accordance with International Financial Reporting Standards (IFRSs) adopted for use in the European Union and therefore the Group financial statements comply with Article 4 of the EU IAS regulation.

The financial statements have been prepared on the historical cost basis. The principal accounting policies adopted are set out below, and have been applied consistently in the current and preceding financial year.

IFRIC 14 'IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction' is effective from 1 January 2008. The Group has considered IFRIC 14 when determining the value of all pension assets and liabilities.

As discussed in more detail in the Finance Review, the financial statements have been prepared on a going concern basis.

Presentation of financial information

The primary statements within the financial information contained in this document have been presented in accordance with IAS 1 'Presentation of Financial Statements'.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company, entities controlled by the Company (its subsidiaries) and entities jointly controlled by the Company (its joint ventures) made up to 31 December each year. Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

The results of subsidiaries and joint ventures acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries and joint ventures to bring accounting policies used into line with those used by the Group.

All intra-Group transactions, balances, income and expenses are eliminated on consolidation.

Minority interests represent the portion of profit or loss and net assets in subsidiaries that is not held by the Group and is presented within equity in the consolidated balance sheet, separately from parent shareholders' equity.

Business combinations

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 'Business Combinations' are recognised at their fair value at the acquisition date.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in the income statement.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised, unless there is an unconditional obligation to purchase the remaining shares and the minority has no right to future dividend flows.

2. Significant accounting policies (continued)

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable net assets and liabilities of a subsidiary, associate or jointly-controlled entity, at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. Goodwill which is recognised as an asset is reviewed for impairment at least annually. Any impairment is recognised immediately in profit or loss and is not subsequently reversed.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary, associate or jointly-controlled entity, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Goodwill arising on acquisitions before the date of transition to IFRS has been retained at the previous UK GAAP amounts subject to being tested for impairment at that date. Goodwill written off to reserves under UK GAAP prior to 1998 has not been reinstated and is not included in determining any subsequent profit or loss on disposal.

Investments in joint ventures

The Group's investments in joint ventures are reported in the financial statements using the proportionate consolidation method, whereby the Group's share of each of the assets, liabilities, income and expenses of its joint ventures is combined line by line with similar items in the Group's financial statements or reported as separate line items within the Group's financial statements.

Revenue recognition

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

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

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

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

Revenue from long-term project-based contracts is recognised in accordance with the Group's accounting policy below.

Long-term project-based contracts

The Group has a number of long-term contracts for the provision of complex, project-based services. Where the outcome of such long-term project-based contracts can be measured reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the balance sheet date in accordance with IAS 18 'Revenue' and IAS 11 'Construction Contracts'. This is measured by the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs, except where this would not be representative of the stage of completion. Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer, or are virtually certain of being received.

Where the outcome of a long-term project-based contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs that it is probable will be recovered. Contract costs are recognised as expenses in the period in which they are incurred.

When it is probable that the total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

All bid costs are expensed through the income statement up to the point where contract award (or full recovery of costs) is virtually certain. Bid costs incurred after this point are then capitalised within trade and other receivables. On contract award these bid costs are amortised through the income statement over the contract period by reference to the stage of completion of the contract activity at the balance sheet date. Phase-in costs directly related to phase-in programmes of contracts are treated as an integral part of contract costs and are recognised on a straight-line basis over the life of the contract.

2. Significant accounting policies (continued)

Segmental information

Segmental information is based on two segment formats: the primary format reflects the Group's management structure, whereas the secondary format is geographically-orientated.

Items excluded from segments comprise corporate expenses. Specific corporate expenses are allocated to the corresponding segments. Segment assets comprise goodwill, other intangible assets, property, plant and equipment, inventories, trade and other receivables (excluding corporation tax recoverable) and retirement benefit assets. Liabilities comprise trade and other payables and retirement benefit obligations.

Inventories

Inventories are stated at the lower of cost and net realisable value and comprise service spares, parts awaiting installation and long-term project-based contract balances. Cost comprises direct materials and, where applicable, direct labour costs that have been incurred in bringing the inventories to their present location and condition.

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are recognised as assets of the Group at fair value or, if lower, at the present value of minimum lease payments determined at the inception of the lease. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income, unless they are directly attributable to a qualifying asset, in which case they are capitalised in accordance with the Group's general policy on borrowing costs (see below).

Total rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease.

Foreign currencies

Transactions in currencies other than pounds Sterling are recorded at the rates of exchange on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary assets and liabilities carried at fair value that are denominated in foreign currencies are translated at the date when the fair value was determined. Gains and losses arising on retranslation are included in the net profit or loss for the period, except for exchange differences arising on non-monetary assets and liabilities where the changes in fair value are recognised directly in equity in the statement of recognised income and expense (SORIE).

On consolidation, the assets and liabilities of the Group's overseas operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are recognised directly within equity in the Group's hedging and translation reserve. Such translation differences are recognised as income or expenses in the period in which the operation is disposed of.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. No such borrowing costs have been capitalised in the year.

All other borrowing costs are recognised as an income or expense in the period in which they are incurred.

Retirement benefit costs

Payments to defined contribution pension schemes are charged as an expense as they fall due.

For defined benefit pension schemes, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at each balance sheet date. Actuarial gains and losses are recognised in full in the period in which they occur. They are recognised outside the income statement and are presented in the SORIE.

The current service cost represents the increase in the present value of the plan liabilities expected to arise from employee service in the current period.

2. Significant accounting policies (continued)

Retirement benefit costs (continued)

Past service cost is recognised immediately to the extent that the benefits are already vested, and is amortised on a straight-line basis over the average period until the benefit becomes vested. Gains and losses on curtailments or settlements are recognised in the period in which the curtailment or settlement occurs.

The retirement benefit obligation recognised in the balance sheet represents the present value of the defined benefit obligation as adjusted for unrecognised past service costs, and as reduced by the fair value of scheme assets. Any asset resulting from this calculation is limited to past service cost, plus the present value of available refunds and reductions in future contributions to the plan.

The economic benefit from refunds is only recognised to the extent that the Group has an unconditional right to receive a refund.

To the extent that an economic benefit is available as a reduction in contributions and there is a minimum funding requirement, the economic benefit available as a reduction in contributions is calculated at the present value of:

a) the estimated future service cost in each year; less

b) the estimated minimum funding contributions required in respect of the future accrual and benefits in that year.

Defined benefit obligations arising from contractual obligations

Where the Group takes on a contract and assumes the obligation to contribute variable amounts to the defined benefit pension scheme throughout the period of the contract and it is not virtually certain that the contributions will be recovered from the customer, the Group's share of the defined benefit obligation less its share of the pension scheme assets that it will fund over the period of the contract is recognised as a liability at the start of the contract with a corresponding amount being recognised as an intangible asset. The intangible asset, which reflects the Group's right to manage and operate the contract, is amortised over the contract period. The Group's share of the scheme assets and liabilities is calculated by reducing the scheme assets and liabilities by a franchise adjustment. The franchise adjustment represents the amount of scheme deficits that will be funded outside the contract period. Subsequent actuarial gains and losses in relation to the Group's share of pension obligations are recognised outside the income statement and are presented in the SORIE.

Where the Group takes on a contract and assumes the obligation to contribute variable amounts to the defined benefit pension scheme throughout the period of the contract and it is virtually certain that the contributions will be recovered from the customer, the Group's share of the defined benefit obligation less its share of the pension scheme assets are recognised as a liability at the start of the contract with a corresponding amount being recognised as a financial asset at fair value, being the fair value of the reimbursable rights. In the consolidated income statement, the expense relating to the defined benefit plan is presented net of the amount recognised for reimbursement. Subsequent actuarial gains and losses in relation to the Group's share of pension obligations are recognised outside the income statement and are presented in the SORIE. The change in fair value of the reimbursable rights that is not presented in the income statement is reported in the SORIE.

Multi-employer pension schemes

Multi-employer pension schemes are classified as a defined contribution pension scheme or a defined benefit pension scheme under the terms of the scheme.

When sufficient information is not available to use defined benefit accounting for a multi-employer defined benefit pension scheme, the Group accounts for the scheme as if it were a defined contribution scheme.

Taxation

The tax expense represents the sum of current tax expense and deferred tax expense.

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

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

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

Deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition of an asset and liability in a transaction other than a business combination and, at the time of the transaction, affects neither the tax profit nor the accounting profit.

2. Significant accounting policies (continued)

Taxation (continued)

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be utilised.

Deferred tax is measured at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based upon tax rates and legislation that have been enacted or substantively enacted at the balance sheet date. Deferred tax is charged or credited in the income statement, except where it relates to items charged or credited directly to equity, in which case the deferred tax is also recognised in equity.

Deferred tax assets and liabilities are offset when there is a legal enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same tax authority where the Group intends to settle its current tax assets and liabilities on a net basis.

Property, plant and equipment

Assets held for use in the rendering of services, or for administrative purposes, are stated in the balance sheet at cost, net of accumulated depreciation and any provision for impairment.

Depreciation is provided on a straight-line basis at rates to reduce the assets to their residual value over their estimated useful lives.

The principal annual rates used are:

Freehold buildings	2.5%
Short-leasehold building improvements	The higher of 10% or the rate produced by the lease term
Machinery	15% - 20%
Motor vehicles	10% - 50%
Furniture	10%
Office equipment	20% - 33%
Leased equipment	The higher of the rate produced by the lease term or useful life

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

Research and development costs

Expenditure on research is recognised as an expense in the period in which it is incurred. Development costs are expensed in the period in which the costs are incurred unless the criteria for capitalisation is met (see Other intangible assets policy).

Other intangible assets

Customer relationships represent the value of contracts acquired on the acquisition of subsidiaries and are amortised over the average length of contracts.

Development expenditure is capitalised as an intangible asset only if all of the following conditions are met:

- an asset is created that can be identified;
- it is probable that the asset created will generate future economic benefits; and
- the development cost of the asset can be measured reliably.

Development expenditure is amortised over the period in which the Group is expected to benefit. This period is between three to eight years, or the length of the contract if longer. Provision is also made for any impairment. All other development expenditure is written off as incurred. Assets under the course of construction are not depreciated.

Licences comprise premiums paid for the acquisition of licences, which are amortised on a straight-line basis over the life of the licence.

Franchises represent costs incurred in obtaining franchise rights and franchise goodwill arising on the acquisition of franchises. These are amortised on a straight-line basis over the life of the franchise.

2. Significant accounting policies (continued)

Other intangible assets (continued)

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

Impairment of tangible and intangible assets

Annually, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit (CGU) to which the asset belongs. A CGU is the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash flows of other assets or groups of assets. The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to CGUs that are expected to benefit from the synergies of the combination.

The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro-rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for indications that the loss has decreased or no longer exists. Where an impairment loss subsequently reverses, the carrying amount of the asset (or CGU) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, had no impairment loss been recognised for the asset (or CGU) in prior years. A reversal of an impairment loss is recognised as income immediately.

Impairment losses and reversals are included within other expenses within the consolidated income statement.

Share-based payment

The Group has applied the requirements of IFRS 2 'Share-based Payment'. In accordance with the transitional provisions, IFRS 2 has been applied to all grants of equity instruments after 7 November 2002 that were not fully vested as of 1 January 2005.

The Group issues equity-settled share-based awards to certain employees and operates an Inland Revenue approved Save As You Earn (SAYE) share option scheme open to eligible employees which allows the purchase of shares at a discount. These are measured at fair value at the date of grant. The fair value is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest.

Fair value is measured by use of the Black Scholes, Binomial Lattice or Monte Carlo Simulation models depending on the type of scheme, as set out in note 35. The expected life used in the models has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations. Where relevant, the value of the option has also been adjusted to take account of market conditions applicable to the option.

Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the contract. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that a trade receivable is impaired. The amount of the provision is based on management's best estimate of the likelihood of the recoverable amount. The carrying amount of the asset is reduced through the use of a bad debt provision account and the amount of the loss is recognised in the income statement within administrative expenses. When a trade receivable is uncollectible, it is written off against the bad debt provision account for trade receivables. Subsequent recoveries of amounts previously written off are credited against administrative expenses.

2. Significant accounting policies (continued)

Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and balances with banks and similar institutions, which are readily convertible to known amounts of cash and which are subject to insignificant changes in value and have a maturity of three months or less. This definition is also used for the consolidated cash flow statement.

Dividends

Dividends are recorded in the Group's consolidated financial statements in the period in which they are approved by the Group's shareholders.

Loans

Loans are initially stated at the amount of the net proceeds after deduction of issue costs. The carrying amount of loans hedged by derivatives is increased by the finance cost in respect of the accounting period and reduced by payments made in the period. Loans which are unhedged are stated at amortised cost with accrued interest recorded separately from the associated borrowings within current liabilities.

Loans are described as non recourse loans and classified as such only if no Group company other than the relevant borrower has an obligation, under a guarantee or other arrangement, to repay the debt.

Derivative financial instruments and hedging activities

The Group enters into a variety of derivative financial instruments to manage the exposure to interest rate and foreign exchange risk, including foreign exchange forward contracts and interest rate swaps. Further details of derivative financial instruments are given in note 27 to the financial statements.

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance sheet date. A derivative with a positive fair value is recognised as a financial asset whereas a derivative with a negative fair value is recognised as a financial liability. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship. The Group designates certain derivatives as either hedges of the fair value of recognised assets or liabilities or term commitments (fair value hedges), hedges of highly probable forecast transactions or hedges of foreign currency risk of firm commitments (cash flow hedges), or hedges of net investments in foreign operations.

A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realised or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

Embedded derivatives

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value through profit or loss.

Hedge accounting

The Group designates certain hedging instruments, which include derivatives, embedded derivatives and non-derivatives in respect of foreign currency risk, as either fair value hedges, cash flow hedges, or hedges of net investments in foreign operations. Hedges of foreign exchange risk on firm commitments are accounted for as cash flow hedges.

At the inception of the hedge relationship, the entity documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument that is used in a hedging relationship is highly effective in offsetting changes in fair values or cash flows of the hedged item.

Note 27 sets out details of the fair values of the derivative instruments used for hedging purposes. Movements in the hedging and translation reserve in equity are detailed in note 32.

2. Significant accounting policies (continued)

Derivative financial instruments and hedging activities (continued)

Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in profit or loss immediately, together with any changes in the fair value of the hedged item that is attributable to the hedged risk. The change in the fair value of the hedging instrument and the change in the hedged item attributable to the hedged risk are recognised in the line of the income statement relating to the hedged item.

Hedge accounting is discontinued when the Group revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. The adjustment to the carrying amount of the hedged item arising from the hedged risk is amortised to profit or loss from that date.

Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are deferred in equity. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss, and is included in the 'other gains and losses' line of the income statement.

Amounts deferred in equity are recycled in profit or loss in the periods when the hedged item is recognised in profit or loss, in the same line of the income statement as the recognised hedged item. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability.

Hedge accounting is discontinued when the Group revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. Any cumulative gain or loss deferred in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was deferred in equity is recognised immediately in profit or loss.

Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the Directors' best estimate of the expenditure required to settle the obligation at the balance sheet date.

New standards and interpretations not applied

At the date of authorisation of these financial statements, the following standards and interpretations which have not been applied in these financial statements were in issue but not yet effective (and in some cases had not yet been adopted by the EU):

International Financial Reporting Standards (IFRSs)

IFRS 1	(amended) / IAS 27 (amended)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
IFRS 2	(amended)	Share-based Payment – Vesting Conditions and Cancellations
IFRS 3	(revised 2008)	Business Combinations
IFRS 8		Operating Segments
IAS 1	(revised 2007)	Presentation of Financial Statements
IAS 23	(revised 2007)	Borrowing Costs
IAS 27	(revised 2008)	Consolidated and Separate Financial Statements
IAS 32	(amended) / IAS 1 (amended)	Puttable Financial Instruments and Obligations Arising on Liquidation

International Financial Reporting Interpretations Committee (IFRIC)

IFRIC 12	Service Concession Arrangements
IFRIC 15	Agreements for the Construction of Real Estate
IFRIC 16	Hedges of a Net Investment in a Foreign Operation

The Directors do not anticipate that the adoption of these standards and interpretations will have a material impact on the Group's financial statements in the period of initial application, with the exception of additional segmental disclosures required by IFRS 8 and the treatment of acquisition of subsidiaries when IFRS 3 comes into effect for business combinations for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 July 2009. If IFRS 3 (revised 2008) had been adopted in these accounts, directly attributable acquisitions costs of £8.0m would have been expensed during the year.

