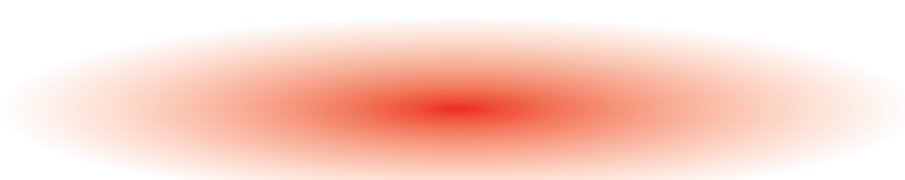


Delivering Essential Services... Together

Serco Group plc
Annual Review and Accounts 2009



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Serco is an international service company that combines commercial know-how with a deep public service ethos. We deliver essential services on behalf of national and local governments, who represent over 90% of our business, and for commercial customers.

In doing so, we are helping them meet profound challenges. Public finances are under significant pressure around the world but citizens still expect continual improvements in service quality. At the same time, our customers need to address crucial issues such as economic development, congestion, security and demographic and climate change. The companies we work for face similar financial and operational pressures.

Increasingly, our customers are using our broad skills and capabilities to address this significant agenda, and to improve productivity and efficiency. We start by leading people more effectively, and instilling our values and our ethos of delivering high-quality services, which inform everything we do. At the same time, we improve efficiency by introducing new processes and technology and making the best use of assets.

This approach enables us to take on new and complex tasks and transform the quality, reliability and efficiency of essential services ranging from air traffic control to running scientific establishments.

Our vision is to be the leading service company in our chosen markets. This means we want to be the best partner to work with, the company people aspire to work for and the company that delivers superior returns to shareholders. Our chosen markets are those that promise strong revenue growth, attractive margins and the ability to offer good working conditions for our people.

2009 Highlights

A strong performance and well positioned for future growth

Revenue
(2008: £3,124m)

£3,970m
+27.1%

Adjusted operating profit
(2008: £165.2m)

£229.7m
+39.0%

Adjusted earnings per share
(2008: 22.20p)

29.53p
+33.0%

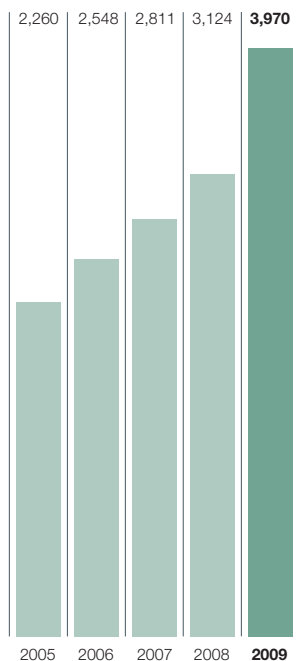
Profit before tax
(2008: £136.1m)

£177.1m
+30.1%

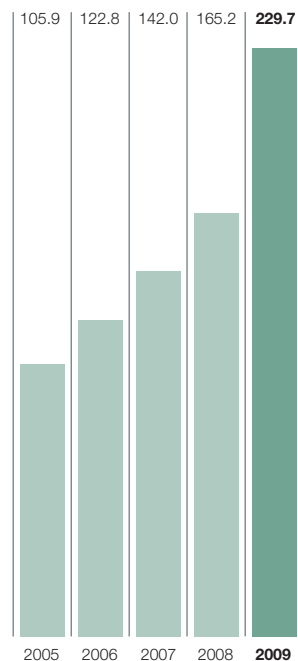
Earnings per share
(2008: 20.49p)

26.76p
+30.6%

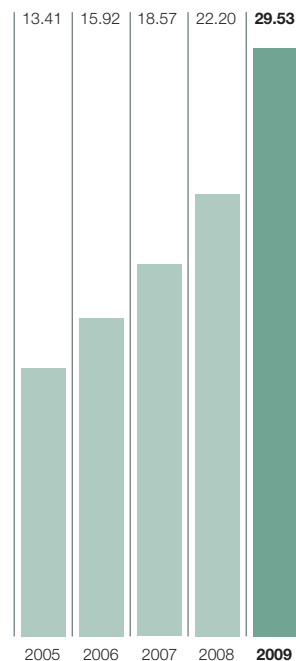
Revenue
(£m)



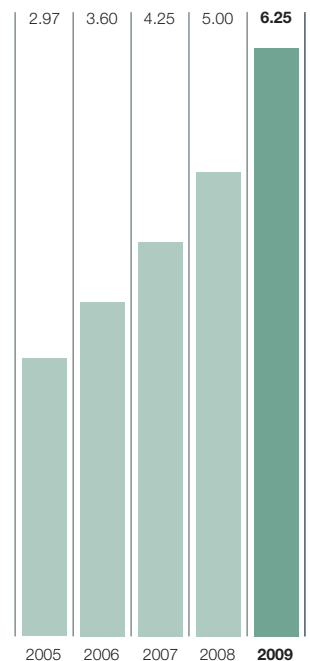
Adjusted operating profit
(£m)



Adjusted earnings per share
(pence)



Dividend per share
(pence)



Dividend per share
(2008: 5.00p)**6.25p**
+25.0%**Group free cash flow**
(2008: £94.2m)**£137.3m**
+45.8%**Strong operational performance and growth; awarded contracts valued at £5.8bn**

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

Strong financial performance

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

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

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

Well positioned to support customers with our transformational capabilities

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

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

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

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

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

Our offering

Serco delivers essential services in a wide range of markets around the world. We are able to operate across this broad spectrum because our core capability is people-led service delivery and change management.

This means that we analyse a customer's problems and produce a tailored solution which has the improved management of people and service at its heart.

Our solution is to redesign organisations to remove bureaucracy, enhance processes and liberate people to deliver their best. We introduce technology, continue to invest during the life of the contract and make the best use of available assets. The outcome is improved service quality and productivity, which in turn reduces costs for our customers.

Crucially, we instil our values, which are defined by our Governing Principles (see opposite), and are aligned with our ethos of delivering high-quality services. These are central to everything we do, and focus us on delivering the best for our customers, our people and the wider community – what we call “bringing service to life”.

Transferable skills

In addition to our core capability, we have developed a wide range of specialist skills in the sectors in which we operate. These help us to grow in a number of ways.

First, we can transfer these skills around the world, winning new work and expanding our geographical reach. For example, our

light rail skills from improving and running the Docklands Light Railway in London were instrumental in winning the contract to operate the Dubai Metro. We were also able to take our experience of operating UK immigration centres to win similar work for Australia's Department of Immigration and Citizenship.

Second, we are able to create unique combinations of skills from around our organisation to provide differentiated proposals to customers. Operating London's Woolwich Ferry, for example, uses the marine services skills we have developed in our defence operations and joins them with our experience of running mass transit operations. Other examples include the use of our information technology skills to support services that help the long-term unemployed into work, enable citizens to access local services and keep borders secure.

Third, we are able to benchmark our performance across contracts in different locations and ensure that we share best practice, so that we can constantly improve our operational delivery for our customers.

We redesign organisations to remove bureaucracy, enhance processes and liberate people to deliver their best.

Our culture and values

Serco could not succeed without the skill and dedication of all of our people around the world. They embody our culture and are responsible for living our values each day. Our culture and values truly differentiate us from our competition and underpin the way we run the company.

We work with our customers in a collaborative, flexible and imaginative way. We seek to understand what motivates them and to share their service ethos. We devolve responsibility to the contract level, empowering our people to deliver their best for our customer and instilling a stimulating culture so they feel they can personally make a difference.

Our values, which are encapsulated in our Governing Principles, are a fundamental part of this culture, and inform every decision we make. By living these values, we ensure that we operate in a responsible way and that we deliver the excellent service on which our business success depends.

Page 47 sets out how we develop our people and enable them to excel.

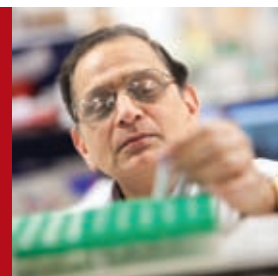
Our Governing Principles

We foster an entrepreneurial culture

We are passionate about building innovative and successful Serco businesses. We succeed by encouraging and generating new ideas.

We trust our people to deliver.

We embrace change and, by taking measured risks, encourage creative thinking.



We enable our people to excel

Our success comes from our commitment and energy to go the extra mile. We are responsible to each other and can expect support when we need it most.

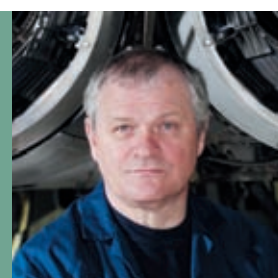
We expect our people to achieve more by recognising and harnessing the power of individuals. We value people for their knowledge, and ideas and potential to contribute.



We deliver our promises

We do what we say we will do to meet expectations. We only promise what we can deliver.

If we make mistakes we put them right. We are clear about what we need to achieve and we expect to make a fair profit.



We build trust and respect

We build respect by operating in a safe, socially responsible, consistent and honest manner.

We never compromise on safety and we always operate in an ethical and responsible manner.

We listen. In doing so, we treat others as we would wish to be treated ourselves and challenge when we see something is wrong. We integrate with our communities.



A balanced portfolio

Our business began in the UK and we have grown rapidly. We have also diversified our portfolio by expanding internationally, notably into North America which now accounts for around a quarter of our revenues, into Australia, Europe, the Middle East and, most recently, India.

We deliver a wide range of high-quality essential services for our customers. Our broad capabilities and market expertise have enabled us to build a balanced portfolio of long-term contracts in a variety of sectors in Civil Government, Defence, Transport and Science.

Civil Government
2009 Revenue

£1,556m

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

In home affairs, we are the UK's leading private provider of custodial accommodation, and deliver immigration control, homeland security, electronic monitoring, court escorting, case management and technology services. In Australia, we manage two prisons and provide immigration services, including operating seven immigration centres. We also provide services to Hunfeld prison in Germany.

We deliver transformational services in the UK for local government using our information and communications technology (ICT) and BPO skills, and are a leading provider of business support services. In the US, we deliver information technology and business process services to government agencies such as the Department of Energy, the Department of Homeland Security, the Department of State and the Federal Communications Commission.

We provide ICT services in several European countries, to both governments and European agencies, and state-of-the-art technology solutions and integrated systems to government ministries and commercial customers in the Middle East. We established a presence in India in 2008 and now provide BPO services to major international companies.



In welfare to work, we are delivering the first phase of The Flexible New Deal in three UK regions. The Flexible New Deal is the UK Government's new flagship initiative to assist long-term unemployed people in achieving and sustaining employment.

Our integrated services business provides innovative environmental, streetscene and other direct services to UK local councils, and in Australia and Hong Kong. We also manage a range of services contracts in the health, local government and commercial sectors.

We deliver education and children's services across three local authorities in England, manage inspection services for schools, further education colleges and work-based learning organisations in the central region of England, and support the delivery of national children's services programmes locally.

In health, we provide a wide array of services including pathology (through GSTS Pathology, our joint venture with Guy's and St Thomas' NHS Foundation Trust), out-of-hours GP care, forensic medical services, occupational and custodial health services and community care.

In consulting, we raise awareness of Serco and enhance our reputation with new and existing customers by providing high-impact advisory services and developing new innovative delivery models.



Defence

2009 Revenue

£1,020m

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

In the UK, 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 and operate and maintain strategic assets such as secure satellite communications, the Defence Academy of the United Kingdom, and the UK's ballistic missile early warning system at RAF Fylingdales. We provide systems engineering, safety assurance and risk management services, and support the essential defence and force protection research carried out at the Defence Science and Technology Laboratory.

In North America, our skills encompass information technology, professional support services, systems engineering, logistics, national security analysis and intelligence, and we serve every branch of the military. Many of our employees are embedded in military bases, working side-by-side with servicemen and women to deliver military support. In Canada, we provide base operations to the Canadian Department of National Defence at Goose Bay.

We deliver training, logistics and operational support services to the Australian Defence Force, with a presence on every defence base in Australia. In Germany, we deliver training, logistics and operational support services to the Bundeswehr.

Transport

2009 Revenue

£789m

We deliver innovative transport solutions to road and public transport authorities, government agencies and commercial enterprises. We are a key provider of infrastructure and operational expertise across metro, rail, road, air traffic control and ferry services.

In the UK, with our partner, Abellio (formerly known as NedRailways), we run Northern Rail – the UK's largest train franchise – and Merseyrail – the UK's most punctual train operator. We operate the award-winning Docklands Light Railway and Woolwich Ferry in London. Key road contracts include the design and implementation of Transport for London's Cycle Hire Scheme, the National Traffic Control Centre, national motorway traffic infrastructure services and the installation and maintenance of road safety cameras throughout the UK.

We own and operate Great Southern Rail in Australia, including the Ghan and Indian Pacific trans-continental services. In Hong Kong, we provide parking services and operate road tunnels and the road corridor to mainland China. We run information and integrated transport management systems in Hong Kong, Queensland, Western Australia and New South Wales, and traffic camera services in Victoria.

In North America, we operate more than 60 air traffic control towers for the Federal Aviation Administration. We support Georgia's traffic management center and have a new contract to install and operate an intelligent transportation system. We offer parking services, including a smart parking system in San Francisco. In Canada, we deliver driver examination services in Ontario.

In the Middle East, we run the new Dubai Metro system and provide air traffic control services, and airport and technical services, across the United Arab Emirates and in Bahrain. We provide consultancy for Dubai's Roads and Transport Authority, supporting operations, maintenance and IT processes.

Science

2009 Revenue

£605m

Serco is a leader in managing both science-based organisations and the process of developing, transferring and applying knowledge to deliver maximum economic, social and environmental benefits to society.

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 also manage, with Battelle and the University of Manchester, the National Nuclear Laboratory, one of the UK's leading technology service providers and a centre of excellence in nuclear non-proliferation.

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.

Markets

National and local governments around the world face unrelenting demand from citizens for better public services.



Governments must also address significant challenges, including unemployment and economic development, ageing and growing populations, migration, security, crime prevention, congestion and climate change.

Increasing demand for high-quality services

National and local governments around the world face unrelenting demand from citizens for better public services.

At the same time, their finances have deteriorated sharply and many face significant budget deficits which will take years to rectify. Governments must also address significant challenges, including unemployment and economic development, ageing and growing populations, migration, security, crime prevention, congestion and climate change.

The scale of these challenges, and the requirement to improve productivity given the financial challenges they face, are encouraging governments to make transformational changes and address some of the largest areas of their spend. This is driving a greater acceptance of innovative ways of achieving change and broadening our addressable markets.

Governments are not alone in the need to improve productivity. Our private sector customers face similar imperatives and are seeking our help to achieve their aims.

Given our customers' challenges, our ability to support them with high-quality services is increasingly attractive to them. We are well placed to help them maintain and improve service standards whilst achieving greater productivity, given the breadth and depth of our capabilities across a wide range of markets, our track record of delivery and our proven ability to create innovative solutions targeted at their needs.

Significant potential for market growth

Our markets are large and expanding, with the services we offer increasingly helping our government customers to address some of the biggest areas of their spending.

The UK, for example, is one of the world's most developed markets for the outsourcing of public services, but there is still considerable scope for growth. Of the UK's total government spending of £620bn, the public services industry accounts for around £80bn. Similarly, in the US, the federal government services market accounts for around 10% of total federal government expenditure.

The scale of our markets and the increasing scope of our capabilities, which allows us to enter new areas within these markets, means that we can be selective about the opportunities we bid for, only taking on those which meet our strict criteria. It also means that our share of any individual market is not relevant to our ability to succeed there or to delivering our growth ambitions.

Our competitive environment

Competition is necessary for our markets to operate effectively.

A fair, competitive environment encourages customers to put services out to tender, as it provides a benchmark to ensure they are getting best value, and drives our public services industry to innovate.

Our competitors are mainly commercial companies but in some markets they can include public sector bodies. We have, for example, competed against government-owned railway companies in the transport market and against UK National Health Service Trusts in health.

The breadth of our business means that no organisation competes with us across all our markets, and only a few operate in more than one. However, we see a good number of effective competitors in all of our markets. As we enter new markets, we meet competitors who specialise in those areas, but in our established markets, competition has remained steady as our customers focus on the established providers who they trust to deliver what they need.

Our long track record as a pure service company, the breadth and depth of our capabilities, our ability to tailor our offering and to develop new models and better ways of working, puts us in a strong position for the future.

Given our customers' challenges, our ability to support them with high-quality services is increasingly attractive to them.

Our strategy

Our strategy has four elements, each of which contributes to two or more desired outcomes. This table explains our strategy and sets out what we achieved in 2009.

Strategy

Build a balanced portfolio

Description

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.

Desired outcome

Reduce our exposure to market fluctuations



Strengthen our position in our chosen markets



Develop new skills and capabilities for the future

Key achievements in 2009

We strengthened and broadened our portfolio. We won £4.5bn of contracts, both through new wins and expanding the scope and scale of existing contracts. The Operating Review, starting on page 14, contains more details of our wins during the year.

We entered new growth markets, such as pathology and welfare to work, and broadened the scope of our business in existing geographical markets by leveraging capabilities developed in other regions, such as using our UK skills in immigration services to win contracts in Australia, and our light rail skills to ensure a successful start to our Dubai Metro contract.

Deliver excellent service

Delivering excellent service means meeting – and often exceeding – customer expectations. We do this by having the responsible behaviours enshrined in our values at the heart of everything we do.

This enables us to build long-term customer relationships, to expand the scope and scale of contracts during their life, retain contracts at rebid and win new contracts.