3. Critical accounting judgements and key sources of estimation uncertainty

Critical judgements in applying the Group's accounting policies

In the process of applying the Group's accounting policies, which are described in note 2, management has made the following judgements that have the most significant effect on the amounts recognised in the financial statements (apart from those involving estimations which are dealt with below).

Revenue and profit recognition of long-term project-based contracts

Revenue and profit is recognised for certain long-term project-based contracts based on the stage of completion of the contract activity. This is measured by the proportion of costs incurred to estimated whole-life contract costs except where this would not be representative of the stage of completion.

Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation involves an estimation of the future cash flows of cash-generating units and also the selection of appropriate discount rates, which involves judgement, to use to calculate present values (see note 13). The carrying value of goodwill is £964.7m (2007: £542.1m) at the balance sheet date.

Retirement benefit obligations

The calculation of retirement benefit obligations is dependent on material key assumptions including discount rates, future returns on assets and future contribution rates (see note 28). The value of retirement benefit obligations at the balance sheet date is £177.1m (2007: £142.6m). The value of retirement benefit assets is £62.4m (2007: £nil). Details of the impact of changes in assumptions relating to retirement benefit obligations are disclosed in the Finance Review (page 43).

4. Revenue

An analysis of the Group's revenue is as follows:

	2008 £m	2007 £m
Rendering of services	2,950.3	2,635.4
Revenue from long-term project-based contracts	173.2	175.3
Revenue as disclosed in the consolidated income statement	3,123.5	2,810.7
Investment revenue (note 8)	8.2	12.2
Total revenue as defined in IAS 18	3,131.7	2,822.9

5. Segmental information

The Group manages its business on a market segment basis and these segments are the basis on which the Group reports its primary segment information.

Market segments

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
Capital expenditure including acquisitions					
Property, plant and equipment	34.0	6.4	11.2	0.7	52.3
Goodwill	233.4	134.2	-	-	367.6
Intangible assets – segments	39.8	25.3	1.7	0.8	67.6
Intangible assets – corporate					7.0
					74.6
Depreciation and amortisation					
Depreciation	13.5	4.1	4.6	3.8	26.0
Amortisation – segments	14.7	0.7	4.9	1.5	21.8
Amortisation – corporate					7.5
					29.3
Segment assets					
Business segment assets	1,138.2	585.6	168.5	260.2	2,152.5
Corporate assets					67.6
					2,220.1
Segment liabilities					
Business segment liabilities	(382.0)	(175.7)	(141.2)	(249.9)	(948.8)
Corporate liabilities					(18.5)
					(967.3)

5. Segmental information (continued)

Market segments

Year ended 31 December 2007	Civil Government £m	Defence £m	Transport £m	Science £m	Total £m
Revenue	952.2	720.5	655.0	483.0	2,810.7
Result					
Segment result	46.8	49.8	26.7	45.7	169.0
Corporate expenses					(35.6)
Operating profit					133.4
Investment revenue					12.2
Finance costs					(31.0)
Profit before tax					114.6
Tax					(32.2)
Profit for the year					82.4
Capital expenditure including acquisitions					
Property, plant and equipment	15.8	5.3	10.2	1.6	32.9
Goodwill	9.8	-	1.4	-	11.2
Intangible assets – segments	11.8	1.2	1.3	0.5	14.8
Intangible assets – corporate					16.2
					31.0
Depreciation and amortisation					
Depreciation	17.7	6.2	4.6	1.7	30.2
Amortisation – segments	11.3	0.6	3.8	1.5	17.2
Amortisation – corporate					6.0
					23.2
Segment assets					
Business segment assets	776.3	290.6	149.9	227.4	1,444.2
Corporate assets					56.1
					1,500.3
Segment liabilities					
Business segment liabilities	(281.4)	(233.8)	(108.0)	(179.4)	(802.6)
Corporate liabilities					(23.3)
					(825.9)

Geographical segments

Year ended 31 December 2008	United Kingdom £m	North America £m	Europe and Middle East £m	Asia Pacific and India £m	Total £m
Revenue	2,334.6	369.9	237.2	181.8	3,123.5
Capital expenditure including acquisitions					
Property, plant and equipment	19.5	6.4	3.8	22.6	52.3
Goodwill	20.2	305.2	-	42.2	367.6
Intangible assets	16.6	53.7	-	4.3	74.6
Assets					
Geographical segment assets	1,202.3	731.0	153.1	133.7	2,220.1

5. Segmental information (continued)

Geographical segments

Year ended 31 December 2007	United Kingdom £m	North America £m	Europe and Middle East £m	Asia Pacific and India £m	Total £m
Revenue	2,125.6	300.9	222.1	162.1	2,810.7
Capital expenditure including acquisitions					
Property, plant and equipment	19.2	1.2	3.0	9.5	32.9
Goodwill	9.8	-	1.4	-	11.2
Intangible assets	29.3	1.1	0.5	0.1	31.0
Assets					
Geographical segment assets	1,115.8	207.8	117.5	59.2	1,500.3

	2008 £m	2007 £m
Segment assets comprise:		
Goodwill	**964.7**	542.1
Other intangible assets	**191.3**	139.4
Property, plant and equipment	**115.4**	95.1
Trade and other receivables – non-current	**121.1**	104.6
Retirement benefit assets	**62.4**	-
Inventories	**50.2**	46.3
Trade and other receivables – current excluding tax recoverable	**715.0**	572.8
	2,220.1	1,500.3

	2008 £m	2007 £m
Segment liabilities comprise:		
Trade and other payables – current	**(754.7)**	(670.0)
Trade and other payables – non-current	**(35.5)**	(13.3)
Retirement benefit obligations	**(177.1)**	(142.6)
	(967.3)	(825.9)

6. Operating profit

Operating profit is stated after charging/(crediting):

	2008 £m	2007 £m
Net foreign exchange losses/(gains)	**1.0**	(1.1)
Research and development costs	**43.2**	44.9
(Gain)/loss on disposal of property, plant and equipment	**(4.6)**	1.3
Depreciation of property, plant and equipment (note 17)	**26.0**	30.2
Amortisation of intangible assets – arising on acquisition (note 14)	**9.2**	8.6
Amortisation of intangible assets – other (note 14)	**20.1**	14.6
Staff costs (note 7)	**1,306.0**	1,183.6
Bad debt provision charged to income statement (note 20)	**1.3**	0.5
Fair value adjustment on financial instruments		
- recycling of amounts on discontinued cash flow hedges	**0.1**	0.3
- forward foreign exchange contracts: non-designated hedges	**(1.3)**	(1.1)
Operating lease payments	**81.7**	108.4
Operating lease income	**(0.1)**	(0.1)

Amounts payable to Deloitte LLP and their associates by the Company and its subsidiary undertakings in respect of audit and non-audit services are shown below.

	2008 £m	2007 £m
Fees payable to the Company's auditors for the audit of the Company's annual accounts	**0.9**	0.8
Fees payable to the Company's auditors and their associates for other services to the Group:		
- audit of the Company's subsidiaries pursuant to legislation	**0.7**	0.8
Total audit fees	**1.6**	1.6
Other services pursuant to legislation	**0.2**	0.2
Tax services	**0.2**	0.4
Other services	**0.4**	0.2
Total non-audit fees	**0.8**	0.8

7. Staff costs

The average monthly number of employees (including Executive Directors) was:

	2008 Number	2007 Number
Civil Government	**19,380**	17,916
Defence	**11,564**	11,676
Transport	**7,595**	8,114
Science	**3,882**	3,525
Corporate	**263**	214
Total	**42,684**	41,445

Average monthly numbers of employees for joint ventures are included on a proportionately consolidated basis in the table above.

Aggregate remuneration comprised:

	2008 £m	2007 £m
Wages and salaries	**1,114.0**	1,011.6
Social security costs	**99.1**	92.0
Other pension costs (note 28)	**85.9**	75.0
	1,299.0	1,178.6
Share-based payment expense (note 35)	**7.0**	5.0
Total	**1,306.0**	1,183.6

8. Investment revenue

	2008 £m	2007 £m
Net fair value adjustments on derivative financial instruments	0.3	0.3
Interest receivable by PFI companies	1.0	3.2
Interest receivable on other loans and deposits	6.9	5.5
Net interest receivable on retirement benefit obligations (note 28)	-	3.2
	8.2	12.2

9. Finance costs

	2008 £m	2007 £m
Interest payable on non recourse loans	2.7	3.7
Interest payable on obligations under finance leases	1.3	1.0
Interest payable on other loans	23.5	26.3
Net interest payable on retirement benefit obligations (note 28)	0.6	-
	28.1	31.0

10. Tax

	2008 £m	2007 £m
Current tax		
UK corporation tax	21.2	12.2
Foreign tax	11.5	11.1
Adjustment in respect of prior years:		
- UK corporation tax	(3.9)	(3.9)
- Foreign tax	1.1	(0.1)
	29.9	19.3
Deferred tax		
Current year	8.9	16.5
Adjustment in respect of prior years	(2.3)	(3.6)
	6.6	12.9
	36.5	32.2

The charge for the year can be reconciled to the profit in the consolidated income statement as follows:

	2008 £m	2007 £m
Profit before tax	136.1	114.6
Tax calculated at a rate of 28.5% (2007: 30%)	38.8	34.4
Expenses not deductible for tax purposes	5.9	6.5
Unrelieved tax losses and different tax rates on overseas earnings	2.7	3.2
Untaxed income and the effect of the use of unrecognised tax losses	(2.6)	(1.3)
Tax incentives	(3.2)	(3.0)
Adjustments in respect of prior years	(5.1)	(7.6)
Tax charge	36.5	32.2

The tax rate of 28.5% is derived from the blended statutory UK corporation tax rates for the year which reduced from 30% to 28% on 1 April 2008.

11. Dividends

	2008 £m	2007 £m
Amounts recognised as distributions to equity holders in the year:		
Final dividend for the year ended 31 December 2007 of 3.02p per share on 480.2 million ordinary shares (2007: Final dividend for the year ended 31 December 2006 of 2.55p per share on 471.1 million ordinary shares)	14.5	12.0
Interim dividend for the year ended 31 December 2008 of 1.48p per share on 480.3 million ordinary shares (2007: Interim dividend for the year ended 31 December 2007 of 1.23p per share on 478.9 million ordinary shares)	7.1	5.9
	21.6	17.9
Proposed final dividend for the year ended 31 December 2008 of 3.52p per share on 481.1 million ordinary shares (2007: 3.02p on 480.2 million ordinary shares)	16.9	14.5

The proposed final dividend for 2008 is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in these financial statements. A dividend waiver is effective for those shares held on behalf of the Company by its Employee Share Ownership Trust (note 32).

12. 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 (see note 14) 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

	2008 Millions	2007 Millions
Weighted average number of ordinary shares for the purpose of basic EPS	485.7	482.4
Effect of dilutive potential ordinary shares: share options	7.3	6.8
Weighted average number of ordinary shares for the purpose of diluted EPS	493.0	489.2

Earnings

	2008		2007	
	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	99.5	20.49	81.9	16.98
Add back:				
Amortisation of intangible assets arising on acquisition, net of tax of £0.9m (2007: £0.9m)	8.3	1.71	7.7	1.59
Adjusted earnings before amortisation of intangible assets arising on acquisition	107.8	22.20	89.6	18.57
Earnings for the purpose of basic EPS	99.5	20.49	81.9	16.98
Effect of dilutive potential ordinary shares	-	(0.31)	-	(0.24)
Diluted EPS	99.5	20.18	81.9	16.74

At 31 December 2008 options over 1,955,000 (2007: 27,000) shares were excluded from the weighted average number of shares used for calculating diluted earnings per share because their exercise price was above the average share price for the year and they were, therefore, anti-dilutive.

13. Goodwill

Cost

	£m
At 1 January 2007	528.5
Additions	11.2
Exchange differences	2.4
At 1 January 2008	**542.1**
Additions	**367.6**
Exchange differences	**55.0**
At 31 December 2008	**964.7**

The goodwill acquired in business combinations is allocated, at acquisition, to the cash-generating units (CGUs) that are expected to benefit from that business combination. Goodwill has been allocated to CGUs in the following business segments:

Cost

	2008 £m	2007 £m
Civil Government	**548.4**	325.5
Defence	**280.6**	97.0
Science	**114.3**	102.3
Transport	**21.4**	17.3
At 31 December	**964.7**	542.1

The Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired. The recoverable amount of each CGU is based on value in use calculations.

Key assumptions

The value in use calculations use cash flow projections based on financial plans approved by senior management covering a five-year period. The key assumptions used are discussed below.

Short-term growth rates

Short-term revenue growth rates used in each CGU five-year plan are based on internal data regarding the current pipeline of opportunities and published industry forecasts for the relevant market.

Short-term growth rates are tailored for each CGU taking into account the long-term contractual nature of revenues generated by the Group. As at 31 December 2008, the Group as a whole had revenue visibility of 90% for the next 12 month period based upon the order book. Visibility of planned 2010 and 2011 revenues are already 76% and 65% respectively.

The order book at 31 December 2008 totalled £16.3bn. Appropriate new bid and re-bid win rates are included within each CGU forecast. Group wide, these rates are 50% and 90% respectively.

Further discussion of the Group's order book and pipeline is provided in the Business review.

Terminal growth rates

The cash flows subsequent to the five-year period are based upon management's estimate of the growth rates of the sectors in which the CGUs operate. The terminal growth rates applied vary between 2.25% to 4%.

These rates do not exceed the average long-term growth rates forecast for the individual market sectors.

Capital expenditure

Forecast capital expenditure is based on past practices, expectations on revenue growth and future expected capital requirements of existing opportunities within the pipeline for each CGU.

13. Goodwill (continued)

Discount rate

The underlying discount rate is based on the UK ten-year gilt rate adjusted for an equity risk premium and the systematic risk of the Group. Management uses this pre-tax discount rate and adjusts for the risks specific to each of the CGUs, including consideration of:

- **Customer type**
  90% of the Group's revenues are derived from government contracts and the Group's management of credit risk is disclosed in note 26. In preparation of the impairment reviews an additional premium is added for new, non government customers, if, in managements' view, the credit risk is higher than other contracts within our portfolio.
- **Contract length**
  The majority of the Group's contracts within the CGUs are long-term in nature and the average length remaining on our significant contracts is nine years. For CGUs with contracts of a shorter duration, management consider whether it is appropriate to add a contract length premium to the base discount rate.
- **Acquisition**
  A higher discount rate is applied to acquisitions to reflect any implementation risks within the acquisition business model until these entities have been fully integrated into the Group structure.
- **Geographic**
  Consideration is given to the country in which a CGU operates, and an adjustment is applied if management considers that the economic risk is greater than that implicit in the base discount rate.
- **Technology**
  If a CGU is reliant upon new technology implementations to secure future revenue streams, an appropriate technology premium is added to the base discount rate.

The discount rate ranges applied are disclosed below:

	2008 **%**	2007 %
Civil Government	**10.6 – 11.8**	11.8 – 13.5
Defence	**10.6 – 11.6**	11.3 – 12.3
Science	**10.6 – 11.8**	11.3
Transport	**11.1 – 13.1**	11.8

The principal movement in discount rates applied from 2007 to 2008 reflects the removal of acquisition premiums relating to acquisitions in 2005, as the Group now fully understands the operating model of these businesses.

Sensitivities

Sensitivity analysis has been undertaken on each goodwill impairment review, by increasing the risk element of the discount rate, and other applicable variables for each CGU. The following CGU impairment tests were noted:

- The principal CGU within the Civil Government segment is our core technology business. The goodwill attributable to this CGU as at 31 December 2008 was £270.2m. Due to the potential impact of the adverse market conditions currently affecting the IT sector, the Group has undertaken extensive impairment testing including adjustments to growth rates, discount rates and a reduction in significant contract wins. None of these impairment sensitivities, either individually or combined, resulted in the carrying value of goodwill in respect of this business being reduced to the recoverable amount.
- The Transport segment contains six CGUs, including a CGU involved in the provision of aviation ground handling services with attributable goodwill of £4.3m. At the beginning of the financial period, the fair value of goodwill was substantially in excess of its book value. Owing to a contraction in the size of the business and the current adverse market conditions affecting the industry, the recoverable amount based on future cash flows has reduced as at 31 December 2008. The Group has conducted sensitivity analysis on the impairment testing of the CGU, and has concluded that a reduction in operating margin growth of 50% would result in the CGU requiring a goodwill impairment charge.