We maintained our rebid win rate at 90% and continued to win one in two new bids, reflecting the quality of our service and our ability to select the most attractive opportunities.

We successfully started a number of major new contracts, including our contract to operate the Dubai Metro, three Flexible New Deal contracts in the UK, and our immigration services contract in Australia.

Our focus on service and corporate responsibility was reflected in numerous awards. Our approach to corporate responsibility is described on page 50 of this report.

Make strategic acquisitions

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



We have built a strong platform for growth in the substantial US federal government services market through the successful integration of SI International, which we acquired at the end of 2008. We now serve all branches of the US armed services, as well as intelligence and federal civil government agencies.

We also successfully integrated two smaller acquisitions, InfoVision in India (now Serco BPO), positioning us for opportunities in the Indian services market, and Grosvenor Health in the UK (now Serco Occupational Health), adding to the services we offer our customers in the UK.

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 third sector. Our ability to lead change keeps us at the forefront of our markets.



We won three contracts in a new UK market – welfare to work – by developing a unique and innovative model, partnering with third sector and other organisations.

Similarly, our partnership with third sector organisations played a significant role in helping to secure our appointment as preferred bidder for two new prison contracts, at Belmarsh West and Maghull, in the UK.

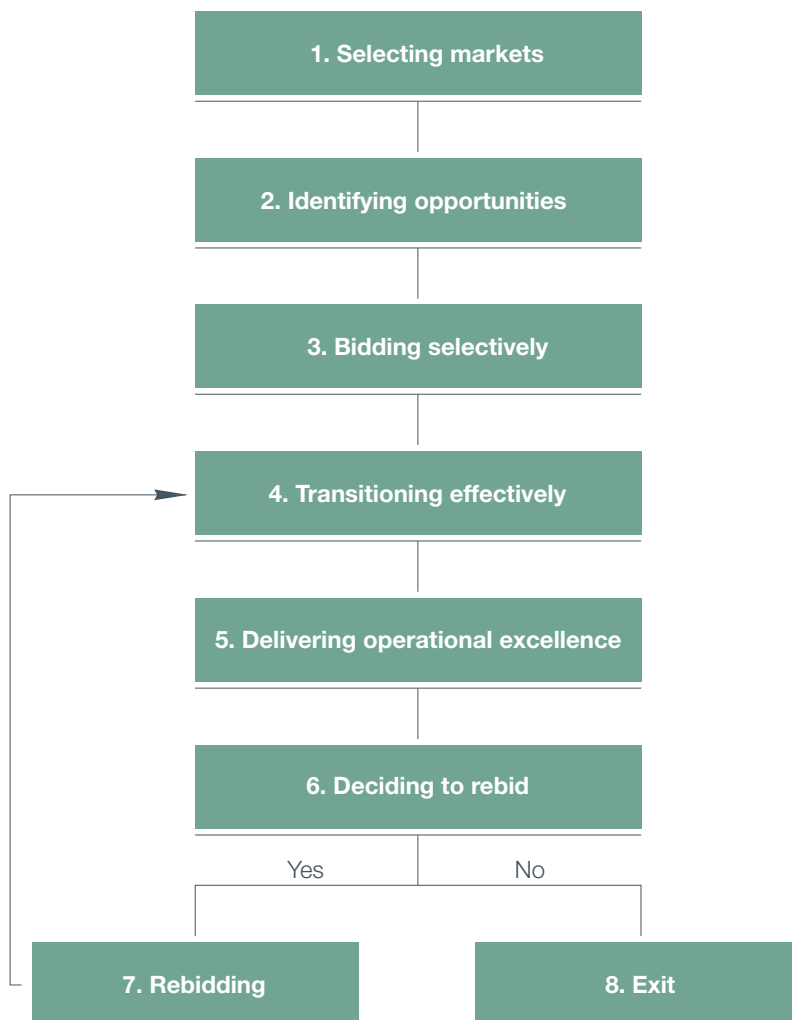
We created GSTS Pathology, a groundbreaking joint venture with Guy's and St Thomas' NHS Foundation Trust, to improve its pathology services.

Managing our business lifecycle

To achieve our vision of becoming the leading service company in our chosen markets, we must manage our business as effectively as possible.

Summary of the Business Lifecycle Governance Process

The Business Lifecycle Governance Process (BLGP) formalises our approach to maximising value creation and managing the associated risk. It helps us to determine the markets we want to do business in, to bid successfully for the contracts that add the most value, to transition these contracts to deliver this value, and then to retain and grow them.



1. Selecting markets

We select markets that are politically and economically stable, which offer multiple contract opportunities and good growth potential, and where we can differentiate Serco from the competition.

We also ensure these markets have the appropriate margin and cash flow characteristics to enable us to meet our financial aspirations. We analyse many other factors, including our understanding of the customers and the way they procure, the market's drivers and maturity, and whether we can create an attractive and rewarding working environment for our employees.

In new markets, we consider our market-entry strategy and whether we need a new business model to succeed, and we assess any ethical and human rights factors which may influence our decision to go ahead.

2. Identifying opportunities

Once we are satisfied that the market is attractive, we identify opportunities we can bid for.

At this step we test the quality of each opportunity, including our understanding of the customer's business and vision, their funding for the project and how likely they are to proceed to procurement. We compare each opportunity against other opportunities elsewhere, to determine which would be the best use of our resources.

3. Bidding selectively

Bidding can take many months and can therefore involve considerable expense and use of our people resources, so we only bid for the best opportunities – those which meet all our financial, ethical and other criteria and where we have a strong chance of winning.

This stage has multiple steps, from our initial submission to the customer, to being shortlisted, to our final bid. During the bidding process, we develop a detailed solution for the customer's requirements and test it thoroughly. We also review the opportunity's attractiveness, and the risks associated with it, at every step and reconfirm that we want to proceed with it. Once selected by the customer, the final step is to negotiate and sign the contract.

4. Transitioning effectively

Effectively transitioning a new contract is vital. This process commences at contract signing and carries through to ongoing service delivery.

We ensure that we have appropriate planning and control measures in place to start work seamlessly on day one, as we begin to implement the solution which we have developed in detail during the bidding phase. We also transfer the knowledge we created during the bid to the team who will run the contract, and continue to build good working and strategic relationships with our customer and other stakeholders.

5. Delivering operational excellence

Throughout the life of a contract, we aim to deliver operational excellence and continual improvement through innovation.

Devolving responsibility to the contract director helps us do this, by enabling them to be responsive to our customer's needs and allowing them to put new ideas into practice. It also makes our business scalable, allowing us to successfully manage a growing number of contracts.

Our contracts are run within the control framework set out in the Serco Management System (SMS) and every decision must be in accordance with our values, as defined by Serco's Governing Principles (see page 5). This ensures that we always operate safely and responsibly, safeguarding the needs of all our stakeholders.

Working in the right way and meeting – or exceeding – our customer's expectations, helps us to build a long-term relationship with our customer and makes us part of their organisation. This often leads to our customer expanding the scale or scope of the contract during its lifetime, which is very important for our growth. It also positions us well to win the contract at rebid.

6. Deciding to rebid

As the contract nears the end of its life, we decide whether or not to rebid it.

Although we usually rebid, we do occasionally determine that it would be better to exit the contract. We might do this, for example, if the market has stopped growing or become too price competitive, making it difficult for us to operate by our strict criteria such as providing good working conditions for our people, and meaning that we can get a greater return by investing our resources elsewhere.

7. Rebidding

If we decide to rebid, we approach the bid as if it were a new one, looking for further innovations and ways to increase the scope of the services we perform for the customer.

This helps us deliver even greater productivity and service quality during the next contract term. Often the customer chooses to include more services and lengthen the contract, so that the value of a rebid can be considerably larger than the original contract. The quality of our service delivery and our ability to innovate mean that we retain around 90% of our contracts at rebid.

Once we have secured the rebid, we return to the transition phase, where we bed-in our changes and any new services we have taken on.

8. Exit

When we exit a contract, we always ensure we do so in the right way.

Where appropriate, we work closely with the incoming contractor to protect the interests of the customer and of the people who will transfer from us as the contract passes on. This is also important because of the value we place on long-term relationships, which mean that we may well work for that customer again in the future.

Chairman's Statement

Serco performed strongly in 2009. We strengthened our position in existing markets by expanding the scope and scale of our current contracts and winning a significant number of new contracts, and broadened our portfolio by entering a number of new markets where we see strong opportunities for growth.



“Our ability to transform essential services for our customers and our track record of high-quality and efficient operational delivery were reflected in substantial contract awards during the year, and continued high win rates.”

Kevin Beeston
Chairman, Serco Group plc

The business performed very well operationally, including successfully starting several major new contracts, and we created an enhanced platform for growth through excellent progress on the integration of the SI International (SI) acquisition.

We also continued to develop new opportunities for future growth, which are reflected in the increase in our pipeline of opportunities to a record £28bn.

Financial Results

We delivered a strong financial performance and also benefited from a first-year financial contribution from SI. Revenue increased by 27.1% to £3,970m, and Adjusted operating profit by 39.0% to £229.7m. Excluding currency effects, revenue grew by 20.8% to £3,774.0m and Adjusted operating profit rose by 31.1% to £216.5m.

Our margins increased, with the Adjusted operating profit margin rising 45 basis points to 5.74%, excluding currency effects. Excluding both SI and currency effects, revenue grew by 10.2% to £3,442.1m and Adjusted operating profit rose by 15.8% to £191.3m. Organic revenue growth, excluding currency, was 9.4%. Group free cash flow increased by 45.8% to £137.3m. Group recourse net debt at the year end decreased by £136.8m from the end of 2008 (£84.8m excluding currency effects) to £387.7m, placing us very comfortably within all of our banking requirements.

Revenue

(2008: £3,124m)

£3,970m
+27.1%

Adjusted operating profit

(2008: £165.2m)

£229.7m
+39.0%

Dividend per share

(2008: 5.00p)

6.25p
+25.0%

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

Dividend

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

Twenty-five years of evolution

As announced in October 2009, I will be stepping down as Chairman and from the Board at the Annual General Meeting in May.

By then I will have been at Serco for 25 years. Some things have remained constant during that time, among them our people-focused values and our commitment to being a trusted and responsible company. The shape of the business, though, has changed beyond recognition.

In 1985, Serco was almost entirely UK focused and defence was our dominant market. Since then, we have successfully broadened our contract portfolio around the world, and operate in many geographic markets and sectors for both governments and businesses. With our customers facing ever-increasing challenges, under pressure to improve service quality and productivity, and looking to outsource new types of work, that expansion is set to continue as we support their agendas for change.

I will look back on my time at Serco with great pride and affection and wish the new Chairman and the Board every success in taking Serco forward to new heights.

People

As a service company, people are our major asset. Serco's track record of growth and our reputation for service excellence are the result of having people who are willing to go the extra mile and put our customers' interests first. I would like to thank each and every one I have worked with over the last 25 years for their dedication and support and for making Serco the great company it is today.

“I will look back on my time at Serco with great pride and affection and wish the new Chairman and the Board every success in taking Serco forward to new heights”

Chief Executive's Statement

2009 was another successful year for Serco, and I am very pleased with our performance. I am particularly proud of the commitment and extraordinary efforts of our people who are at the heart of the service we deliver to citizens and customers around the world, and who remain fundamental to our achievements.



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

Christopher Hyman
Chief Executive, Serco Group plc

Strong performance in 2009

Serco delivered a strong performance in 2009, and entered 2010 with a record order book and increasing opportunities both in the UK and internationally. We continued to strengthen our existing capabilities with new skills for growing markets. With fiscal pressures increasing across all markets, we see strong demand for our capabilities to ensure the efficient delivery of essential services.

Strengthening our position in existing markets

In 2009, we were awarded new contracts and through renewals and extensions we expanded our work across a broad spectrum of our existing markets, including home affairs, IT and BPO, education, transport and integrated services. Smaller and medium-sized contract wins continued to be an important driver of our growth, and further details of some of these awards are given in the Operating Review, starting on page 20.

In larger contract awards, we were selected for a number of significant new home affairs contracts. In Australia, building on capabilities developed in the UK, we signed two new contracts with the Australian Government Department of Immigration and Citizenship (DIAC) to transform its immigration services across the country, and, towards the end of the year, to manage the operation of immigration residential housing and immigration transit accommodation.

Together, these contracts are valued at around AUS\$415m over five years. In the UK, we were appointed as the preferred bidder to manage and operate two new prisons at Belmarsh West, London, and Maghull, Liverpool, with a combined value to Serco of around £600m over 26½ years. Signing of contracts for these prisons is expected by summer 2010.



In defence, we provide military satellite communications support to the US Air Force 4th Space Operations Squadron (far left).

In health, we are helping Guy's and St Thomas' NHS Foundation Trust to improve the efficiency and responsiveness of its pathology services (left).

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

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

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

From the start of 2010, we have repositioned our business to maximise our focus on growth and opportunities and to ensure that we maintain a flexible and devolved organisation which is responsive to our customers' needs. As a result, we have created five new divisions, focused on our principal markets.

These are: Civil Government; Defence, Science and Nuclear; Local Government and Commercial; Americas and AMEAA (Africa, Middle East, Asia and Australasia). Our segmental reporting will reflect these five divisions, starting at our half year results in August 2010.

Entering new growth markets

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

In the UK, we opened a new market, pathology, to help our customers improve the efficiency and responsiveness of health services. At the beginning of the year, we formed a new partnership, GSTS Pathology LLP, with Guy's and St Thomas' NHS Foundation Trust, to pursue opportunities in this substantial market, which is valued at approximately £2.5bn. In January, GSTS signed a contract, valued at £250m over ten years to Serco, to improve Guy's and St Thomas' pathology services, and in the second half it further expanded its operations by signing a similar contract with the Bedford Hospitals NHS Trust, valued at approximately £31m to Serco over ten years.

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

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

Delivering operational excellence

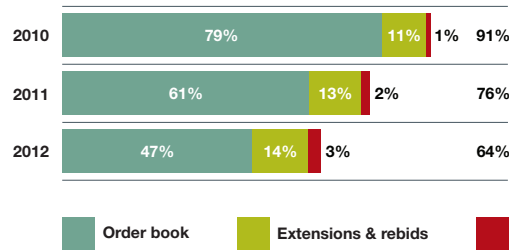
In 2009, the dedication of our people and the breadth of our capabilities meant that we continued to deliver a strong operational performance in the services we provide, and therefore the value we add, for our customers.

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

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

Chief Executive's Statement continued

High visibility of planned revenue at 31 December 2009



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

We have made excellent progress with the integration of SI in its first year of ownership, with our enhanced capabilities providing a strong platform for growth.

This platform positions us well for opportunities in 2010 and beyond in the largest government services market in the world, the US Federal Government services market, notably in supporting the government in modernising and improving the effectiveness and security of services. We were also pleased with SI's financial performance. SI's revenue grew by 7.5% to US\$618.5m, and SI's Adjusted operating profit increased by 28.3% to US\$47.1m, representing a margin of 7.6%.

“With the recent substantial increase in fiscal deficits, governments are increasingly seeking new ways to fundamentally transform the efficiency and productivity of essential services.”

People

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

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

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

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

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

Board Change

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

Outlook

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

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

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

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

Delivering essential services... together



Serco delivers essential services. The work we take on is vital to our customers but needs to be done more productively and with an improved outcome. Our contracts involve us in some of the most important areas of public service and government spending such as health, education, transport and defence, and what we do often has a direct bearing on people's lives.

What do we mean by delivering essential services together?

It means, first and foremost, that we build long-term and mutually-beneficial relationships with our customers. The closer we are to them, the better we are able to help them achieve what they want. We build these relationships by providing excellent service and innovation during the life of the contract, so that they retain us at rebid. For example, we have delivered air traffic control services to our customers in the Middle East for more than 60 years. We also create new ways to work with our customers. Our joint ventures with Glasgow City Council and Guy's and St Thomas' NHS Foundation Trust, which are among the first of their kind, are excellent examples of this.

Second, our people must work well together to deliver what our customers need. Our culture and values create an environment where people are liberated to do their best, where we support, listen to and respect each other, and where people of all backgrounds come together with a common aim. Our Dubai Metro contract, for example, employs people from 26 nationalities.

In recent years, we have increasingly reaped the benefits of bringing the skills of our divisions together to create a compelling offering for our customers. Often, this means spreading our skills around the world. Our expansion in the home affairs market in Australia and our success with the Dubai Metro both depended on our local market knowledge and the world-leading capabilities we transferred from our UK divisions. We are also increasingly combining the specialist skills of two or more of our businesses to create a unique blend of skills, for example in our, information and communications technology skills supporting our welfare to work contracts, or our call centre expertise for the London Cycle Hire contract.

Delivering essential services together also means working with partners, as we have done with great success. For example, our joint venture with Abellio (formerly NedRailways) to run Northern Rail and Merseyrail has made us one of the UK's leading train operators, with very high levels of performance. We also work together with third (or non-profit) sector organisations, who have experience in tackling some of society's most pressing problems. Our contracts to deliver the UK's Flexible New Deal programme, for example, involve us co-ordinating more than 60 subcontractors, around a third of which are from the third sector. In the US, we actively support SMEs and veteran-run businesses.

Organic growth is the bedrock of our business but we also make acquisitions to bring in new skills or to open up a market for us. This means that together, we are better positioned to succeed. Our 2008 acquisition of SI International in the US, for example, has significantly expanded our capabilities and broadened our customer base, in particular in the defence market. Serco now serves all branches of the US armed forces.