Based on the Group's sensitivity analysis, no reasonably possible change in assumptions resulted in the carrying value of the goodwill being reduced to the recoverable amount, with the exception of the CGU within the Transport sector identified above.

14. Other intangible assets

	Acquisition related		Other		
	Customer relationships £m	Licences and franchises £m	Software and development expenditure £m	Pension related intangibles £m	Total £m
Cost					
At 1 January 2008	22.4	62.0	93.9	26.7	205.0
Arising on acquisition of a company	53.7	-	0.5	-	54.2
Additions	-	-	20.4	-	20.4
Exchange differences	1.4	6.1	4.6	-	12.1
At 31 December 2008	77.5	68.1	119.4	26.7	291.7
Amortisation					
At 1 January 2008	8.4	27.7	20.2	9.3	65.6
Charge for the year	3.1	6.1	17.1	3.0	29.3
Exchange differences	0.6	3.1	1.8	-	5.5
At 31 December 2008	12.1	36.9	39.1	12.3	100.4
Net book value					
At 31 December 2008	65.4	31.2	80.3	14.4	191.3

	Acquisition related		Other		
	Customer relationships £m	Licences and franchises £m	Software and development expenditure £m	Pension related intangibles £m	Total £m
Cost					
At 1 January 2007	22.0	54.8	61.7	26.7	165.2
Transfers	-	-	1.9	-	1.9
Arising on acquisition of a company	0.4	-	-	-	0.4
Additions	-	-	30.6	-	30.6
Disposals	-	(0.8)	(1.1)	-	(1.9)
Exchange differences	-	8.0	0.8	-	8.8
At 31 December 2007	22.4	62.0	93.9	26.7	205.0
Amortisation					
At 1 January 2007	5.5	19.1	8.4	6.1	39.1
Charge for the year	2.9	5.7	11.4	3.2	23.2
Disposals	-	(0.2)	-	-	(0.2)
Exchange differences	-	3.1	0.4	-	3.5
At 31 December 2007	8.4	27.7	20.2	9.3	65.6
Net book value					
At 31 December 2007	14.0	34.3	73.7	17.4	139.4

The following amortisation rates have been determined for the intangible assets acquired during 2008:

- Software and development expenditure – over their estimated useful lives
- Customer relationships – over average length of contracts acquired.

Amortisation of intangibles arising on acquisition consists of amortisation in relation to customer relationships and licences and franchises and totals £9.2m (2007: £8.6m).

The Group is carrying £119.4m in relation to software and development expenditure which includes assets relating to Formula 100, the Group's global SAP rollout, of £47.8m (2007: £45.3m). The amortisation period of this asset has six years (2007: seven years) remaining. The Group is carrying £77.5m in relation to customer relationships of which the principal component is £51.8m acquired in the current year relating to the SI International, Inc. acquisition. The average remaining life of these customer relationship intangible assets is approximately seven years.

15. Acquisitions

SI International, Inc.

On 29 December 2008, Serco acquired 100% of the issued share capital of SI International, Inc. (SI International) for consideration of £295.8m in cash. SI International is a provider of information services, technology and network solutions to the US Government.

Due to the completion of the transaction being almost coterminous with the Group's own year end, the fair values of SI International's assets, liabilities and contingent liabilities, have been determined provisionally.

The transaction was accounted for in accordance with IFRS 3 'Business Combinations'.

Net liabilities acquired were:

	Book value £m	Provisional fair value adjustments £m	Provisional fair value £m
Goodwill	182.5	(182.5)	-
Other intangible assets	15.3	36.5	51.8
Property, plant and equipment	9.1	(3.8)	5.3
Trade and other receivables	93.8	(2.3)	91.5
Cash and cash equivalents	13.2	-	13.2
Trade and other payables	(64.3)	2.3	(62.0)
Loans	(69.9)	-	(69.9)
Deferred tax liabilities	(11.2)	(3.0)	(14.2)
Provisions	-	(25.1)	(25.1)
Net liabilities acquired	168.5	(177.9)	(9.4)
Goodwill			305.2
Total consideration			295.8

Satisfied by:

	£m
Purchase consideration	289.8
Directly attributable costs	6.0
Total consideration	295.8

Net cash outflow arising on acquisition:

	£m
Purchase consideration	(289.8)
Directly attributable costs*	(12.8)
Cash and cash equivalents acquired	13.2
	(289.4)

*Directly attributable costs include £6.8m of acquisition costs incurred by SI International which were paid post acquisition. In accordance with IFRS 3, these costs have not been capitalised.

Due to the proximity of the acquisition date of 29 December 2008 to the Group's year end, SI International did not contribute to either the revenue or the profit before tax of the Group. If the acquisition had taken place at the start of the year, the Group's revenue and profit before tax, on a proforma basis, would have been approximately £308.3m and £13.7m higher respectively.

SI International and Serco's existing North American business will be combined, and the combination will enhance Serco's ability to deliver integrated solutions to the US federal government services market. The goodwill arising on the acquisition of £305.2m is attributable to the anticipated profitability arising from new business and the anticipated future operating synergies from the combination.

15. Acquisitions (continued)

Amtech Private Limited ('InfoVision')

On 1 December 2008, the Group acquired 60% of the issued share capital of InfoVision. The Group is unconditionally obligated to acquire the remaining 40% of the issued share capital of InfoVision and, as part of the purchase agreement, the acquiree has waived all rights to dividends. As a result, the Group is accounting for InfoVision as a 100% subsidiary with no attributable minority interest. Consideration for the acquisition of InfoVision was £44.2m, consisting of £14.8m in cash, of which £9.7m was paid in 2008 and £5.1m falls due in 2009, £27.8m in deferred consideration and £1.6m in directly attributable costs.

Due to the proximity of the transaction to the year end, the fair values of InfoVision's assets, liabilities and contingent liabilities, have been determined provisionally.

This transaction has been accounted for in accordance with IFRS 3 'Business Combinations'.

Net assets acquired were:

	Book value £m	Provisional fair value adjustments £m	Provisional fair value £m
Intangible assets	-	2.1	2.1
Property, plant and equipment	6.2	(0.8)	5.4
Trade and other receivables	9.9	-	9.9
Trade and other payables	(8.0)	(2.4)	(10.4)
Loans	(3.0)	-	(3.0)
Deferred tax (liabilities)/assets	(0.1)	0.3	0.2
Provisions	(2.2)	-	(2.2)
Net assets acquired	2.8	(0.8)	2.0
Goodwill			42.2
Total consideration			44.2

Satisfied by:

	£m
Purchase consideration	42.6
Directly attributable costs	1.6
Total consideration	44.2

Net cash outflow arising on acquisition:

	£m
Purchase consideration paid in 2008	(9.7)
Directly attributable costs	(1.6)
Total consideration paid in 2008	(11.3)
Purchase consideration due in 2009	(5.1)
	(16.4)
Deferred consideration*	(27.8)
Total consideration	(44.2)

*Deferred consideration is payable in two tranches, in April 2010 and April 2011. Deferred consideration of £27.8m represents the present value of management's best estimate of the expected liability as at 31 December 2008.

InfoVision contributed £2.3m to revenue and £0.2m to the Group's profit before tax for the period between the date of acquisition and the balance sheet date. If the acquisition had taken place at the start of the year, the Group's revenue and profit before tax, on a proforma basis, would have been approximately £24.3m and £1.0m higher respectively.

The purchase of InfoVision gives Serco an operational foothold in the Indian market. This rapidly growing, predominantly domestic BPO business, will be used to develop the Serco brand and grow our market presence in a fast moving, emerging market. This future growth potential has resulted in the recognition of goodwill of £42.2m.

15. Acquisitions (continued)

Grosvenor Health Limited

On 30 May 2008, the Group acquired 100% of the equity of Grosvenor Health Limited (Grosvenor Health) for consideration of £19.4m in cash. Grosvenor Health is a leading independent provider of occupational health in the UK.

This transaction has been accounted for in accordance with IFRS 3 'Business Combinations'.

Net liabilities acquired were:

	Book value £m	Fair value adjustments £m	Fair value £m
Intangible assets	5.8	(5.5)	0.3
Property, plant and equipment	0.4	(0.1)	0.3
Trade and other receivables	2.9	0.1	3.0
Cash and cash equivalents	0.9	-	0.9
Trade and other payables	(6.1)	0.8	(5.3)
Net liabilities acquired	3.9	(4.7)	(0.8)
Goodwill			20.2
Total consideration			19.4

Satisfied by:

	£m
Purchase consideration	19.0
Directly attributable costs	0.4
Total consideration	19.4

Net cash outflow arising on acquisition:

	£m
Purchase consideration	(19.0)
Directly attributable costs	(0.4)
Cash and cash equivalents acquired	0.9
	(18.5)

Serco acquired Grosvenor Health to gain access to new markets. The combination of Serco's management expertise and Grosvenor Health's specialist knowledge is expected to deliver growth in the coming years and the future potential of the combined entity has lead to the recognition of goodwill of £20.2m.

Grosvenor Health contributed £9.2m to revenue and £0.6m to the Group's profit before tax for the period between the date of acquisition and the balance sheet date. If the acquisition had taken place at the start of the year, the Group's revenue and profit before tax, on a proforma basis, would have been approximately £15.8m and £1.0m higher respectively.

ER Consultants Limited

As disclosed in the Annual Review and Accounts for 2007, the Group acquired ER Consultants Limited on 31 December 2007. The consideration in relation to this acquisition of £2.9m was paid in January 2008, together with £0.1m of related directly attributable costs. This has been reflected in the net cash outflow arising on acquisition in the cash flow statement for the year ended 31 December 2008.

16. Disposals

On 23 June 2008, Serco disposed of its equity stake in Kilmarnock Prison Services Limited, a 100% subsidiary.

The financial effect of the disposal on the consolidated accounts for the period is as follows:

Net assets disposed of were:

	£m
Trade and other receivables	2.8
PFI debtor	29.0
Cash and cash equivalents	3.0
Trade and other payables	(2.3)
Derivative financial instruments	(0.9)
Loans	(20.9)
Tax liabilities	(7.8)
	2.9

The gain on sale is calculated as follows:

	£m
Cash consideration	6.2
Recycling of hedging reserve	0.7
Less:	
Net assets disposed of	(2.9)
Transaction costs	(1.3)
Gain on sale	2.7

The net cash inflow arising on disposal is as follows:

	£m
Cash consideration received	6.2
Less:	
Cash disposed of	(3.0)
Cash inflow	3.2
Transaction costs	(1.3)
Net cash inflow	1.9

17. Property, plant and equipment

	Freehold land and buildings £m	Short-leasehold building improvements £m	Machinery, motor vehicles, furniture and equipment £m	Total £m
Cost				
At 1 January 2008	**6.4**	**29.3**	**205.5**	**241.2**
Additions	**0.1**	**5.9**	**35.3**	**41.3**
Disposals	**(0.1)**	**(1.0)**	**(22.9)**	**(24.0)**
Arising on acquisition of subsidiaries	**-**	**2.6**	**8.4**	**11.0**
Exchange differences	**1.2**	**2.2**	**20.1**	**23.5**
At 31 December 2008	**7.6**	**39.0**	**246.4**	**293.0**
Accumulated depreciation and impairment				
At 1 January 2008	**2.5**	**14.0**	**129.6**	**146.1**
Charge for the year	**0.3**	**3.5**	**22.2**	**26.0**
Disposals	**(0.1)**	**(0.8)**	**(10.3)**	**(11.2)**
Exchange differences	**0.6**	**1.2**	**14.9**	**16.7**
At 31 December 2008	**3.3**	**17.9**	**156.4**	**177.6**
Net book value				
At 31 December 2008	**4.3**	**21.1**	**90.0**	**115.4**

	Freehold land and buildings £m	Short-leasehold building improvements £m	Machinery, motor vehicles, furniture and equipment £m	Total £m
Cost				
At 1 January 2007	8.4	24.2	183.2	215.8
Additions	-	4.8	27.0	31.8
Disposals	(1.0)	(1.2)	(11.6)	(13.8)
Reclassifications	(1.2)	1.2	-	-
Transfers	-	-	1.3	1.3
Arising on acquisition of subsidiaries	-	-	1.1	1.1
Eliminated on disposals of joint ventures	(0.2)	(0.2)	(1.8)	(2.2)
Exchange differences	0.4	0.5	6.3	7.2
At 31 December 2007	6.4	29.3	205.5	241.2
Accumulated depreciation and impairment				
At 1 January 2007	2.5	11.2	108.5	122.2
Charge for the year	0.2	3.1	26.9	30.2
Eliminated on disposals	(0.2)	(0.5)	(8.9)	(9.6)
Arising on acquisition of subsidiaries	-	-	0.2	0.2
Eliminated on disposals of joint ventures	(0.1)	(0.1)	(1.3)	(1.5)
Exchange differences	0.1	0.3	4.2	4.6
At 31 December 2007	2.5	14.0	129.6	146.1
Net book value				
At 31 December 2007	3.9	15.3	75.9	95.1

The carrying amount of the Group’s machinery, motor vehicles, furniture and equipment includes an amount of £19.5m (2007: £17.4m) in respect of assets held under finance leases.

The carrying amount of the Group’s short-leasehold building improvements includes an amount of £2.4m (2007: £1.0m) in respect of assets held under finance leases.

18. 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 and balance sheet is as follows:

Income statement

	2008 £m	2007 £m
Revenue	719.7	680.1
Expenses	(671.4)	(638.9)
Operating profit	48.3	41.2
Investment revenue	5.1	4.9
Finance costs	(0.7)	(0.9)
Profit before tax	52.7	45.2
Tax	(13.2)	(12.1)
Profit for the year	39.5	33.1
Minority interest	-	(0.3)
Share of post-tax results of joint ventures	39.5	32.8

Operating profit is after allocating £4.7m (2007: £4.0m) of costs incurred by Group.

Balance sheet

	2008 £m	2007 £m
Non-current assets	128.8	102.6
Current assets	117.7	124.2
Current liabilities	(115.8)	(123.3)
Non-current liabilities	(103.7)	(75.5)
Net assets	27.0	28.0

19. Inventories

	2008 £m	2007 £m
Service spares	16.4	14.9
Parts awaiting installation	11.9	11.2
Long-term project-based contract balances	21.9	20.2
	50.2	46.3

As at 31 December 2008, £nil (2007: £nil) of advances received from customers were included within 'long-term project-based contract balances'. As at 31 December 2008, the Group had £nil (2007: £nil) of contract retentions held by customers.

20. Trade and other receivables

	2008 £m	2007 £m
Trade and other receivables: Non-current		
PFI debtor*	-	27.4
Amounts owed by joint ventures	1.9	0.6
Amounts recoverable on retirement benefit obligations (note 28)	89.6	60.7
Other debtors	29.6	15.9
	121.1	104.6

	2008 £m	2007 £m
Trade and other receivables: Current		
Trade receivables	525.1	418.1
Other amounts recoverable on contracts	61.5	50.3
PFI debtor*	-	2.4
Prepayments and accrued income	84.1	51.3
Other debtors	44.3	50.7
	715.0	572.8
Corporation tax recoverable	4.5	0.8
	719.5	573.6

*The PFI debtor in 2007 was funded by a non recourse loan of £22.5m.

The Directors estimate that the carrying amount of trade debtors approximates to their fair value.

As of 31 December 2008, trade receivables of £2.7m (2007: £1.4m) were considered to be impaired. Impairments to trade receivables are based on specific estimated irrecoverable amounts and general provisions on outstanding balances greater than a year old unless there is firm evidence that the balance is recoverable. The amount of the provision was £2.7m as of 31 December 2008 (2007: £1.4m) primarily because our customers have a sovereign credit rating being either government organisations or blue chip private sector companies.