We always remember that we must work together with the communities that surround our contracts. Often these communities are the end users of our services. Our people also live in these communities, and we want them to be proud of what we do and their role in it. Delivering essential services together is a fundamental part of our business and as we continue to innovate, it will only become more important. Our values and our experience of collaborating with our stakeholders make us an attractive partner and position us well to succeed.

“Delivering essential services together means first and foremost that we build long-term and mutually-beneficial relationships with our customers.”

Civil Government

2009 Revenue

£1,556m

(39% of Group Revenue)

Our track record of providing secure and cost-effective services, which promote rehabilitation and enhance care, resulted in a number of significant contract awards in 2009.

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

Home affairs

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

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

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

In border security and control, we extended our contract, known as Mycroft, to provide infrastructure and intelligence applications to the UK Border Agency and other Home Office agencies. The new contract is valued at around £34m over its five-year term. Also in the UK, as part of the Trusted Borders consortium, we have now successfully delivered the first capability piece for e-Borders, allowing the processing of over 100 million passengers a year, and are providing infrastructure to support the next stages of this key programme.

Our work includes:

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

In our existing Cyclamen border security contract, while start up has taken longer than expected, we expect to complete the roll-out of this system, which will provide protection against the illegal importation of radioactive materials, in 2010. This leading edge capability, part of the UK Government's counter-terrorism strategy, will be operated by the UK Border Agency and maintained by Serco.

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

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

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

Our work in home affairs includes electronically monitoring offenders (right) and running prisons in the UK, Australia and Germany (far right).



Together... we improve immigration services

Australian Department of Immigration and Citizenship

In 2009, we signed a contract with the Australian Department of Immigration and Citizenship (DIAC), to transform its seven immigration centres. We created a compelling offering for our customer by bringing together skills and capabilities from different parts of Serco. We run similar centres in the UK and combined our operational expertise from these with an in-depth knowledge of the Australian market and DIAC's requirements.

The partnership between our UK home affairs and Australian businesses dates back several years, and our other notable successes from it include our contracts to run Acacia and Borallon Prisons. We have since won a second contract with DIAC, to transform the operation of immigration residential housing and transit accommodation in four capital cities and will create a new experience of caring for people in detention.

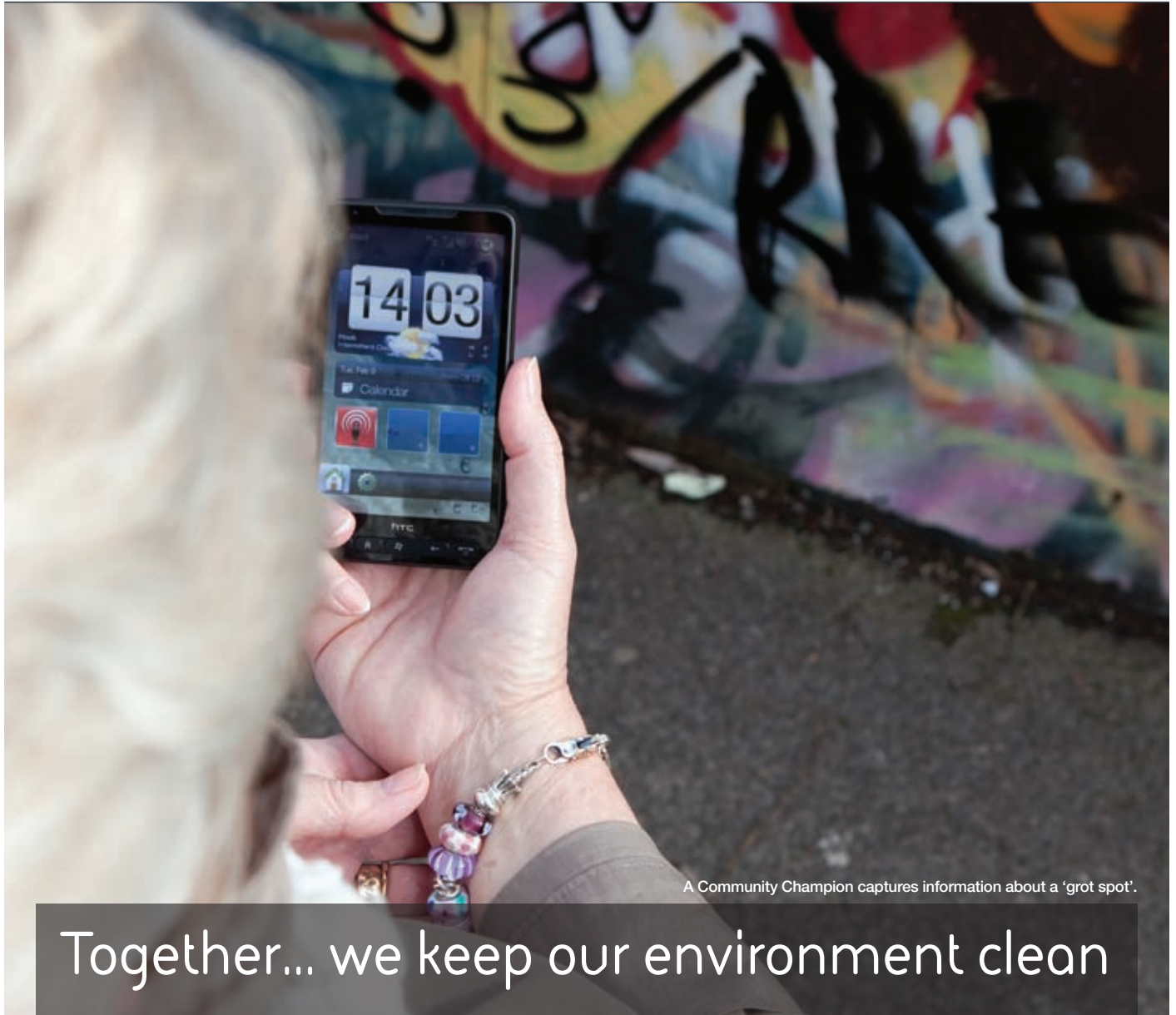
Our work for DIAC also demonstrates another aspect of the way we work. We aim to be good neighbours, integrating with local communities, understanding their sensitivities and ensuring our values are lived locally.

Employing local people is an important part of our community involvement. At the four immigration centres on Christmas Island, a remote location in the Indian Ocean, we have increased local employment by nearly one-fifth. On the day we began running the centres, 13 newly-trained Christmas Island residents started work as Client Service Officers (CSOs), caring for people in detention. This is a vital role as we focus on the wellbeing of people in detention. The centres now employ 85 of the island's 900 residents with recruitment ongoing. Flying in fewer staff from the mainland is a step towards providing sustainable employment on the island, boosting the local economy and offering our new employees career opportunities and development at home. We are now looking to the nearby Cocos Islands, where the male unemployment rate is 65%. We hope to train a dozen Cocos residents as CSOs to work on Christmas Island.



Recreational facilities at the immigration centre in Perth, Australia.

Civil Government continued



A Community Champion captures information about a 'grot spot'.

Together... we keep our environment clean

Community Champions

We provide environmental services to 15 local authorities in the UK. In doing so, we have learned that the best way to keep the local environment clean is to work together with the people who live there.

In partnership with one of our customers, Welwyn Hatfield Borough Council, we have enlisted the help of 'Community Champions'. These volunteers tell us about 'grot spots' – areas suffering from issues such as heavy litter, graffiti or fly tipping. We then despatch a clean-up team to fix the problem.

Working with the community in this way helps us to deal with more incidents, more quickly. The success of the scheme has encouraged more people to get involved, and we now have 18 Community Champions in Welwyn Hatfield.

Our Community Champions have also helped us to improve our service. At their suggestion, we created a web page where they can report their findings. By capturing standard information each time, we can spot trends and work with the Council to identify a solution.

Technology will also have an important role to play in helping us work even more closely with communities. In our contract with Charnwood Borough Council, we will be equipping our Community Champions with GPS-enabled personal digital assistants. These devices will allow them to photograph 'grot spots' and send the picture to us electronically, along with its precise co-ordinates. This will help us to respond more efficiently, improving the environment for all the local residents.

Our environmental services include refuse collection (far left) and street cleaning (left).

We deliver education services at schools in Walsall and Bradford, UK.



Integrated services

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

In environmental services, we now work for 15 local authorities in the UK. In the second half of the year, we signed a new contract with the London Borough of Bexley to provide a full range of environmental services, including refuse and recycling collection, commercial waste and street cleaning. Our innovative approach will result in an enhanced standard of cleanliness in residential areas, improvements to the efficiency of the environmental services, and a 40% reduction in the service's carbon footprint. The contract is for an initial term of 10½ years, with an option to extend for a further five years, and is valued at over £160m over the full 15½ years. This follows the award of a new contract to provide refuse, recycling and streetscene services for Charnwood Borough Council in Leicestershire, valued at around £35m for a minimum period of seven years.

We also expanded our presence in other integrated services markets during the year. In the UK health market, our new contract, with the Plymouth Hospitals NHS Trust valued at around £140m for up to ten years, commenced on 1 October. During the early stages of the contract, great progress has been made in upgrading catering services for staff and visitors, making a step change in cleaning services including the introduction of innovative microbiological testing of cleanliness standards, and improving the provision of catering serving 1,000 patients a day.

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

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

Education and children's services

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

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

In the first half of the year, we signed a new six-year, £55m contract in the UK with Ofsted to deliver inspection services to schools, further education colleges, and work-based learning organisations across central England. Since its start in September, we have successfully completed over 1,000 inspections.

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

Healthcare

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

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

In Bexley, our innovative approach to environmental services will result in an enhanced standard of cleanliness in residential areas, improvements to the efficiency of the environmental services, and a 40% reduction in the service's carbon footprint.

Civil Government continued



We help long-term unemployed people into sustainable jobs.

Together... we get people back to work

Welfare to work

We have developed a pioneering strategy to support the Flexible New Deal (FND), the UK Government's flagship initiative to help long-term unemployed people into sustainable work.

This is a new market for Serco and so far we have won contracts in the North West, Wales and the West Midlands. Our unique strategy is to bring together a network of partners to deliver all front-line services, drawing on the best national providers and integrating them effectively with local, specialist, community-based organisations.

Working together has several advantages. Our customers have access to a broad range of service providers, each with different capabilities. We create a programme that suits their circumstances and draws on specialist support when needed, such as debt counselling and vocational training. Our model allows small organisations to benefit from large government contracts, which they could not bid for themselves.

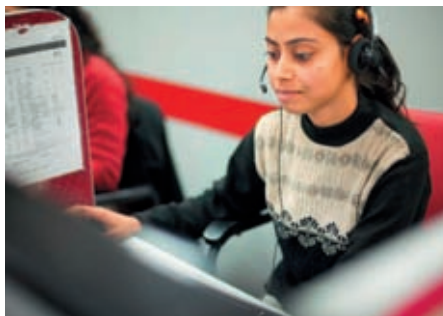
The model is also transparent and helps to build trust by allowing the Government to see the performance of individual subcontractors.

In addition, we will deliver more sustained jobs at a lower cost because our model directs resources to those organisations best placed to support jobseekers. We co-ordinate and manage our partners, allowing them to concentrate on what they do best – service delivery.

Finally, we work alongside other strategic partners, including local authorities, regional development agencies and employers, to ensure that FND complements, rather than duplicates, existing employment and training provision.

The most important benefit, though, is for the long-term unemployed people we help. By working together, we and our service-delivery partners will support more than 130,000 people into sustainable jobs. We have started the process by staffing our new call centre in Rhyl with people who were long-term unemployed.

Our three Flexible New Deal contracts help long-term unemployed people into sustainable work by providing a programme of tailored support including career planning and job search advice (far left and left).



Our BPO business in India provides customer services, database management and back office services in this fast growing country.

Welfare to work

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

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

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

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

In welfare to work, we are tracking ahead of target, with our highest performing providers already achieving a good early success rate of over 30% of their first jobseeker referrals into employment.

IT and BPO

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

The value of the support we provide to small and medium-sized enterprises in the UK under our Business Link contracts was recognised during the year through the award of a new contract to provide Business Link services to the South East of England Development Agency, in a contract that is valued at around £80m over three years (with a two-year extension option), and by expansion of our existing contracts with the South West Regional Development Agency valued at approximately £20m.

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

In Europe, we expanded our business supporting IT, space and science through a number of contract wins with European institutions, the European Space Agency and at CERN, with a combined value of €93m.

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

Consulting

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

Defence

2009 Revenue

£1,020m

(26% 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, US, Canada, Germany and Australia. We provide training, engineering and operational support, maintain strategic defence assets, and deliver cost analysis, human resources, systems engineering, safety assurance and risk management services.

We have a strong track record of improving productivity and reducing the cost of customer operations, while improving operational availability and capability.

North America

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

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

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

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

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

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

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

The acquisition of SI at the end of 2008 has significantly expanded our capabilities and broadened our customer base, and we now serve all branches of the US armed forces.



We support essential satellite communications technology for the US Department of Defense (far left).

Our contract in the US to run the Wounded Warrior Call Center helps ill and injured marines, sailors and their families.

Together... we keep the armed forces connected

US Military support

An important part of our strategy is to make acquisitions which bring us new skills and take us into new markets, so that together we have a stronger platform for growth.

The 2008 acquisition of SI in the United States significantly expanded our capabilities and broadened our customer base.

Bringing SI into Serco has, for example, made us an industry leader in developing technical documentation and training for the US Department of Defense communication satellite system. Our products and services help ensure that these satellites provide vital communications to US and allied forces worldwide.

We work directly with the operational squadrons, the government program office and other contractors. This ensures that we meet our customer's expectations and deliver technically accurate services that fit the users' needs.

Our people have been recognised for their expertise and responsiveness, earning excellent performance ratings from the customer for the last eight years.

We have also developed technical reference documentation, which needs to keep pace with new technology, system updates requested by the customer and changes in the way our customer performs its mission. By developing and co-ordinating changes together with the satellite operators, we make sure our customer gets what it needs, when it needs it.

Together with US Air Force instructors, we created a technically demanding training course for officers in the space operations squadrons. We held a continuous dialogue with the instructors, so that we could deliver exactly what they required. As a result, these materials were the first ever to be used directly, as delivered, in classroom and performance training by US Air Force instructors.



Our services help ensure satellites provide US and allied forces with vital communications.

Defence continued



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

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

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

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



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

Our support for the Royal Air Force includes providing aircraft refuelling services (far left), air traffic control (left), and providing training for pilots (below left).

Our services for the Australian Navy include supporting innovative training programmes at HMAS Watson for combat, ship handling and navigation.



United Kingdom and Europe

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

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

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

In smaller contracts, we were awarded an extension to our contract to support, operate and maintain the UK Ministry of Defence's mobile underwater targets at the British Underwater Test and Evaluation Centre, Kyle of Lochalsh, Scotland, and Weymouth, Dorset valued at up to £7.3m over 4½ years.

We were also appointed by the Ministry of Defence as part of the Paradigm consortium to supply the Cabinet Office with crisis management facilities and key crisis management centres across England, Scotland, Wales and Northern Ireland with a High Integrity Telecommunications System (HITS). Our role, valued at £1.2m over the first 12 months, will be to install the HITS equipment and provide planned and unplanned maintenance support for the HITS systems throughout the UK.

Since the year end, we have been appointed preferred bidder to manage the UK's Emergency Planning College on behalf of the Cabinet Office in a 15-year contract worth over £55m.

This places Serco at the heart of UK civil resilience, which includes planning responses to disruption from natural events and major accidents, and builds on our excellent track record in defence and emergency training provision. As commercial partner to the Cabinet Office, we will provide and manage all services at the College, and focus on both growing the business and enhancing its reputation as the UK's leading provider of emergency planning training.

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



Australia

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

Transport

2009 Revenue

£789m

(20% of Group Revenue)

Our work includes:

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

We are a major provider of transport services to the UK and markets in Australia, the Middle East and US. We operate heavy and light rail systems, are a leader in the development of integrated traffic management systems, and are one of the world's largest private sector suppliers of air traffic control services.

We are broadening our capabilities into other modes of transport, including marine transportation services through our operation of the Woolwich Ferry, and bicycles with our contract to operate the London Cycle Hire Scheme.

Light rail

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

On the Docklands Light Railway (DLR), passenger numbers increased by 3 million to over 69 million, helped by the opening of Woolwich Arsenal Station in early 2009. The final phase of work to complete the platform extension and upgrade work for three-carriage trains to run between Bank and Lewisham has now been completed, with longer trains to be introduced on this route throughout 2010. Preparation work is now under way at other stations to enable them to accommodate three-carriage trains from the end of 2010, and work on the Stratford International extension is expected to be completed by the summer.



The Docklands Light Railway carried over 69 million passengers in 2009.

Although services have been disrupted by these works, reliability has averaged above 95% this year and customer satisfaction with the service has remained above 90% throughout. Serco Docklands was also successful at the Light Rail Awards this year, with the Community Ambassador Scheme winning "Best Customer Initiative" for its work through local ambassadors in East London's communities.

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

Heavy rail

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

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

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

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



We brought together people, skills and experience from around the world to ensure that the Dubai Metro enjoyed a successful start (far left and left).



A Serco customer service agent on board the new Dubai Metro.

Together... we get Dubai moving

Dubai Metro

The Dubai Metro, which is the first in the Middle East, opened on 9 September 2009. We operate and maintain it on behalf of the Dubai Government Roads and Transport Authority (RTA).

We brought together skills and experience from around the world to help us win the contract and operate the Metro, combining our local understanding of the Middle East market and the RTA's needs with our global transport and metro capabilities, exemplified by the award-winning DLR in London.