The ageing of trade receivables is as follows:

	2008 £m	2007 £m
Neither billed, impaired nor past due	463.3	334.6
Not impaired but overdue by less than 30 days	37.3	53.4
Not impaired but overdue by between 30 and 60 days	12.3	13.5
Not impaired but overdue by more than 60 days	12.2	16.6
Impaired	2.7	1.4
Bad debt provision	(2.7)	(1.4)
	525.1	418.1

Movements on the Group bad debt provision are as follows:

	2008 £m	2007 £m
At 1 January	1.4	1.4
Charged to income statement	1.3	0.5
Utilised	(0.6)	(0.5)
Arising on acquisition	0.3	-
Exchange differences	0.3	-
At 31 December	2.7	1.4

The maximum exposure to credit risk in relation to trade receivables at the reporting date is the fair value of trade receivables. The Group does not hold any collateral as security.

21. Cash and cash equivalents

	Sterling 2008 £m	Other currencies 2008 £m	Total 2008 £m	Sterling 2007 £m	Other currencies 2007 £m	Total 2007 £m
Cash of PFI and other project companies securing credit obligations*	-	4.1	4.1	1.7	4.0	5.7
Customer advance payments*	-	6.3	6.3	-	6.2	6.2
Other cash and short-term deposits	108.8	131.6	240.4	97.6	75.5	173.1
Total cash and cash equivalents	108.8	142.0	250.8	99.3	85.7	185.0

*Cash of PFI and other project companies and customer advance payments totalling £10.4m (2007: £11.9m) are encumbered cash balances.

Cash and cash equivalents (which are presented as a single class of assets on the face of the balance sheet) comprise cash at bank and other short-term highly liquid investments with a maturity of three months or less.

22. Loans

	Non recourse loans (relating to PFI assets) 2008 £m	Other non recourse loans 2008 £m	Other loans 2008 £m	Total 2008 £m	Non recourse loans (relating to PFI assets) 2007 £m	Other non recourse loans 2007 £m	Other loans 2007 £m	Total 2007 £m
Loans are repayable as follows:								
On demand or within one year	-	6.5	30.3	36.8	2.8	5.9	4.8	13.5
Between one and two years	-	6.8	64.6	71.4	5.2	5.9	144.3	155.4
Between two and five years	-	20.8	571.0	591.8	7.6	18.8	51.9	78.3
After five years	-	-	47.7	47.7	6.9	6.2	70.6	83.7
	-	34.1	713.6	747.7	22.5	36.8	271.6	330.9
Less: Amount due for settlement within one year (shown within current liabilities)	-	(6.5)	(30.3)	(36.8)	(2.8)	(5.9)	(4.8)	(13.5)
Amount due for settlement after one year	-	27.6	683.3	710.9	19.7	30.9	266.8	317.4

The carrying amounts and fair values of the loans are as follows:

	Carrying amount 2008 £m	Carrying amount 2007 £m	Fair value 2008 £m	Fair value 2007 £m
Non recourse loans (relating to PFI assets)	-	22.5	-	21.0
Other non recourse loans	34.1	36.8	38.0	38.2
Other loans	713.6	271.6	728.8	274.6
	747.7	330.9	766.8	333.8

The fair values are based on cash flows discounted using a rate based on the borrowing rate associated with the loan. All loans are held at amortised cost.

23. Deferred tax

Deferred income taxes are calculated in full on temporary differences under the liability method using local substantively enacted tax rates.

The gross movement on the deferred income tax account is as follows:

	2008 £m	2007 £m
At 1 January	(29.6)	(53.8)
Income statement charge (note 10)	6.6	12.9
Acquisitions/disposals	7.1	-
Items taken directly to equity	22.2	11.5
Exchange differences	-	(0.2)
At 31 December	6.3	(29.6)

The movement in deferred tax assets and liabilities during the year was as follows:

	Temporary differences on assets/ intangibles £m	Share-based payment and employee benefits £m	Retirement benefit schemes £m	Derivative financial instruments £m	Other temporary differences £m	Total £m
At 1 January 2008	8.0	(19.7)	(15.4)	(3.0)	0.5	(29.6)
Charged/(credited) to income statement	2.4	(2.7)	6.1	-	0.8	6.6
Acquisitions/disposals	21.1	(3.9)	-	(0.3)	(9.8)	7.1
Items taken directly to equity	(5.3)	6.8	16.8	3.9	-	22.2
At 31 December 2008	26.2	(19.5)	7.5	0.6	(8.5)	6.3

The movement in deferred tax assets and liabilities during the previous year was as follows:

	Temporary differences on assets/ intangibles £m	Share-based payment and employee benefits £m	Retirement benefit schemes £m	Derivative financial instruments £m	Other temporary differences £m	Total £m
At 1 January 2007	11.2	(19.0)	(41.1)	(5.2)	0.3	(53.8)
(Credited)/charged to income statement	(3.0)	3.6	12.2	(0.1)	0.2	12.9
Exchange differences	(0.2)	-	-	-	-	(0.2)
Items taken directly to equity	-	(4.3)	13.5	2.3	-	11.5
At 31 December 2007	8.0	(19.7)	(15.4)	(3.0)	0.5	(29.6)

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes:

	2008 £m	2007 £m
Deferred tax liabilities	25.9	22.0
Deferred tax assets	(19.6)	(51.6)
	6.3	(29.6)

At the balance sheet date, the Group did not recognise deferred tax assets of £9.7m (2007: £7.7m) in respect of unused tax losses of £28.0m. Included in unrecognised tax losses are losses of £10.6m that will expire in 2010, £2.6m that will expire in 2014, £0.8m that will expire in 2026 and £1.3m that will expire in 2027. Remaining losses may be carried forward indefinitely.

At the balance sheet date, the aggregate amount of temporary differences associated with undistributed earnings of subsidiaries for which deferred tax liabilities have not been recognised was £7.5m (2007: £6.2m). No liability has been recognised in respect of these differences because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

24. Obligations under finance leases

	Minimum lease payments 2008 £m	Present value of minimum lease payments 2008 £m	Minimum lease payments 2007 £m	Present value of minimum lease payments 2007 £m
Amounts payable under finance leases:				
Within one year	**5.8**	**4.5**	8.6	7.7
Between one and five years	**12.6**	**10.7**	9.1	7.5
After five years	**2.3**	**2.0**	1.4	1.2
	20.7	**17.2**	19.1	16.4
Less: future finance charges	**(3.5)**	**-**	(2.7)	-
Present value of lease obligations	**17.2**	**17.2**	16.4	16.4
Less: amount due for settlement within one year (shown under current liabilities)	**(5.8)**	**(4.5)**	(8.6)	(7.7)
Amount due for settlement after one year	**11.4**	**12.7**	7.8	8.7

Finance lease obligations are secured by the lessors' title to the leased assets.

The Directors estimate that the fair value of the Group's lease obligations approximates their carrying amount.

25. Trade and other payables

	2008 £m	2007 £m
Trade and other payables: Current		
Trade creditors	**225.0**	173.7
Other creditors	**132.6**	137.2
Accruals and deferred income	**397.1**	358.8
Amounts owed to joint ventures	**-**	0.3
	754.7	670.0

The average credit period taken for trade purchases is 28 days (2007: 24 days). The Directors estimate that the fair value of trade creditors approximates to their carrying amount.

	2008 £m	2007 £m
Trade and other payables: Non-current		
Other creditors	**35.4**	13.3
Amounts owed to joint ventures	**0.1**	-
	35.5	13.3

26. Financial risk management

The Group held the following financial instruments at 31 December:

		Carrying amount 2008 £m	2007 £m
Financial assets			
Derivative financial instruments at fair value (note 27)		**10.6**	2.7
Loans and receivables at amortised cost	- Trade receivables (note 20)	**525.1**	418.1
	- Other financial assets (note 26)	**1.4**	1.4
	- Cash and cash equivalents (note 21)	**250.8**	185.0
		787.9	607.2
Financial liabilities			
Derivative financial instruments at fair value (note 27)		**(4.6)**	(13.3)
At amortised cost	- Loans (note 22)	**(747.7)**	(330.9)
	- Trade creditors (note 25)	**(225.0)**	(173.7)
	- Obligations under finance leases (note 24)	**(17.2)**	(16.4)
		(994.5)	(534.3)
Net financial instruments		**(206.6)**	72.9

Financial risk

The Board is ultimately responsible for ensuring that financial and non-financial risks arising from financial instruments is monitored and managed within acceptable and known parameters. The Board delegates authority to the Executive Team to manage financial risks. The Group's treasury function acts as a service centre and operates within clearly defined guidelines and policies that are approved by the Board. The guidelines and policies define the financial risks to be managed; specify the objectives in managing these risks; delegate responsibilities to those managing the risks; and establish a control framework to regulate treasury activities to minimise operational risk.

Credit facilities and liquidity management

The Group maintains committed credit facilities to ensure that it has sufficient liquidity to maintain its ongoing operations. During the year, financing was arranged for the SI International, Inc. acquisition, along with the refinancing of the Group's main committed credit facility. Acquisition financing consisted of a £35m revolving credit facility and US Dollar 488m term loan facility, both fully drawn as at 31 December 2008. The £35m facility expires in December 2011, whilst the US Dollar 488m facility amortises from 2010 and expires in September 2013. The previous bank facility was refinanced with a £400m revolving credit facility, expiring in September 2013 and as at 31 December 2008 drawings were £26m and US Dollar 229m. As at 31 December 2007, the bank facility comprised of term loans of £26m and US Dollar 229m, and an undrawn £255m revolving credit facility.

The banking facilities are unsecured and have financial and non-financial covenants and obligations typical of these arrangements.

The Group has outstanding private placements of £117m which amortise in equal annual instalments from 2011 to 2015. The private placements comprise a tranche of £83m and a tranche of US Dollar 55m, which is hedged by two cross currency swaps (note 27(a)).

Foreign exchange risk

Transactional

The Group's business does not involve a significant amount of cross-border trade, and therefore, the Group is not exposed to substantial foreign currency transaction risk as sales and costs are closely matched within each overseas operation. Any material transactional exposures that do arise are hedged by the Group's treasury function using forward foreign exchange contracts.

Translational

The foreign exchange exposure on the US Dollar tranche of the private placements has been fully hedged into Sterling. The exposure on US Dollar drawings under the new bank facilities is hedged against the net investment in our US business.

Central funding of individual businesses gives rise to monetary assets and liabilities. The currency of funding is selected to ensure that any foreign exchange risk resides with Group. This risk is then managed by the Group's treasury function, using forward foreign exchange contracts and any natural hedge positions that may exist.

26. Financial risk management (continued)

Credit risk

The Group's principal financial assets are cash and cash equivalents and trade and other receivables.

The Group's credit risk is relatively low because a high proportion of our customers have a sovereign or sovereign like credit rating and the Group has a large number of counterparties and customers. External credit checks are completed for all new non Government customers before signing a contract above £100,000. Credit vetting for new Government body customers is performed by an internal review of the client's ability to pay and timeliness of payment. The review includes a consideration of the expected contract budget as well as economic and industry factors and the budget holders' position within the Government body. At quarterly intervals, a management credit worthiness review for all ongoing customers with material outstanding balances is undertaken, including an assessment to determine if there has been any deterioration in the customer's payment history and a review of the total credit authorised to the customer throughout the Group.

The Group's treasury function only transacts with counterparties that have a public rating from a credit rating agency of single A or better. It also ensures that no exposure to any one institution at any given time exceeds a pre-approved exposure limit.

Interest rate risk

The Group's policy is to hedge core borrowing requirements to protect against adverse interest rate movements. Exposure to interest rate risk arises principally on changes to US Dollar and Sterling interest rates.

Price risk

The Group is exposed to commodity price risk through its joint venture rail operations. These joint ventures have used commodity derivatives to mitigate some of this risk (see note 27(b)).

26 (a) Currency management

The Group's currency exposures that result in net currency gains and losses on financial instruments, that are recognised in the income statement and equity, arise principally from US Dollar and Canadian Dollar financial instruments. The fluctuations in other exchange rates do not significantly alter the value of financial instruments. At 31 December 2008, if the US Dollar had weakened by 10% against Sterling, with all other variables held constant, post-tax profit for the year would have been £0.1m higher (2007: £0.7m lower) mainly as a result of offsetting movements on working capital and derivative financial instruments. Equity would have been £34.8m higher (2007: £0.6m lower) mainly due to exchange gains on net investment hedges denominated in US Dollars. However this would be predominantly offset by exchange losses on the retranslation of the net assets of the US subsidiaries. At 31 December 2008, if the US Dollar had weakened by 10% against the Canadian Dollar, with all other variables held constant, post-tax profit for the year would have been £0.3m lower (2007: £0.9m higher) mainly as a result of exchange losses on US Dollar denominated non-current intercompany borrowings. Equity would have been £0.5m higher (2007: £0.4m higher) due to Canadian Dollar denominated non-current intercompany borrowings.

26 (b) Interest rate management

An analysis of financial assets and liabilities exposed to interest rate risk is set out below:

(i) Financial assets

	2008			2007		
	Floating rate £m	Fixed rate £m	Weighted average fixed interest rate received %	Floating rate £m	Fixed rate £m	Weighted average fixed interest rate received %
Cash and cash equivalents	250.8	-	-	185.0	-	-
Other financial assets	0.2	1.2	6.00	0.2	1.2	6.00
	251.0	1.2		185.2	1.2	

(ii) Financial liabilities

	2008			2007		
	Floating rate £m	Fixed rate £m	Weighted average fixed interest rate received %	Floating rate £m	Fixed rate £m	Weighted average fixed interest rate received %
Non recourse Sterling loans (related to PFI assets)	-	-	-	-	22.5	7.35
Non recourse Canadian Dollar loans	-	34.1	5.27	-	36.8	4.53
Sterling loans	48.3	119.8	5.80	26.0	120.5	5.70
US Dollar loans	534.7	-	-	117.4	-	-
Other loans	7.5	3.3	12.59	2.9	4.8	8.00
	590.5	157.2		146.3	184.6	

Exposure to interest rate fluctuations is mitigated through the use of interest rate derivatives. Excluded from the above analysis is £17.2m (2007: £16.4m) of amounts payable under finance leases, which are subject to fixed rates of interest.

(iii) Interest rate sensitivity

The sensitivity analyses have been determined on the exposure to interest rates for both derivatives and financial liabilities at the balance sheet date and on average balances of financial assets held throughout the past year. A 100 basis point movement in interest rates with all other variables held constant, would have an impact on post-tax profit for the year to 31 December 2008 of £1.1m (2007: £0.6m). The variance is mainly due to interest exposure on floating rate borrowings. The resulting impact on equity due to a 100 basis point movement is £1.2m (2007: £1.7m) mainly due to the movement in the fair value of derivative financial instruments held as cash flow hedges.

26 (c) Liquidity risk management

The Group's financial liabilities will be settled on a net basis based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed below are the contractual undiscounted cash flows based on the earliest date on which the Group can be required to pay.

	On demand or within one year £m	Between one and two years £m	Between two and five years £m	After five years £m	Total £m
Loans	**36.8**	**71.4**	**591.8**	**47.7**	**747.7**
Loan interest	**28.1**	**26.9**	**53.1**	**3.6**	**111.7**
Finance leases	**5.8**	**6.2**	**6.4**	**2.3**	**20.7**
Derivative financial liabilities	**1.3**	**0.2**	**0.2**	**-**	**1.7**
Trade creditors	**225.0**	**-**	**-**	**-**	**225.0**
At 31 December 2008	**297.0**	**104.7**	**651.5**	**53.6**	**1,106.8**

	On demand or within one year £m	Between one and two years £m	Between two and five years £m	After five years £m	Total £m
Loans	13.5	155.4	78.3	83.7	330.9
Loan interest	19.5	11.7	22.0	6.0	59.2
Finance leases	8.6	5.0	4.1	1.4	19.1
Derivative financial liabilities	1.9	1.8	5.0	1.2	9.9
Trade creditors	173.7	-	-	-	173.7
At 31 December 2007	217.2	173.9	109.4	92.3	592.8

26 (d) Capital risk management

The Group's objectives when managing capital are to safeguard its ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders, and to maintain an optimal capital structure.

Access to capital takes many forms and includes, although not exhaustive, access to the equity market, debt capital market, and bank market. During 2008, the Group maintained sufficient debt facilities that ensured its objectives were met.