We have also brought people together to deliver excellent service. Because the system is the first in the region, we had to search internationally for the skills we needed. To date, we have employed nearly 2,100 people, including 900 outsourced colleagues, from 26 countries, with 12% recruited from the local Emirati population – our largest ever recruitment drive.

While such a multinational workforce brings challenges, our values have determined our approach. For example, part of our training helps to foster respect for, and help our people embrace, the cultures of their colleagues and Dubai. We also provide high-quality accommodation for our people, while free wireless internet allows them to stay in touch with their families.

The outcome has been a successful start for the Metro. Despite a very tight deadline, the system opened on time. Since then, it has gone from strength to strength. Just 16 days after it opened, the Metro carried its one millionth passenger, with this number reaching over ten million by the end of January 2010.

We are now looking to increase the number of Emiratis working on the Metro. As part of this, we are launching a groundbreaking education programme which will help local people become the Metro's future operators, technical specialists, managers and leaders.

Transport continued



Traffic management

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

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

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

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

We also extended our contract for the maintenance of Transport for London's (TfL) Eastern Tunnel management system to the end of September 2010.

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

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



In the US, since the year end, we have been awarded two transport systems contracts by the State of Georgia Department of Transportation

Our joint venture to run Merseyrail achieved record levels of punctuality and customer satisfaction in 2009 (far left). The Ghan, in Australia, introduced its new Platinum service in late 2008 (left). Providing air traffic services at Dubai (below).

Our contract to design, build and operate the London Cycle Hire Scheme is an important step into a new market.



Civil aviation

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

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

Cycle hire

In the second half of the year, we signed a new six-year contract with Transport for London to design, build and operate the new London Cycle Hire Scheme. Under the contract, which is valued at approximately £140m, we will design and integrate technology and customer service operations, and provide, operate and maintain 6,000 bicycles for hire in Central London at 400 docking stations.

We have made good progress in the implementation phase of the scheme, with works under way on the building of docking stations across Central London, and on the systems and contact centre. We have also recruited the first members of the operational team, which will include a number of engineering apprenticeships, helping to develop the skills of young people in the capital.



In the UK, we provide a wide array of services including occupational and custodial health services and community care (far left and left).



Our pathology tests are essential to patient care.

Together... we enhance pathology services

Guy's and St Thomas' and Serco

Through our joint venture with Guy's and St Thomas' NHS Foundation Trust, we are now the UK's largest independent provider of pathology services. The partnership, called GSTS Pathology, is the first of its kind in the National Health Service (NHS).

Pathology is vital to patients' health. In the UK, 70% of decisions about patient care depend on scientific tests carried out in a pathology laboratory, and the £2.5bn NHS pathology market is growing at up to 10% a year. At the same time, clinical advances and new technology are driving the need for change in pathology services.

Together, Serco and the Trust have the right combination of skills and capabilities to grow in this exciting market, with our expertise in transforming services and developing

businesses complementing the Trust's clinical and scientific excellence.

Our partnership is already delivering benefits. Operational improvements, such as greater clarity of roles and personal accountability, have enhanced patient service. Cervical screening times, for example, have more than halved and GSTS Pathology introduced its own swine flu test in record time.

As a business, GSTS Pathology is also set to prosper. In December 2009, it began work on a ten-year contract to deliver pathology services for Bedford Hospitals NHS Trust. The contract has enabled GSTS Pathology to establish a hub in Eastern England, an area with a number of NHS Trusts and hospitals that are seeking to modernise their pathology services.

Science

2009 Revenue

£605m

(15% of Group Revenue)

Our work includes:

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

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

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

Our world-leading nuclear safety and assurance business continued to strengthen its support to operators of nuclear plant, both in the civil and defence nuclear sectors. During the year, this business continued its growth through a range of smaller, high-margin contracts, valued at over £40m.

Our strong positioning to play a key role in enabling nuclear new build was confirmed shortly after the year end by our signing a contract with Westinghouse, designer of the AP1000 nuclear reactor currently under assessment for the UK's civil nuclear programme. We will serve as its primary nuclear safety advisor in the UK, leading a team of experts to assist it in completing Step 4 of Generic Design Assessment for the AP1000. This is a critical stage in the reactor design approval process being conducted by the UK Nuclear Regulators which is due for completion in 2011.

In April we assumed management responsibility for the National Nuclear Laboratory (NNL), along with our partners Battelle and Manchester University, and the first months of operation saw a seamless transition to the new management team.

In July, the UK Government announced the creation of a Nuclear Centre of Excellence, based at NNL, to help ensure the peaceful use of nuclear power. This, coupled with the world-leading expertise at AWE in the fields of disarmament verification and non-proliferation, places Serco as a significant stakeholder in UK efforts to secure nuclear non-proliferation, disarmament and the peaceful application of nuclear technology. These are issues likely to gain in relevance during 2010 and beyond as part of the global security agenda.

During the year, we have continued our work at the National Physical Laboratory (NPL) to maximise the impact of the science we deliver in support of UK industry. In 2009 NPL worked with over 2,000 companies, and independent studies have shown that the laboratory's work for the National Measurement System contributes approximately £2bn per year to UK Gross Domestic Product. NPL also continues to contribute with its work supporting the low carbon economy and the health of UK citizens, for example through its work with UK hospitals to ensure that radiotherapy doses are measured and targeted effectively.



We support government and industry through our management of scientific establishments such as the National Physical Laboratory and the National Nuclear Laboratory (above).

Market opportunities



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

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

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

In home affairs, the UK Government is looking to increase efficiency and productivity in offender management by putting some underperforming public sector prisons out to competition during 2010-11. We see substantial opportunities, driven by this need for greater efficiency and to achieve positive outcomes from detention. In the UK, the Government has announced the commissioning of five new prisons, and the market testing of five existing prisons,

and we also see opportunities in areas such as probation services, health, immigration, and asylum and refugee support services. Other regions are seeing similar pressures, leading to the potential for expansions of existing facilities, tendering of existing public sector prisons, and for the provision of services such as health in the home affairs sector.

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

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

In UK education and children's services, we continue to build our presence across national government bodies while consolidating our strong position in local government services. Our national presence was significantly boosted through our inspection services contract with Ofsted, and also continue to work with a number of authorities where we see a requirement for service improvement across children's services.

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

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

The UK MoD is also focused on sustaining the capability of its armed forces over the long term, which is leading to good organic growth opportunities. Serco has also been selected to compete for two large contracts, due to be awarded

between 2011 and 2012 - the Fleet Outsourced Activities Project to provide training services for the Royal Navy, and the Armed Forces Recruitment Partnering Project, where we are leading the Prospector Group consortium which includes Logica and the AMV Group.

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

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



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

Finance Review

Overview

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

1. Income statement

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

Figure 1: Income statement

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

1.1 Currency translation

The increase in the size of overseas operations with earnings not denominated in Sterling, principally as a result of the acquisition of SI at the end of 2008, and changes in currency exchange rates over the last 12 months, have benefited Serco's reported results. In order to present the underlying growth of the business in the year, the effect of currency exchange rate changes on revenue, Adjusted operating profit, investment revenue and finance costs, Adjusted profit before tax and Group recourse net debt are presented in the Finance Review. The currency effect has been calculated by translating non-Sterling earnings, including those of SI, for the year ended 31 December 2009 into Sterling at the average foreign exchange rates for 2008.

Figure 2: Income statement bridge

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

1.2 Revenue

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

1.3 Gross margin

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

1.4 Adjusted operating profit

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

1.5 Investment revenue and finance costs

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

1.6 Adjusted profit before tax

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

1.7 Tax

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

1.8 Earnings per share (EPS)

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

2. Dividend

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

3. Cash flow

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

Figure 3 analyses the cash flow. As in previous years, we have designed the analysis to show the true cash performance of the Group – the cash flows generated by subsidiaries plus the dividends received from joint ventures. It therefore differs from the Consolidated Cash Flow Statement on page 85, which proportionately consolidates the cash flows of joint ventures. The adjustment line in Figure 3 reconciles the movement in Group cash to the consolidated cash flow.

Figure 3: Cash flow

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

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

3.1 Group operating cash flow

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

3.2 Interest

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

3.3 Tax

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

3.4 Net expenditure on tangible and intangible assets

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

3.5 Dividends from joint ventures

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

3.6 Acquisition of subsidiaries

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

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

3.7 Financing

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

4. Net debt

Figure 4 analyses Serco's net debt.

Figure 4: Net debt

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

4.1 Group recourse net debt

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

4.2 Group non recourse debt

The Group's debt is non recourse if no Group company other than the relevant borrower has an obligation to repay the debt under a guarantee or other arrangement. The debt is excluded from all of our credit agreements and other covenant calculations, and therefore has no impact on the Group's ability to borrow. Group non recourse debt reduced by £5.1m to £29.0m, primarily as a result of the payments made in line with the debt repayment schedule on debt relating to our Driver Examination Services contract in Canada.