26 (e) Price risk management

The Group is exposed to commodity price risk arising from the volatility in the price of fuel and manages this exposure by holding commodity futures contracts. A US Dollar 0.2 per litre increase in the price of fuel as at the balance sheet date would result in a £6.5m increase (2007: £5.0m increase) in equity. There is no impact in the income statement resulting from a change in fuel prices. The sensitivity to changes in fuel prices resulting from changes in exchange rates is included within the currency sensitivity analysis (see note 26(a)).

27. Derivative financial instruments

Derivative financial instruments total a net asset of £6.0m (2007: £10.6m net liability), comprising non-current assets of £5.6m (2007: £1.2m), current assets of £5.0m (2007: £1.5m), current liabilities of £4.2m (2007: £2.1m) and non-current liabilities of £0.4m (2007: £11.2m).

	1 January 2008 £m	Movement in fair value of cash flow hedges £m	Movement in fair value of fair value hedges £m	Movement in fair value of non-designated hedges £m	Cash flow hedges disposed of £m	31 December 2008 £m
Currency swaps	(6.3)	10.5	-	-	-	4.2
Forward foreign exchange contracts	(4.3)	5.2	-	1.3	-	2.2
Interest rate swaps	(2.0)	0.8	-	0.3	0.9	-
Commodity futures contracts	2.0	(2.4)	-	-	-	(0.4)
	(10.6)	14.1	-	1.6	0.9	6.0

The movement in interest rate swaps resulted from the disposal, on 23 June 2008, of the Group's equity stake in Kilmarnock Prison Services Limited, a 100% subsidiary of Serco Limited.

	1 January 2007 £m	Movement in fair value of cash flow hedges £m	Movement in fair value of fair value hedges £m	Movement in fair value of non-designated hedges £m	Cash flow hedges disposed of £m	31 December 2007 £m
Currency swaps	(11.4)	3.7	1.4	-	-	(6.3)
Forward foreign exchange contracts	(9.1)	0.8	2.9	1.1	-	(4.3)
Interest rate swaps	(2.1)	0.1	-	-	-	(2.0)
Commodity futures contracts	(2.2)	4.2	-	-	-	2.0
	(24.8)	8.8	4.3	1.1	-	(10.6)

The movement in the fair value of cash flow hedges includes an amount of £3.4m relating to the maturity of a currency swap.

The maturity of derivative financial instruments is as follows:

At 31 December 2008	Currency swaps £m	Forward foreign exchange contracts £m	Interest rate swaps £m	Commodity futures contracts £m	Total £m
On demand or within one year	0.2	1.5	-	(0.8)	0.9
Between one and two years	0.2	0.2	-	-	0.4
Between two and five years	2.3	0.5	-	0.4	3.2
After five years	1.5	-	-	-	1.5
	4.2	2.2	-	(0.4)	6.0

Forward foreign exchange contracts comprise a current asset of £4.8m (2007: £0.8m), a non-current asset of £1.0m (2007: £nil), a current liability of £3.4m (2007: £1.4m), and a non-current liability of £0.2m (2007: £3.7m).

At 31 December 2007	Currency swaps £m	Forward foreign exchange contracts £m	Interest rate swaps £m	Commodity futures contracts £m	Total £m
On demand or within one year	(0.4)	(0.6)	(0.4)	0.8	(0.6)
Between one and two years	(0.3)	(1.0)	(0.4)	0.6	(1.1)
Between two and five years	(0.9)	(2.7)	(0.9)	0.6	(3.9)
After five years	(4.7)	-	(0.3)	-	(5.0)
	(6.3)	(4.3)	(2.0)	2.0	(10.6)

Derivative financial instruments are recognised in the balance sheet at fair value which is calculated using a discounted cash flow technique consistent for similar types of instruments. This technique takes into consideration assumptions based on market data.

27 (a) Forward foreign exchange contracts and currency swaps

The Group utilises currency derivatives to hedge significant future transactions and cash flows. The Group is party to a variety of foreign currency forward contracts and swap contracts in the management of its exchange rate exposures. These contracts are primarily denominated in the currencies of the Group's principal markets.

At the balance sheet date, the total notional amount of outstanding forward foreign exchange and currency swap contracts to which the Group is committed is £99.7m (2007: £50.1m). These arrangements are mainly designed to address significant exchange exposures for the next seven years.

Cash flow hedges

At 31 December 2008, the Group held a number of currency swaps designated as cash flow hedges. Fixed interest cash flows denominated in US Dollars are exchanged for fixed interest cash flows denominated in Sterling. The profile of these currency swaps held by the Group is as follows:

	2008			2007		
Maturity	Notional amount USDm	Receivable USD interest rate %	Payable GBP interest rate %	Notional amount USDm	Receivable USD interest rate %	Payable GBP interest rate %
August 2015	35.0	5.7	5.7	35.0	5.7	5.7
August 2015	20.0	5.7	5.7	20.0	5.7	5.7

The Group also held a number of forward foreign exchange contracts designated as cash flow hedges with a notional amount of £52.2m (2007: £15.6m).

All currency derivatives designated as cash flow hedges are highly effective and the fair value movement of £15.7m (2007: £4.5m) has been deferred as a credit in equity. No amounts have been recognised in the income statement except for a discontinued cash flow hedge. In prior periods a loss of £1.4m had been recognised in the hedging reserve. As at 31 December 2007, the balance remaining in the hedging reserve was £0.6m. The hedging reserve is recycled to the income statement as the hedged transaction affects the income statement. A loss of £0.1m (2007: loss of £0.3m) has been included in the income statement, and the remaining loss of £0.5m (2007: loss of £0.6m) is expected to be recognised in the income statement in future periods.

27 (b) Commodity futures contracts

The Group uses commodity futures contracts in its joint venture train operations in order to protect itself from volatility in the price of fuel. The Group has a contract expiring in 2011 whereby it pays a fixed rate of £0.2895 per litre and receives a floating rate for a fixed quantity which varies each month. The floating rate is calculated as the daily 0.2% NWE price in US Dollars per tonne converted into litres and then into Sterling at the daily spot rate. In November 2008, a contract was transacted whereby during the period between December 2008 and September 2009, the Group pays a fixed rate of £0.341 per litre for a fixed quantity which varies each month and receives a floating rate. In December 2008, a further contract was transacted whereby during the period between October 2009 and September 2010, the Group will pay a fixed rate of £0.338 per litre for a fixed quantity which varies each month and receives a floating rate. For both of the new contracts, the floating rate is calculated as the daily 0.1% NWE price in US Dollars per tonne converted into litres and then into Sterling at the daily spot rate. The commodity futures contracts are designated as cash flow hedges and are highly effective and the fair value movement of £2.4m (2007: £4.2m) has been deferred as a credit in equity. No amounts have been recognised in the income statement.

27 (c) Hedges of net investments in foreign entities

The Group has US Dollar denominated borrowings, some of which have been designated as a hedge of part of the net investment in its acquired subsidiaries in the US. In December 2008, borrowings of Euro 17.2m were designated as a hedge of part of the net investment in the Group's subsidiaries in Europe. Following the acquisition of SI International, Inc. on 29 December 2008, a further US Dollar 539.7m of borrowings and US Dollar 10.3m forward foreign exchange contracts were designated as a hedge of the net investment in SI International, Inc. The carrying value of the designated borrowings was £426m (2007: £24.6m). The foreign exchange loss of £16.1m (2007: £0.4m gain) on translation into Sterling of the borrowings and forward foreign exchange contracts has been recognised within the Group's hedging and translation reserve. The hedge is highly effective. No amounts have been recognised in the income statement.

28. Retirement benefit schemes

The Group has accounted for pensions in accordance with IAS 19 'Employee Benefits'. The Group operates and is a member of a number of defined benefit schemes and defined contribution schemes. The pension charge for the year ended 31 December 2008, including the proportionate share of joint ventures, was £85.9m (2007: £75.0m).

28 (a) Defined benefit schemes

The Group operates defined benefit schemes for qualifying employees of its subsidiaries in the UK and Europe. In addition, the Group has interests in joint ventures, which operate defined benefit schemes for qualifying employees.

The assets of the funded plans are held independently of the Group's assets in separate trustee administered funds. The Group's major plans are valued by independent actuaries annually using the projected unit credit method. This reflects service rendered by employees to the dates of valuation and incorporates actuarial assumptions primarily regarding discount rates used in determining the present value of benefits, projected rates of salary growth, and long-term expected rates of return for plan assets. Discount rates are based on the market yields of high-quality corporate bonds in the country concerned. Long-term expected rates of return for plan assets are based on published brokers' forecasts for each category of scheme assets. Pension assets and liabilities in different defined benefit schemes are not offset unless the Group has a legally enforceable right to use the surplus in one plan to settle obligations in the other plan and intends to exercise this right.

The amounts recognised in the consolidated balance sheet are grouped together as follows:

Contract specific - Virtually certain costs reimbursed

The Group has an obligation to contribute to the pension scheme over the term of the contract. At rebid any deficit or surplus would transfer to the next contractor. Throughout the contract, it is virtually certain that the Group will be reimbursed the expenditure required to settle the defined benefit obligation. The Group's share of the defined benefit obligation less its share of the fair value of scheme assets that it will fund over the period of the contract has been recognised as a liability. The Group has recognised the right to reimbursement as a separate asset.

In the consolidated income statement, the expense relating to this defined benefit plan has been presented net of the amount recognised for the reimbursement, resulting in a nil charge to the income statement.

Contract specific - Not certain costs reimbursed

These are pre-funded defined benefit schemes. The Group has obligations to contribute variable amounts to the pension schemes over the terms of the related contracts. At rebid any deficit or surplus would transfer to the next contractor. The Group has recognised as a liability the defined benefit obligation less the fair value of scheme assets that it will fund over the period of the contracts with a corresponding amount recognised as intangible assets at the start of the contracts. Subsequent actuarial gains and losses in relation to the Group's share of the pension obligations have been recognised in the consolidated statement of recognised income and expense (SORIE). The intangible assets are amortised over the term of the contracts.

Non contract specific

These consist of a pre-funded defined benefit scheme which does not relate to any specific contract (the funding policy is to contribute such variable amounts, on the advice of the actuary, as will achieve 100% funding on a projected salary basis) and an unfunded defined benefit scheme, both of which do not relate to any specific contract. Any liabilities arising are recognised in full.

28 (a) Defined benefit schemes (continued)

The assets and liabilities of the schemes at 31 December are:

Year ended 31 December 2008	Virtually certain costs reimbursed £m	Not certain costs reimbursed £m	Non contract specific £m	Total £m
Scheme assets at fair value				
Equities	102.0	194.4	163.5	459.9
Bonds except LDI	45.1	10.6	13.4	69.1
Liability driven investments (LDI)	-	-	480.7	480.7
Gilts	-	48.5	0.1	48.6
Property	14.2	19.6	9.2	43.0
Cash and other	16.3	22.3	24.1	62.7
Annuity policies	-	1.9	28.2	30.1
Fair value of scheme assets	177.6	297.3	719.2	1,194.1
Present value of scheme liabilities	(267.2)	(356.4)	(719.8)	(1,343.4)
Net amount recognised	(89.6)	(59.1)	(0.6)	(149.3)
Members' share of surplus	-	17.0	1.6	18.6
Franchise adjustment	-	17.7	-	17.7
Effect of IFRIC 14	-	-	(1.7)	(1.7)
	(89.6)	(24.4)	(0.7)	(114.7)
Analysed as:				
Net pension liability	**(89.6)**	**(24.4)**	**(63.1)**	**(177.1)**
Net pension asset	**-**	**-**	**62.4**	**62.4**
Related assets				
Intangible assets (note 14)	-	14.4	-	14.4
Trade and other receivables (note 20)	89.6	-	-	89.6
	89.6	**14.4**	**-**	**104.0**

Year ended 31 December 2007	Virtually certain costs reimbursed £m	Not certain costs reimbursed £m	Non contract specific £m	Total £m
Scheme assets at fair value				
Equities	163.1	247.6	213.7	624.4
Bonds except LDI	47.6	8.9	18.4	74.9
Liability driven investments (LDI)	-	-	438.0	438.0
Gilts	-	37.3	34.4	71.7
Property	18.7	25.0	11.9	55.6
Cash and other	6.5	42.5	2.2	51.2
Annuity policies	-	0.9	26.1	27.0
Fair value of scheme assets	235.9	362.2	744.7	1,342.8
Present value of scheme liabilities	(296.6)	(391.7)	(812.6)	(1,500.9)
Net amount recognised	(60.7)	(29.5)	(67.9)	(158.1)
Members' share of deficit	-	(2.1)	-	(2.1)
Franchise adjustment	-	17.6	-	17.6
Net pension liability	**(60.7)**	**(14.0)**	**(67.9)**	**(142.6)**
Related assets				
Intangible assets (note 14)	-	17.4	-	17.4
Trade and other receivables (note 20)	60.7	-	-	60.7
	60.7	**17.4**	**-**	**78.1**

Liabilities in relation to unfunded schemes included above amount to £51.2m (2007: £38.1m).

28 (a) Defined benefit schemes (continued)

During 2007, certain of the Group's non contract specific schemes introduced a Liability Driven Investment (LDI) strategy which aims to reduce volatility risk by better matching assets to liabilities. The main asset classes that make up the LDI investments are gilts and corporate bonds with inflation and interest swap overlays, and the assumed expected rate of return is taken to be gilts +0.3% (2007: gilts +0.2%).

In some schemes, employee contributions vary over time to meet a specified proportion of the overall costs, including a proportion of any deficit. The liabilities recognised in the balance sheet for these schemes are net of the proportion attributed to employees. In addition, the amounts charged to the consolidated income statement for these schemes are net of the proportion attributed to employees. The amounts attributed to employees are shown separately in the reconciliation of changes in the fair value of scheme assets and liabilities.

The amounts recognised in the financial statements for the year are analysed as follows:

Year ended 31 December 2008	Virtually certain costs reimbursed £m	Not certain costs reimbursed £m	Non contract specific £m	Total £m
Recognised in the consolidated income statement				
Current service cost – employer	11.6	15.9	19.9	47.4
Past service cost	-	-	1.1	1.1
Reimbursed to employer	(11.6)	-	-	(11.6)
Recognised in arriving at operating profit	**-**	**15.9**	**21.0**	**36.9**
Expected return on scheme assets - employer	(17.4)	(18.4)	(43.1)	(78.9)
Interest on franchise adjustment	-	(1.4)	-	(1.4)
Interest cost on scheme liabilities - employer	17.1	16.8	46.7	80.6
Reimbursed to employer	0.3	-	-	0.3
Finance (income)/cost	**-**	**(3.0)**	**3.6**	**0.6**
Included within the SORIE				
Actual return on scheme assets	(67.6)	(77.3)	(30.8)	(175.7)
Less: expected return on scheme assets	(17.4)	(26.0)	(44.6)	(88.0)
	(85.0)	(103.3)	(75.4)	(263.7)
Other actuarial gains	53.1	70.0	149.3	272.4
Actuarial gains and (losses) recognised in the SORIE	**(31.9)**	**(33.3)**	**73.9**	**8.7**
Change in IFRIC 14	-	-	(1.7)	(1.7)
Change in franchise adjustment	-	(1.3)	-	(1.3)
Change in members' share	-	20.0	1.7	21.7
Reimbursed to employer	31.9	-	-	31.9
Actuarial gains on reimbursable rights	**31.9**	**18.7**	**-**	**50.6**
Total pension (credit)/cost recognised in the SORIE	**-**	**(14.6)**	**73.9**	**59.3**

28 (a) Defined benefit schemes (continued)

Year ended 31 December 2007	Virtually certain costs reimbursed £m	Not certain costs reimbursed £m	Non contract specific £m	Total £m
Recognised in the consolidated income statement				
Current service cost - employer	9.9	15.3	21.2	46.4
Past service cost	-	0.1	1.8	1.9
Reimbursed to employer	(9.9)	-	-	(9.9)
Recognised in arriving at operating profit	**-**	**15.4**	**23.0**	**38.4**
Expected return on scheme assets - employer	(16.2)	(16.8)	(40.1)	(73.1)
Interest on franchise adjustment	-	(1.2)	-	(1.2)
Interest cost on scheme liabilities - employer	15.1	14.5	40.4	70.0
Reimbursed to employer	1.1	-	-	1.1
Finance (income)/cost	**-**	**(3.5)**	**0.3**	**(3.2)**
Included within the SORIE				
Actual return on scheme assets	10.2	28.5	43.9	82.6
Less: expected return on scheme assets	(16.2)	(23.7)	(41.3)	(81.2)
	(6.0)	4.8	2.6	1.4
Other actuarial gains	11.2	15.8	33.8	60.8
Actuarial gains recognised in the SORIE	**5.2**	**20.6**	**36.4**	**62.2**
Change in franchise adjustment	-	(6.6)	-	(6.6)
Change in members' share	-	(6.4)	(1.2)	(7.6)
Reimbursed to employer	(5.2)	-	-	(5.2)
Actuarial losses on reimbursable rights	**(5.2)**	**(13.0)**	**(1.2)**	**(19.4)**
Total pension cost recognised in the SORIE	**-**	**7.6**	**35.2**	**42.8**

Cumulative actuarial gains recognised since 1 January 2004 are £88.4m (2007: £29.1m).

28 (a) Defined benefit schemes (continued)

Changes in the fair value of plan liabilities are analysed as follows:

	Virtually certain costs reimbursed £m	Not certain costs reimbursed £m	Non contract specific £m	Total £m
At 1 January 2007	287.9	375.0	802.2	1,465.1
Arising on acquisition	-	-	(0.8)	(0.8)
Current service cost – employer	9.9	15.3	21.2	46.4
Current service cost – employee	-	5.9	0.7	6.6
Past service costs	-	0.1	1.8	1.9
Plan participants' contributions	0.9	0.8	1.5	3.2
Interest cost – employer	15.1	14.5	40.4	70.0
Interest cost – employee	-	5.3	1.1	6.4
Benefits paid	(6.0)	(9.4)	(24.8)	(40.2)
Actuarial gains and losses	(11.2)	(15.8)	(33.8)	(60.8)
Foreign currency differences	-	-	3.1	3.1
At 1 January 2008	**296.6**	**391.7**	**812.6**	**1,500.9**
Adoption of IFRIC 14	**-**	**-**	**40.4**	**40.4**
Current service cost – employer	**11.6**	**15.9**	**19.9**	**47.4**
Current service cost – employee	**-**	**5.9**	**0.6**	**6.5**
Past service costs	**-**	**-**	**1.1**	**1.1**
Plan participants' contributions	**1.6**	**0.5**	**1.3**	**3.4**
Interest cost – employer	**17.1**	**16.8**	**46.7**	**80.6**
Interest cost – employee	**-**	**6.0**	**1.2**	**7.2**
Benefits paid	**(6.6)**	**(10.4)**	**(67.1)**	**(84.1)**
Actuarial gains and losses	**(53.1)**	**(70.0)**	**(149.3)**	**(272.4)**
Foreign currency differences	**-**	**-**	**12.4**	**12.4**
At 31 December 2008	**267.2**	**356.4**	**719.8**	**1,343.4**

28 (a) Defined benefit schemes (continued)

Changes in the fair value of plan assets are analysed as follows:

	Virtually certain costs reimbursed £m	Not certain costs reimbursed £m	Non contract specific £m	Total £m
At 1 January 2007	220.3	323.2	643.3	1,186.8
Expected return on plan assets - employer	16.2	16.8	40.1	73.1
Expected return on plan assets - employee	-	6.9	1.2	8.1
Employer contributions	10.5	14.4	80.3	105.2
Contributions by employees	0.9	5.5	2.0	8.4
Benefits paid	(6.0)	(9.4)	(24.8)	(40.2)
Actuarial gains and losses	(6.0)	4.8	2.6	1.4
At 31 December 2007	**235.9**	**362.2**	**744.7**	**1,342.8**
Adoption of IFRIC 14	**-**	**-**	**40.4**	**40.4**
Expected return on plan assets - employer	**17.4**	**18.4**	**43.1**	**78.9**
Expected return on plan assets - employee	**-**	**7.6**	**1.5**	**9.1**
Employer contributions	**14.3**	**17.0**	**30.0**	**61.3**
Contributions by employees	**1.6**	**5.8**	**1.8**	**9.2**
Benefits paid	**(6.6)**	**(10.4)**	**(67.1)**	**(84.1)**
Actuarial gains and losses	**(85.0)**	**(103.3)**	**(75.4)**	**(263.7)**
Foreign currency differences	**-**	**-**	**0.2**	**0.2**
At 31 December 2008	**177.6**	**297.3**	**719.2**	**1,194.1**

Employer contributions for non contract specific schemes in 2007 include a £51m special contribution paid in January 2007.

No assets are invested in the Group's own financial instruments, properties or other assets used by the Group.

History of experience gains and (losses)

	2008	2007	2006	2005	2004
Experience adjustments arising on scheme assets:					
Amount (£m)	**(263.7)**	1.4	45.8	103.6	10.2
Percentage of scheme assets	**(22)%**	0%	4%	10%	1%
Experience adjustments arising on scheme liabilities:					
Amount (£m)	**0.1**	(5.1)	(13.1)	11.8	6.4
Percentage of the present value of scheme liabilities	**0%**	0%	(1)%	1%	1%
Fair value of scheme assets (£m)	**1,194.1**	1,342.8	1,186.8	992.7	776.5
Present value of scheme liabilities (£m)	**(1,343.4)**	(1,500.9)	(1,465.1)	(1,347.1)	(1,055.5)
Deficit (£m)	**(149.3)**	(158.1)	(278.3)	(354.4)	(279.0)

The normal contributions expected to be paid during the financial year ended 31 December 2009 are £61.0m.

Assumptions in respect of the expected return on plan assets are based on market expectations of returns over the life of the related obligation. Due consideration has been given to current market conditions as at 31 December 2008 in respect to inflation, interest, bond yields and equity performance when selecting the expected return on assets assumptions.

The expected yield on bond investments with fixed interest rates is derived from their market value. The yield on equity investments contains an additional premium (an 'equity risk premium') to compensate investors for the additional anticipated returns of holding this type of investment, when compared to bond yields. Management have considered the impact of the adverse changes and volatility in the equity market in 2008 and have concluded that an equity risk premium of 4.1% is appropriate at 31 December 2008 (31 December 2007: 3.45%).

The overall expected return on assets is calculated as the weighted average of the expected returns for the principal asset categories held by the scheme.

28 (a) Defined benefit schemes (continued)

	2008 %	2007 %
Main assumptions:		
Rate of salary increases	**3.10**	4.70
Rate of increase in pensions in payment	**2.60**	3.20
Rate of increase in deferred pensions	**2.60**	3.20
Inflation assumption	**2.60**	3.20
Discount rate	**6.00**	5.70
Expected rates of return on scheme assets:		
Equities	**7.95**	7.95
Bonds except LDI	**6.00**	5.70
LDI	**4.15**	4.70
Gilts	**3.85**	4.50
Property	**5.10**	5.75
Cash and other	**2.00**	5.50
Annuity policies	**6.00**	5.70

	2008 Years	2007 Years
Post-retirement mortality:		
Current pensioners at 65 – male	**20.3**	20.3
Current pensioners at 65 – female	**23.2**	23.1
Future pensioners at 65 – male	**21.6**	21.6
Future pensioners at 65 – female	**24.4**	24.3

In 2007, in respect of a number of the smaller schemes included above, allowance for expected future improvements in life expectancy was made by reducing the discount rate by 0.25% per annum from the rate shown above.

Due to the change in the mortality rate assumptions used in the year, no such adjustment was required in 2008.

28 (b) Defined contribution schemes

The Group paid employer contributions of £34.7m (2007: £26.1m) into UK and other defined contribution schemes, foreign state pension schemes and multi-employer schemes, including those of joint ventures.

Pre-funded defined benefit schemes treated as defined contribution

Serco accounts for certain pre-funded defined benefit schemes relating to contracts as defined contribution schemes because the contributions are fixed until the end of the current concession and at rebid any surplus or deficit would transfer to the next contractor. Cash contributions are recognised as pension costs and no asset or liability is shown on the balance sheet.

29. Provisions

	2008					2007				
	Employee related £m	Property £m	Contract £m	Other £m	Total £m	Employee related £m	Property £m	Contract £m	Other £m	Total £m
At 1 January	9.0	4.7	4.7	0.2	18.6	7.3	8.4	4.7	1.9	22.3
Arising from acquisitions	-	9.3	7.4	10.6	27.3	-	-	-	0.4	0.4
Charged to income statement	0.6	-	-	0.3	0.9	1.9	-	-	-	1.9
Released to income statement	(3.7)	(4.3)	(1.0)	-	(9.0)	-	(3.7)	-	(1.5)	(5.2)
Utilised during the year	(0.7)	(0.1)	-	(0.1)	(0.9)	(0.4)	-	-	(0.6)	(1.0)
Exchange differences	0.7	0.2	0.1	0.2	1.2	0.2	-	-	-	0.2
At 31 December	5.9	9.8	11.2	11.2	38.1	9.0	4.7	4.7	0.2	18.6

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

Property provisions relate to leased properties which are either under utilised or vacant and where the unavoidable costs associated with the lease exceed the economic benefits expected to be required. Management has calculated the provision based on the discounted cash outflows required to settle the lease obligations.

Contract provisions primarily relate to the acquisition of SI International, Inc. where, as required under IAS 37, a provision has been taken for a loss making onerous contract. Management has used the present value of the estimated future cash outflows required to settle the contract obligations in determining the provision.

Other provisions are provisions held for expected legal and other costs that the Group expects to incur over an extended period. These costs are based on past experience of similar items and other known factors and represent management's best estimate of the likely outcome.

30. Share capital

	2008		2007	
	£m	Number Millions	£m	Number Millions
Authorised:				
550,000,000 (2007: 550,000,000) ordinary shares of 2p each	11.0	550.0	11.0	550.0
Issued and fully paid:				
485,051,557 (2007: 476,295,589) ordinary shares of 2p each at 1 January	9.7	485.1	9.5	476.3
Issued on the exercise of share options	-	1.7	0.2	8.8
486,764,440 (2007: 485,051,557) ordinary shares of 2p each at 31 December	9.7	486.8	9.7	485.1

The Company has one class of ordinary shares which carry no right to fixed income.

During the year 1,712,883 (2007: 8,755,968) ordinary shares of 2p each were allotted to the holders of options or their personal representatives using newly listed shares.

31. Share premium account

	2008 £m	2007 £m
At 1 January	299.3	283.5
Premium on shares issued	1.8	15.8
At 31 December	301.1	299.3

32. Reserves

	Retained earnings £m	Retirement benefit obligations reserve £m	Share-based payment reserve £m	Own shares reserve £m	Hedging and translation reserve £m	Total £m	Minority interest £m
At 1 January 2007	196.6	(119.5)	25.5	(16.4)	(21.3)	64.9	1.9
Profit for the year attributable to equity holders of the parent	81.9	-	-	-	-	81.9	-
Profit for the year attributable to minority interest	-	-	-	-	-	-	0.5
Dividends paid	(17.9)	-	-	-	-	(17.9)	(1.2)
Net actuarial gain on defined benefit pension schemes	-	62.2	-	-	-	62.2	-
Actuarial loss on reimbursable rights	-	(19.4)	-	-	-	(19.4)	-
Credit in relation to share-based payment expense	-	-	5.0	-	-	5.0	-
Net exchange gain on translation of foreign operations	-	-	-	-	12.8	12.8	0.1
Net fair value gain on cash flow hedges during the year	-	-	-	-	9.0	9.0	-
Exercise of share options	-	-	(0.2)	1.3	-	1.1	-
Tax charge on cash flow hedges	-	-	-	-	(2.3)	*(2.3)	-
Tax (charge)/credit on items taken directly to equity	-	(13.5)	4.3	-	-	*(9.2)	-
At 1 January 2008	**260.6**	**(90.2)**	**34.6**	**(15.1)**	**(1.8)**	**188.1**	**1.3**
Profit for the year attributable to equity holders of the parent	**99.5**	**-**	**-**	**-**	**-**	**99.5**	**-**
Profit for the year attributable to minority interest	**-**	**-**	**-**	**-**	**-**	**-**	**0.1**
Dividends paid	**(21.6)**	**-**	**-**	**-**	**-**	**(21.6)**	**-**
Net actuarial gain on defined benefit pension schemes	**-**	**8.7**	**-**	**-**	**-**	**8.7**	**-**
Actuarial gain on reimbursable rights	**-**	**50.6**	**-**	**-**	**-**	**50.6**	**-**
Credit in relation to share-based payment expense	**-**	**-**	**7.0**	**-**	**-**	**7.0**	**-**
Net exchange gain on translation of foreign operations	**-**	**-**	**-**	**-**	**54.1**	**54.1**	**-**
Net fair value gain on cash flow hedges during the year	**-**	**-**	**-**	**-**	**14.2**	**14.2**	**-**
Purchase of own shares for employee benefit trust (ESOP)	**-**	**-**	**-**	**(9.2)**	**-**	**(9.2)**	**-**
Exercise of share options	**-**	**-**	**(1.0)**	**4.6**	**-**	**3.6**	**-**
Tax charge on cash flow hedges	**-**	**-**	**-**	**-**	**(3.9)**	***(3.9)**	**-**
Tax charge on items taken directly to equity	**-**	**(16.8)**	**(0.6)**	**-**	**-**	***(17.4)**	**-**
Recycling of cumulative net hedging reserve on disposal	**-**	**-**	**-**	**-**	**(0.7)**	**(0.7)**	**-**
Acquisition of minority interest by joint venture	**1.3**	**-**	**-**	**-**	**-**	**1.3**	**(1.3)**
At 31 December 2008	**339.8**	**(47.7)**	**40.0**	**(19.7)**	**61.9**	**374.3**	**0.1**

*In 2008 these amounts represent £21.3m of tax charge taken directly to equity in the SORIE (2007: £11.5m tax charge). The net movement of £21.3m consists of £22.2m of deferred tax (2007: £11.5m) and a credit of £0.9m relating to current tax (2007: £nil).

32. Reserves (continued)

The retirement benefit obligations reserve represents the actuarial gains and losses recognised in respect of annual actuarial valuations for defined benefit retirement schemes, the fair value adjustments on reimbursable rights and the related movements in deferred tax balances.

The share-based payment reserve represents credits relating to equity-settled share-based payment transactions granted after 7 November 2002, but not fully vested as of 1 January 2005, and any gain or loss on the exercise of share options satisfied by own shares.

The own shares reserve represents the cost of shares in Serco Group plc purchased in the market and held by the Serco Group plc Employee Share Ownership Trust (ESOP) to satisfy options under the Group's share options schemes. At 31 December 2008, the ESOP held 5,650,253 (2007: 4,849,759) shares equal to 1.2% of the current allotted share capital (2007: 1.0%). The market value of shares held by the ESOP as at 31 December 2008 was £25,454,390 (2007: £22,211,896).

The hedging and translation reserve represents foreign exchange differences arising on translation of the Group's overseas operations and movements relating to cash flow hedges.

33. Notes to the consolidated cash flow statement

Reconciliation of operating profit to net cash inflow from operating activities

	2008 £m	2007 £m
Operating profit for the year	**156.0**	133.4
Adjustments for:		
Share-based payment expense	**7.0**	5.0
Depreciation of property, plant and equipment	**26.0**	30.2
Amortisation of intangible assets	**29.3**	23.2
(Profit)/loss on disposal of property, plant and equipment	**(4.6)**	1.3
Profit on disposal of business undertakings	**(2.7)**	(0.7)
Movement in provisions	**(9.0)**	(4.3)
Gain on derivatives	**(1.2)**	(1.1)
Operating cash inflow before movements in working capital	**200.8**	187.0
Decrease in inventories	**0.9**	5.9
Decrease/(increase) in receivables	**12.2**	(99.9)
(Decrease)/increase in payables	**(26.4)**	108.6
Special contribution to defined benefit pension scheme (note 28)	**-**	(51.0)
Cash generated by operations	**187.5**	150.6
Tax paid	**(24.9)**	(16.5)
Net cash inflow from operating activities	**162.6**	134.1

Additions to fixtures and equipment during the year amounting to £8.9m (2007: £4.2m) were financed by new finance leases.

33. Notes to the consolidated cash flow statement (continued)

Analysis of net debt

	At 1 January 2008 £m	Cash flow £m	Acquisitions/ disposals £m	Exchange differences £m	Non cash movements £m	At 31 December 2008 £m
Cash and cash equivalents	185.0	33.0	11.1	21.7	-	250.8
Non recourse loans (related to PFI assets)	(22.5)	1.6	20.9	-	-	-
Other non recourse loans	(36.8)	5.9	-	(3.2)	-	(34.1)
Other loans	(271.6)	(318.8)	(72.9)	(50.3)	-	(713.6)
Obligations under finance leases	(16.4)	8.6	-	(0.5)	(8.9)	(17.2)
	(162.3)	(269.7)	(40.9)	(32.3)	(8.9)	(514.1)

	At 1 January 2007 £m	Cash flow £m	Acquisitions/ disposals £m	Exchange differences £m	Non cash movements £m	At 31 December 2007 £m
Cash and cash equivalents	217.9	(38.3)	(1.4)	6.8	-	185.0
Non recourse loans (related to PFI assets)	(24.8)	2.3	-	-	-	(22.5)
Other non recourse loans	(37.4)	6.0	-	(5.4)	-	(36.8)
Other loans	(341.8)	72.4	0.2	1.7	(4.1)	(271.6)
Obligations under finance leases	(19.8)	8.4	-	(0.4)	(4.6)	(16.4)
	(205.9)	50.8	(1.2)	2.7	(8.7)	(162.3)

Non cash movements in 2008 relate to finance leases.

Non cash movements in 2007 primarily relate to fixed assets acquired under finance leases, and the crystallisation of the fair value adjustment of £4.0m to the value of one of the private placement loans. The loan was hedged by forward foreign exchange contracts and cross currency swaps.

34. Capital and other commitments

	2008 £m	2007 £m
Capital expenditure contracted but not provided:		
- Property, plant and equipment	0.5	1.9
- Intangibles	-	0.1
	0.5	2.0

Included within the balances above is joint venture capital expenditure contracted but not provided in relation to property, plant and equipment of £0.3m (2007: £0.4m).

At the balance sheet date, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2008 £m	2007 £m
Within one year	104.9	97.0
Between one and five years	264.8	258.1
After five years	150.0	138.7
	519.7	493.8

Principal lease commitments are within the Transport segment, with future minimum lease payments totalling £239.4m. These leases relate primarily to administrative and operational buildings, track and rolling stock within the train operating companies. The length of the leases is concurrent with the period of the franchises and the terms of the leases are fixed during this period.

34. Capital and other commitments (continued)

Future minimum rentals receivable under non-cancellable operating leases where the Group is the lessor are as follows:

	2008 £m	2007 £m
Within one year	-	0.1
Between one and five years	-	0.6
After five years	-	0.2
	-	0.9

35. Share-based payment expense

The Group recognised the following expenses related to equity-settled share-based payment transactions:

	2008 £m	2007 £m
Executive Option Plan	0.7	0.9
Long Term Incentive Scheme and Plan	5.3	3.7
Transformational Share Scheme	-	-
Sharesave 2004	-	0.4
Sharesave 2008	1.0	-
	7.0	5.0

Executive Option Plan (EOP)

Options granted under the EOP may be exercised after the third anniversary of grant, dependent upon the achievement of a financial performance target over three years. The options are granted at market value and awards made to eligible employees are based on between 50% and 100% of salary as at 31 December prior to grant. If the options remain unexercised after a period of ten years from the date of grant, the options expire. Furthermore, options may be forfeited if the eligible employee leaves the Group before the options vest. Details of the movement in all EOP options are as follows:

	2008		2007	
	Number of options Thousands	Weighted average exercise price £	Number of options Thousands	Weighted average exercise price £
Outstanding at 1 January	13,724	2.53	16,530	2.42
Granted during the year	334	4.55	443	4.39
Exercised during the year	(2,520)	2.29	(2,991)	2.20
Lapsed during the year	(590)	2.36	(258)	2.83
Outstanding at 31 December	10,948	2.65	13,724	2.53

9,606,125 (2007: 11,939,768) of these options were exercisable at the end of 2008, with a weighted average exercise price of £2.46 (2007: £2.43).

The options outstanding at 31 December 2008 had a weighted average contractual life of 4.22 years (2007: 4.48 years). The exercise prices for options outstanding at 31 December 2008 ranged from £1.39 to £4.90 (2007: £1.39 to £4.90).

The weighted average share price at the date of exercise approximates to the weighted average share price during the year, which was £4.20 (2007: £4.43).

The fair value of options granted under the EOP is measured by use of the Binomial Lattice model. The Binomial Lattice model is considered to be most appropriate for valuing options granted under this scheme as it allows exercise over a longer period of time between the vesting date and the expiry date.

35. Share-based payment expense (continued)

The inputs into the Binomial Lattice model for options granted during the year are:

	2008	2007
Weighted average share price	453p	475p
Weighted average exercise price	455p	445p
Expected volatility	27.5%	33.7%
Expected life	5 years	5 years
Risk free rate	4.4%	5.1%
Expected dividends	0.9%	0.8%

Expected volatility was determined by calculating the historical volatility of the Group's share price over the previous five years. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

Long Term Incentive Scheme (LTIS) and Long Term Incentive Plan (LTIP)

Awards made to eligible employees under the above schemes are structured as options with a zero exercise price and may be exercised after the third anniversary of grant. The extent to which an award vests (and therefore becomes exercisable) is measured by reference to the growth in the Company's earnings per share or total shareholder return over the performance period of three financial years.

If the options remain unexercised after a period of ten years from the date of grant, the options expire. Furthermore, options may be forfeited if the eligible employee leaves the Group before the options vest. Details of the movement in all LTIS and LTIP options are as follows:

	2008		2007	
	Number of options Thousands	Weighted average exercise price £	Number of options Thousands	Weighted average exercise price £
Outstanding at 1 January	7,040	Nil	4,040	Nil
Granted during the year	2,224	Nil	3,055	Nil
Exercised during the year	(592)	Nil	(33)	Nil
Lapsed during the year	(458)	Nil	(22)	Nil
Outstanding at 31 December	8,214	Nil	7,040	Nil

1,293,356 (2007: 1,529,440) of these options were exercisable at the end of 2008.

The options outstanding at 31 December 2008 had a weighted average contractual life of 8.11 years (2007: 8.33 years).

The fair value of options granted under the LTIS and LTIP is measured by use of a Monte Carlo Simulation model. This model is considered to be most appropriate for valuing options granted under these schemes as it takes into account the changes in performance conditions by which the options are measured.

The inputs into the Monte Carlo Simulation model for options granted during the year are:

	2008	2007
Weighted average share price	402p	425p
Weighted average exercise price	Nil	Nil
Expected volatility	23.2% to 26.8%	21.4% to 22.1%
Expected life	1 to 5 years	3 years
Risk free rate	2.5% to 5.0%	4.7% to 5.5%
Expected dividends	0.9% to 1.1%	0.8%

35. Share-based payment expense (continued)

Expected volatility was determined by calculating the historical volatility of the Group's share price over the previous three years. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

Transformational Share Scheme

Awards made to eligible employees under the Transformational Share Scheme are structured as options with a nominal exercise price and are exercisable after the third anniversary of the grant.

The employee must exercise the options no later than 30 days after the vesting date. Furthermore, if the eligible employee leaves the group before the options vest, the options may be forfeited.

	2008	
	Number of options Thousands	Weighted average exercise price £
Outstanding at 1 January	-	Nil
Granted during the year	46	Nil
Exercised during the year	-	Nil
Lapsed during the year	(7)	Nil
Outstanding at 31 December	39	Nil

None of these options were exercisable at the end of the year.

The options outstanding at 31 December 2008 had a weighted average contractual life of 2.33 years.

The fair value of options granted under the Transformational Share Scheme are measured by use of the Binomial Lattice model. This model is considered to be most appropriate for valuing options granted under this scheme as the options have a nominal exercise price.

The inputs into the Binomial Lattice model for options granted during the year are:

	2008
Weighted average share price	456p
Weighted average exercise price	Nil
Expected volatility	23.3%
Expected life	3 years
Risk free rate	4.0%
Expected dividends	0.9%

Expected volatility was determined by calculating the historical volatility of the Group's share price over the previous three years. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

35. Share-based payment expense (continued)

Sharesave 2004

The Sharesave 2004 scheme provides for a purchase price equal to the daily average market price on the date of grant less 20%. The options can be exercised for a period of six months following their vesting. Details of the movement in Sharesave 2004 options are as follows:

	2008 Number of options Thousands	2008 Weighted average exercise price £	2007 Number of options Thousands	2007 Weighted average exercise price £
Outstanding at 1 January	70	1.72	6,274	1.72
Exercised during the year	(22)	1.72	(6,094)	1.72
Lapsed during the year	(48)	1.72	(110)	1.72
Outstanding at 31 December	-	Nil	70	1.72

None (2007: 69,714) of these options were exercisable at the end of the year and the weighted average exercise price was £nil (2007: £1.72).

Sharesave 2008

The Sharesave 2008 scheme provides for a purchase price equal to the daily average market price on the date of grant less 10%. The options can be exercised for a period of six months following their vesting. Details of the movement in Sharesave 2008 options are as follows:

	2008 Number of options Thousands	2008 Weighted average exercise price £
Outstanding at 1 January	-	Nil
Granted during the year	6,976	4.00
Exercised during the year	-	Nil
Lapsed during the year	(216)	4.00
Outstanding at 31 December	6,760	4.00

None of these options were exercisable at the end of the year.

The options outstanding at 31 December 2008 had a weighted average contractual life of 3.12 years. Given that options granted under the Sharesave plan can be exercised at any time up to six months after vesting, management consider the Binomial Lattice model to be appropriate to value the options granted under this scheme. The Binomial Lattice model allows exercise over a window in time, from vesting date to expiry date, and assumes option holders make economically rational exercise decisions.

The model used the following assumptions when the options were granted in 2008:

	2008
Weighted average share price	384p
Weighted average exercise price	400p
Expected volatility	23.7% to 30.9%
Expected life	2 to 4 years
Risk free rate	4.9%
Expected dividends	1.1%

Expected volatility was determined by calculating the historical volatility of the Group's share price over the previous three years. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

36. 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. Transactions between the Company and its subsidiaries and joint ventures are disclosed in the Company's separate financial statements.

Trading transactions

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

	2008 £m	2007 £m
Royalties and management fees receivable	1.4	1.2
Dividends receivable	37.2	36.9
	38.6	38.1

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

	2008 £m	2007 £m
Current		
Loans	1.2	1.7

	2008 £m	2007 £m
Non-current		
Loans	0.7	0.6

Joint venture receivable and loan amounts outstanding have arisen from transactions undertaken during the general course of trading, are unsecured, and will be settled in cash. No guarantee has been given or received. No provisions are required for doubtful debts in respect of the amounts owed by the joint ventures.

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':

	2008 £m	2007 £m
Short-term employee benefits	3.6	3.8
Termination arrangements	0.7	-
Post-employment benefits	0.4	0.7
Share-based payment expense	1.9	1.9
	6.6	6.4

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

37. List of principal undertakings

The companies listed below are, in the opinion of the Directors, the principal undertakings of Serco Group plc as at 31 December 2008. The percentage of equity capital directly or indirectly held by Serco Group plc is shown. The voting rights are the same as the percentage holding. The companies are incorporated and principally operate in the countries stated below.

Principal subsidiaries		2008	2007
United Kingdom			
	Serco Limited	**100%**	100%
	Serco-IAL Limited	**100%**	100%
	NPL Management Limited	**100%**	100%
	Serco Leisure Operating Limited	**100%**	100%
	Serco Health Limited	**100%**	100%
	Serco Regional Services Limited	**100%**	100%
Europe and Middle East			
Belgium	Serco Belgium SA	**100%**	100%
France	Serco SARL	**100%**	100%
	Serco SAS	**100%**	100%
Germany	Serco GmbH	**100%**	100%
Ireland	Serco Services Ireland Limited	**100%**	100%
Italy	Serco SpA	**100%**	100%
Luxembourg	Serco Facilities Management SA	**100%**	100%
The Netherlands	Serco Facilities Management BV	**100%**	100%
Spain	Serco Gestion de Negocias SL	**100%**	100%
Switzerland	Serco Facilities Management SA	**100%**	100%
Asia Pacific			
Australia	Serco Australia Pty Limited	**100%**	100%
	Great Southern Rail Travel Pty Limited	**100%**	100%
	Great Southern Rail Limited	**100%**	100%
	Serco Traffic Camera Services Pty Limited	**100%**	100%
China	Serco Group Consultants (Shanghai) Limited	**100%**	100%
Hong Kong	Serco Group (HK) Limited	**100%**	100%
North America			
Canada	Serco Facilities Management Inc.	**100%**	100%
	Serco DES Inc.	**100%**	100%
USA	Serco Inc.	**100%**	100%
	Serco Services Inc.	**100%**	-
India	Serco BPO Private Limited	**60%**	-

37. List of principal undertakings (continued)

Joint venture undertakings		2008	2007
United Kingdom			
	Serco Gulf Engineering Limited	50%	50%
	AWE Management Limited	33%	33%
	Merseyrail Services Holding Company Limited	50%	50%
	Northern Rail Holdings Limited	50%	50%
Asia Pacific			
Australia	Defence Maritime Services Pty Limited	50%	50%
	Serco Sodexho Defence Services Pty Limited	50%	50%
UAE			
	Khadamat Facilities Management Company LLC	49%	49%
Dubai	International Aeradio (Emirates) LLC	49%	49%
Abu Dhabi	International Aeradio (Emirates) LLC	49%	49%
Other			
Bahrain	Aeradio Technical Services WLL	49%	49%
South Africa	Equity Aviation Services Limited	50%	50%

All joint ventures are accounted for using the proportionate consolidation method. All the subsidiaries of the Group have been consolidated.

At 31 December 2008, Group companies had branches in United Arab Emirates (UAE), Bahrain, South Africa, Luxembourg and Gibraltar.

All the principal subsidiaries of Serco Group plc and its joint venture undertakings are engaged in the provision of support services.

38. Contingent liabilities

The Company has guaranteed overdrafts, finance leases, and bonding facilities of its joint ventures up to a maximum value of £4.6m (2007: £4.2m). The actual commitment outstanding at 31 December 2008 was £3.5m (2007: £1.9m).

In addition to this, the Company and its subsidiaries have provided performance guarantees, and indemnities relating to performance bonds and letters of credit issued by its banks on its behalf, in the ordinary course of business. These are not expected to result in any material financial loss.

Further details of the contingent liabilities of Serco Group plc are contained in note 14 to the Serco Group plc Company Financial Statements.

UK GAAP Audit Report – Parent Company

Independent Auditors' Report to the members of Serco Group plc

We have audited the parent Company Financial Statements of Serco Group plc for the year ended 31 December 2008 which comprise the Balance Sheet and the related notes 1 to 15. These parent Company Financial Statements have been prepared under the accounting policies set out therein.

We have reported separately on the Group Financial Statements of Serco Group plc for the year ended 31 December 2008 and on the information in the Remuneration Report that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an Auditors' Report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and Auditors

The Directors' responsibilities for preparing the Annual Review and Accounts and the parent Company Financial Statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the statement of Directors' Responsibilities.

Our responsibility is to audit the parent Company Financial Statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the parent Company Financial Statements give a true and fair view and whether the parent Company Financial Statements have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the Directors' Report is consistent with the parent Company Financial Statements.

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed.

We read the other information contained in the Annual Review and Accounts as described in the contents section and consider whether it is consistent with the audited parent Company Financial Statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the parent Company Financial Statements. Our responsibilities do not extend to any further information outside the Annual Review and Accounts.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the parent Company Financial Statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the parent Company Financial Statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the parent Company Financial Statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the parent Company Financial Statements.

Opinion

In our opinion:

- the parent Company Financial Statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 December 2008;
- the parent Company Financial Statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the parent Company Financial Statements.

Deloitte LLP

Deloitte LLP
Chartered Accountants and Registered Auditors
London, United Kingdom
26 February 2009

Company Balance Sheet

At 31 December 2008

	Note	2008 £m	2007 £m
Fixed assets			
Investments in subsidiary undertakings	3	**799.6**	792.6
		799.6	792.6
Current assets			
Amounts owed by subsidiary companies due after more than one year		**725.4**	132.8
Debtors: amounts due within one year	4	**34.2**	42.9
Debtors: amounts due after more than one year	4	**14.3**	8.6
Derivative financial instruments due within one year	7	**4.6**	0.7
Derivative financial instruments due after more than one year	7	**5.0**	-
Cash at bank and in hand		**8.1**	36.2
		791.6	221.2
Creditors: amounts falling due within one year			
Loans	6	**(10.0)**	-
Amounts owed to subsidiary companies		**(168.1)**	(133.0)
Trade creditors		**(0.3)**	(0.2)
Other creditors including taxation and social security	5	**(1.0)**	(2.4)
Derivative financial instruments	7	**(3.3)**	(1.6)
Accruals and deferred income		**(7.9)**	(10.5)
		(190.6)	(147.7)
Net current assets		**601.0**	73.5
Total assets less current liabilities		**1,400.6**	866.1
Creditors: amounts falling due after more than one year	6	**(678.4)**	(258.8)
Amounts owed to subsidiary companies		**(237.5)**	(146.5)
Derivative financial instruments	7	**(0.2)**	(9.7)
Net assets		**484.5**	451.1
Capital and reserves			
Called up share capital	9	**9.7**	9.7
Share premium account	10	**301.1**	299.3
Capital redemption reserve		**0.1**	0.1
Share-based payment reserve	11	**28.7**	21.7
Hedging and translation reserve	12	**3.9**	(6.2)
Profit and loss account	13	**141.0**	126.5
Shareholders' funds		**484.5**	451.1

The Financial Statements were approved by the Board of Directors on 26 February 2009 and signed on its behalf by:

Christopher Hyman
Chief Executive

Andrew Jenner
Finance Director

Notes to the Company Financial Statements

1. Accounting policies

The principal accounting policies adopted are set out below and have been applied consistently throughout the current and preceding year.

Basis of accounting

These financial statements have been prepared in accordance with UK GAAP and applicable UK law.

As discussed in more detail in the Finance Review, these financial statements have been prepared on a going concern basis.

Accounting convention

These accounts have been prepared under the historical cost convention.

Fixed asset investments

Investments held as fixed assets are stated at cost less provision for any impairment in value.

Share-based payment

The Company has applied the requirements of FRS 20 'Share-based Payment'. In accordance with the transitional provisions, FRS 20 has been applied to all grants of equity instruments after 7 November 2002 that were not fully vested as of 1 January 2005.

The Company issues equity-settled share-based awards to certain employees and operates an Inland Revenue approved Save As You Earn (SAYE) share option scheme open to eligible employees which allows the purchase of shares at a discount. These are measured at fair value at the date of grant. The fair value is expensed on a straight-line basis over the vesting period, based on the Company's estimate of shares that will eventually vest.

Fair value is measured by use of the Black Scholes, Binomial Lattice or Monte Carlo Simulation models depending on the type of scheme. The expected life used in the models has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations. Where relevant, the value of the option has also been adjusted to take account of market conditions applicable to the option.

Dividends

Dividends are recorded in the Company's financial statements in the period in which they are approved by the Board of Directors.

Derivative financial instruments and hedging activities

Derivatives are initially accounted for and measured at fair value on the date a derivative contract is entered into and subsequently measured at fair value. The gain or loss on re-measurement is taken to the profit and loss account except where the derivative is a designated cash flow hedging instrument. The accounting treatment of derivatives classified as hedges depends on their designation, which occurs on the date that the derivative contract is committed to. The Company designates derivatives as:

- a hedge of the fair value of an asset or liability (fair value hedge);
- a hedge of the income/cost of a highly probable forecast transaction or commitment (cash flow hedge); and
- a hedge of a net investment in a foreign entity.

Gains and losses on fair value are recorded in the profit and loss account with the gain or loss on the hedged item attributable to the hedged risk.

Gains or losses on cash flow hedges that are regarded as highly effective are recognised in equity. Where the forecast transaction results in a financial asset or liability, only gains or losses previously recognised in equity are reclassified to profit or loss in the same period as the asset or liability affects profit or loss. Where the forecast transaction or commitment results in a non-financial asset or liability, any gains or losses previously deferred in equity are included in the cost of the related asset or liability if the forecast transaction or commitment results in future income or expenditure. Gains and losses deferred in equity are transferred to the profit and loss account in the same period as the underlying income or expenditure. The ineffective portion of the gain or loss on the hedging instrument is recognised in the profit and loss account.

For the ineffective portion of hedges or transactions that are not designated for hedge accounting under FRS 26, any change in assets or liabilities is recognised immediately in the profit and loss account. Where a hedge no longer meets the effectiveness criteria, any gains or losses deferred in equity are only transferred to the profit and loss account when the committed or forecast transaction is recognised in the profit and loss account. However, where cash flow hedge accounting has been applied for a forecast or committed transaction that is no longer expected to occur, then the cumulative gain or loss that has been recorded in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the profit and loss account.

1. Accounting policies (continued)

Derivative financial instruments and hedging activities (continued)

Where the Company hedges net investments in foreign entities through currency borrowings, the gains or losses on the translation of the borrowings are recognised in equity. Gains and losses accumulated in equity are included in the profit and loss account when the foreign operation is disposed of.

Current tax

Current tax, including UK corporation tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantially enacted at the balance sheet date.

Deferred tax

The charge for taxation takes account of taxation deferred because of differences between the timing of recognition of certain items for taxation purposes and for accounting purposes. Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where the transactions or events that give rise to an obligation to pay more or less tax in the future have occurred by the balance sheet date. A deferred tax asset is recognised only when it is considered more likely than not that it will be recovered.

Deferred tax is recognised on a non-discounted basis using tax rates in force at the date the timing differences are expected to reverse.

2. Auditors' remuneration

Auditors' remuneration of £10,000 (2007: £10,000) has been borne by another group company.

3. Investments held as fixed assets

	£m
Shares in subsidiary companies at cost:	
At 1 January 2007	596.2
Options over parent's shares awarded to employees of subsidiaries	3.1
Additions:	
Cornwell Management Consultants plc	8.3
Serco Holdings Limited	185.0
At 1 January 2008	**792.6**
Options over parent's shares awarded to employees of subsidiaries	**5.3**
Additions:	
Serco Holdings Limited	**50.0**
Disposals:	
Serco Investments Limited	**(40.0)**
Cornwell Management Consultants plc	**(8.3)**
At 31 December 2008	**799.6**

On 31 December 2008, the Company acquired one additional share (2007: four additional shares) in Serco Holdings Limited for £50m (2007: £185m), following the capitalisation of long-term intercompany loans.

Full details of the principal subsidiaries of Serco Group plc can be found in note 37 to the Group's Consolidated Financial Statements. The Company directly owns 100% of the ordinary share capital of the following subsidiaries except where stated.

Name	Ownership
Serco Holdings Limited	**100%**
Serco Group (HK) Limited	**50%**

4. Debtors

	2008 £m	2007 £m
Amounts due within one year		
Amounts owed by subsidiary companies	23.9	15.5
Corporation tax recoverable	10.1	24.9
Other debtors	0.2	2.5
	34.2	42.9
Amounts due after more than one year		
Amounts owed by joint ventures	0.7	-
Other debtors	12.7	3.7
Deferred tax asset (note 8)	0.9	4.9
	14.3	8.6
	48.5	51.5

5. Other creditors including taxation and social security

	2008 £m	2007 £m
Other creditors	1.0	2.4

6. Creditors: amounts falling due after more than one year

	2008 £m	2007 £m
Loans	688.4	258.8
Less: amounts included in creditors falling due within one year - loans	(10.0)	-
Amounts falling due after more than one year	678.4	258.8
Loans		
Within one year or on demand	10.0	-
Between one and two years	64.0	141.0
Between two and five years	567.3	47.1
After five years	47.1	70.7
	688.4	258.8

7. Derivative financial instruments

	2008		2007	
	Assets £m	Liabilities £m	Assets £m	Liabilities £m
Currency swaps	4.2	-	-	(6.3)
Forward foreign exchange contracts	5.4	(3.5)	0.7	(5.0)
	9.6	(3.5)	0.7	(11.3)
Analysed as:				
Non-current	5.0	(0.2)	-	(9.7)
Current	4.6	(3.3)	0.7	(1.6)
	9.6	(3.5)	0.7	(11.3)

The Company holds derivative financial instruments in accordance with the Group's policy in relation to its financial risk management. Details of the disclosures are set out in note 27 of the Group's Consolidated Financial Statements.

8. Deferred tax asset

	2008 £m	2007 £m
Short-term timing difference	**0.9**	4.9

The movement in the deferred tax asset during the year was as follows:

	2008 £m	2007 £m
At 1 January	**4.9**	5.4
Credited to income statement	**0.3**	0.7
Items taken directly to equity	**(4.3)**	(1.2)
At 31 December	**0.9**	4.9

9. Called up share capital

	2008		2007	
	£m	Number Millions	£m	Number Millions
Authorised				
550,000,000 (2007: 550,000,000) ordinary shares of 2p each	**11.0**	**550.0**	11.0	550.0
Issued and fully paid				
485,051,557 (2007: 476,295,589) ordinary shares of 2p each at 1 January	**9.7**	**485.1**	9.5	476.3
Issued on the exercise of share options	**-**	**1.7**	0.2	8.8
486,764,440 (2007: 485,051,557) ordinary shares of 2p each at 31 December	**9.7**	**486.8**	9.7	485.1

The Company has one class of ordinary shares which carry no right to fixed income.

During the year 1,712,883 (2007: 8,755,968) ordinary shares of 2p each were allotted to the holders of options or their personal representatives using newly listed shares.

10. Share premium account

	2008 £m	2007 £m
At 1 January	**299.3**	283.5
Premium on shares issued	**1.8**	15.8
At 31 December	**301.1**	299.3

11. Share-based payment reserve

	2008 £m	2007 £m
At 1 January	**21.7**	16.8
Options over parent's shares awarded to employees of subsidiaries	**5.3**	3.1
Share-based payment expense	**1.7**	1.8
At 31 December	**28.7**	21.7

Details of the share-based payment disclosures are set out in note 35 of the Group's Consolidated Financial Statements.

12. Hedging and translation reserve

	2008 £m	2007 £m
At 1 January	(6.2)	(9.5)
Fair value gain on cash flow hedges during the period	15.4	4.5
Tax charge on items taken directly to equity	(4.3)	(1.2)
Net exchange loss on translation of foreign operations	(1.0)	-
At 31 December	**3.9**	(6.2)

13. Profit and loss account

	2008 £m	2007 £m
At 1 January	126.5	117.4
Profit for the year	36.2	27.0
Equity dividends	(21.7)	(17.9)
At 31 December	**141.0**	126.5

As permitted by Section 230 of the Companies Act 1985, the profit and loss account of the Company is not presented as part of these accounts.

14. Contingent liabilities

The Company has provided certain financial guarantees and indemnities in respect of the loans, overdraft and bonding facilities, and other financial commitments of its subsidiaries. The total commitment outstanding as at 31 December 2008 was £28.3m (2007: £16.6m).

The Company has also guaranteed overdrafts, finance leases, and bonding facilities of its joint ventures up to a maximum value of £4.6m (2007: £4.2m). The actual commitment outstanding at 31 December 2008 was £3.5m (2007: £1.9m).

In addition to this, the Company has provided performance guarantees and indemnities relating to performance bonds and letters of credit issued by its banks on its behalf, in the ordinary course of business. These are not expected to result in any material financial loss.

15. Related parties

The Directors of Serco Group plc had no material transactions with the Company or its subsidiaries during the year other than service contracts and directors' liability insurance. Details of the Directors' remuneration are disclosed in the Remuneration Report for the Group.

The Company is exempt under the terms of FRS 8 'Related party disclosure', from disclosing related party transactions with entities that are part of the Serco Group plc group. Full details of the transactions between Serco Group plc and its related parties can be found in note 36 to the Group's Consolidated Financial Statements.

Shareholder information

Group website

Go to www.serco.com to catch up on the current share price, latest news in the investors section and read the Annual Review and Accounts.

Registrars

Serco Group plc has recently moved its Register of Members to a new registrar, Equiniti. Administrative enquiries about the holding of Serco Group plc shares and enquiries in relation to the Serco Dividend Re-investment Plan (DRIP) should be directed to:

Equiniti
Aspect House
Spencer Road
Lancing
West Sussex
BN99 6DA

Tel: 0871 384 2932

There is a text phone available on 0871 384 2255 for shareholders with hearing difficulties.

(Calls to both of these numbers are charged at 8p per minute from a BT landline. Other telephony provider costs may vary.)

Callers from outside the UK should use +44 (0) 121 415 7161.

Dividend re-investment plan

You can elect to receive future dividends as shares rather than cash by participating in the DRIP. To register, request further information, or to obtain a copy of the terms and conditions booklet and mandate form please contact Equiniti on 0871 384 2932. Alternatively, these can be downloaded from the website www.shareview.co.uk by choosing the Dividend Re-investment Plan heading within the Product Centre section.

Dividends paid direct to your bank account

- Avoid the risk of cheques being lost in the post
- No need to present cheques for payment
- Dividend credited to your account on payment date.

To set up a dividend mandate or change your existing mandated details please register with the Shareholder Centre via the Shareview website or contact Equiniti on the number provided above.

Global payment services

For overseas shareholders in certain countries, Equiniti offers an Overseas Payment Service by arrangement with Citibank Europe PLC. This service offers shareholders the ability to have their dividend converted into their local currency and sent electronically to their local bank account. To sign up for this service, please contact Equiniti on 0871 384 2932 (+44 (0) 121 415 7161 if calling from outside the UK). Alternatively you can download an application form and terms and conditions from the website www.shareview.co.uk.

Electronic communications

You can register for electronic communications by visiting www.shareview.co.uk, you will need your shareholder reference number to sign up. After you have registered you will receive emails alerting you to communications as they become available. In response to our shareholders' commitment to electronic communication Serco is very proud to be a Corporate Member of the Woodland Trust, the UK's leading woodland conservation charity, helping them to plant and care for UK native woodland. During 2008 the Trust planted more than one million native trees in the UK.

Share dealing

We have arranged the following services that can be used to buy or sell Serco shares. Alternatively, if shareholders hold a share certificate they can also use any bank, building society or stockbroker offering share dealing facilities. Shareholders in any doubt about buying or selling their shares should seek professional financial advice.

- **For EU shareholders**

A telephone and internet dealing service is available through Equiniti which provides a simple way of buying and selling Serco shares. Commission is 1% with a minimum charge of £25 for telephone dealing and 0.5% with a minimum charge of £15 for internet dealing. For telephone sales call +44 (0) 845 6037 037 between 8.30am and 4.30pm, Monday to Friday, and for internet sales log on to www.shareview.co.uk/dealing. You will need your shareholder reference number as shown on your share certificate.

Cazenove provide a postal dealing service to buy and sell Serco shares. All transactions are undertaken on an execution only basis. For further information please contact Cazenove at: Postal Share Dealing Service, 20 Moorgate, London EC2R 6DA, United Kingdom, Tel: +44 (0) 20 7155 5155.

- **For Non EU shareholders**

Currently non EU shareholders may buy or sell shares through the Cazenove postal dealing service (see above).

Shareholder profile

The range and size of ordinary shareholding as at 31 December 2008 is set out below:

Range of shareholdings	No. of shareholders	%	No. of shares	%
1 - 1,000	4,021	45.07	1,806,563	0.37
1,001 – 5,000	3,300	36.99	7,452,157	1.53
5,001 – 10,000	557	6.24	3,969,342	0.81
10,001 – 100,000	637	7.14	20,132,609	4.14
100,001 – 500,000	240	2.69	56,836,927	11.68
500,001 – 1,000,000	71	0.80	51,592,198	10.60
1,000,001 – 10,000,000	88	0.99	247,272,382	50.80
10,000,001 and above	7	0.08	97,702,262	20.07
Total	8,921	100	486,764,440	100

Financial calendar

2009

Preliminary results announcement	**27 February**
Ex-dividend date	**4 March**
Record date	**6 March**
Last date for receipt/revocation of DRIP dividend mandates	**28 April**
Interim Management Statement	**12 May**
Annual General Meeting	**12 May**
Final dividend pay date	**20 May***
Half-year results announcement	**26 August****
Financial year-end	**31 December**

* Subject to shareholder approval
** Provisional

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