5. Pensions

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

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

Figure 5: Defined benefit pension schemes

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

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

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

- Non contract specific – schemes which do not relate to specific contracts or franchises. For these schemes, we charge the actuarial gain or loss for the year to the consolidated statement of comprehensive income (SOI);
- Reimbursable – schemes where we have a right of full cost reimbursement and therefore include both the pension scheme deficit and offsetting reimbursable rights debtor in the balance sheet; and
- Not certain to be reimbursable – schemes relating to specific contracts or franchises, where the deficit will pass back to the customer or on to the next contractor at the end of the contract. For these schemes, we charge the actuarial gain or loss on our share of the deficit for the year to the SOI, 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.

Finance Review continued

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

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

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

Figure 6: Pension assumptions and sensitivities

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

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

6. Treasury

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

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

7. Segmental information

As disclosed in note 5 of the Notes to the Consolidated Financial Statements, the Directors have determined that the segments under IAS 14 continued to be appropriate under IFRS 8 for 2009. Although management information is presented in a variety of ways, the reportable segments presented within the financial statements reflect the principal way in which management information was reported to the Chief Operating Decision Maker (the Chief Executive and Executive Board) during the year. As discussed in the Chief Executive's Statement, the Group has repositioned the business for growth and, as a result, has created five new divisions. This change was effective from 1 January 2010. We will present these divisions as our new reportable segments for the first time in the half year results announcement for the six month period ended 30 June 2010, including comparatives.

The new reportable segments are:

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

8. Going concern

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

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

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

Resources

Business relationships

Customers

Our ability to develop long-term relationships with customers is a central part of our business model. Day-to-day responsibility for meeting our customers' needs lies with our contract directors, who we empower to do what is necessary to deliver excellent service. Our approach to working with our customers is set out in our Governing Principles (see page 5), which aim to ensure that we deliver a consistently good service to all our customers, whatever we do for them.

We also maintain relationships at all levels with our customers, so that they are aware of how we can help them and we can anticipate their changing needs and identify opportunities at an early stage. These relationships lie with our divisional and Group leaders, including business development teams and our external affairs team.

Our reputation with our existing customers is also vital in winning new work. Many factors influence our reputation, including the quality of our service, our values and public-service ethos, our capacity to innovate, and our engagement with our employees and other stakeholders, such as local communities. We believe that our high rebid and new bid win rates demonstrate the strength of our reputation with new and existing customers.

Suppliers

Our approach to procurement has four main strands: to make the most of the benefits of competitive supplier selection; to optimise the efficiency and effectiveness of our processes and resources; to drive sustainability throughout our supply chain; and to develop positive relationships with our key suppliers.

We have a dedicated procurement and supply chain team which is responsible for putting this approach into practice. As part of this, they continue to enhance our systems and processes for choosing and managing our suppliers. This helps us to maximise the value of our supplier relationships, makes it quicker and cheaper for us to transact with them, and assists with understanding and monitoring areas such as environmental impact before our people make a decision to buy.

Our contracts have many common purchasing needs. For this reason, we aim to use carefully chosen preferred suppliers, enabling us to achieve better terms and conditions and make the most of our economies of scale.

The remainder of our contracts' procurement needs are managed by our contracts, allowing them to use local suppliers when appropriate. In addition, we are a member of Minority Supplier Development UK, a not-for-profit organisation which provides a direct link between companies and ethnic-minority businesses, to enable the building of mutually beneficial business relationships.

Joint ventures

Serco has a number of joint ventures around the world, particularly in the transport, defence and science sectors.

Our joint ventures with Abellio (formerly known as NedRailways) provide outstanding services to the travelling public. Together, we run Northern Rail, which is the country's largest train franchise, and Merseyrail, the UK's most punctual train operator.

AWE Management Limited (AWE) is our highly successful joint venture with Lockheed Martin and Jacobs Engineering Group Inc.

AWE manages the UK's Atomic Weapons Establishment and has consistently delivered contract outputs on time and on budget.

In Australia, DMS Maritime, our joint venture with P&O Maritime Services, is a key partner for the Australian Defence Force (ADF) and other agencies. In partnership with Sodexo, we also deliver garrison support services to the ADF through Serco Sodexo Defence Services Pty Limited.

We continue to develop new business models, which can include forming joint ventures with our customers. For example, in 2009, we created GSTS Pathology, a groundbreaking joint venture with Guy's and St Thomas' NHS Foundation Trust, to transform its pathology services by combining the clinical and scientific excellence of the Trust with our service and business expertise, and target the significant pathology market.

Strong relationships, based on mutual trust and respect and clarity of roles, are essential ingredients if a joint venture is to deliver excellent customer service. Our divisional management teams are responsible for relationships with our joint venture partners, supported by members of the Group Executive Committee and Board as appropriate. This includes holding regular strategy and review meetings with our partners.

Strategic partners

We often run contracts as part of a consortium, either as prime contractor or as a subcontractor. This allows us to bring together companies with the skills to meet the precise requirements of a bid. For example, at AWE we work together with Lockheed Martin and Jacobs Engineering Group to provide and maintain the warheads for the UK's nuclear deterrent.

Our values and the open and honest way in which we work also make us an attractive partner for third-sector organisations, who often lack the scale and experience to be able to access major government programmes.

In 2009 we won three Flexible New Deal contracts with the UK Department of Work and Pensions. We are delivering these services through a network of more than 60 subcontractors, around a third of which are from the third-sector. These arrangements allow us to integrate and co-ordinate the work of our third-sector partners, allowing them to concentrate on delivering the best service to end users.

Responsibility for relationships with our strategic partners lies with the relevant contract and divisional management.

Our people

Our rapid growth means that the number of our employees is continually increasing. As a people-based business, we have a clear framework for managing and developing our people, so that we can continue to succeed.

Our people strategy has three main components. We want to develop leaders who are fit for the future and who will thrive as Serco grows. We want people who bring service to life, who are fully integrated and engaged with Serco, and who we can develop to achieve their full potential. And we want to make it easier to manage our people, by continually enhancing our systems and processes.

Developing our leaders

As a devolved and fast-growing organisation, Serco has a high demand for capable and motivated leaders who have the potential to grow with us. They are responsible for managing operations, securing our future growth and creating the environment in which our workforce can do what they do best: serve customers with passion and skill. The way they lead is as important as what they deliver.

We have created a leadership model known as H³ - Heart, Head and Hands. These ingredients describe how great leaders in Serco behave, with an emphasis on our Governing Principles and our customers. The components of the model are summarised below:

Heart. This covers our leaders' motives and demonstration of our Governing Principles. We want them to create our culture through personal example and have the courage to stand by their convictions.

Head. This relates to intellectual and personal capacity. We want leaders who can solve complex problems, take a long-term view, inspire and influence others, focus on outcomes, innovate, be resilient and be adaptable to a situation's needs.

Hands. This covers skills, knowledge and experience. We want our leaders to be skilled at shaping and delivering the plans and capabilities that will drive our performance and growth.

Behind each of these components is a further set of criteria, which explain the desired behaviours and the standards against which we appraise our leaders' performance.

Developing our leaders is vital for Serco's future. During the year, we profiled our top 100 leaders against the model. The process ensured that our leaders fully understand how they align to the model and have development plans to help them deliver higher levels of performance.

In a separate exercise, we have also undertaken a comprehensive talent review, led by our Chief Executive. This involved every business unit around the world identifying its current and future leaders, enabling us to create comprehensive succession plans and talent pipelines in each part of our business to support our growth.

Resources continued

Integrating, engaging and developing our people

We are dependent on the skill and enthusiasm of our people. They enable us to deliver great service to our customers and are ultimately responsible for the strength of our reputation and our ability to grow. We therefore need to integrate new joiners, effectively engage with all our people and help them achieve their potential. We also recognise outstanding achievements through our global Pulse Awards.

Integrating new people

Serco's growth means that several thousand people join us every year, as we win new contracts. We typically find that they bring with them a service ethos that matches our own, given that a large proportion of our employees also began their careers delivering services in the public sector. Our approach to managing contracts liberates our people to put this ethos into action.

The best method of spreading our values is for our people to see them in use. Our leaders have a key role to play, by making decisions in accordance with our values. We also prioritise communication with our people, particularly in the transition phase after we have won a contract, so that they understand Serco and the way we work.

Our approach – and the outcome – is the same around the world. While there are always cultural differences between countries, our values are universal and our people embrace them wherever they are based.

Engaging with our people

In 2009, we once again undertook our global Viewpoint employee survey. More than three-quarters of our people responded. This is an excellent rate, particularly as the nature of many of our people's roles meant they were unable to complete the survey online.

The survey's results show that our values are being put into action. Our people believe that Serco has an open culture of respect, and that we take into account different opinions and perspectives, making employees comfortable to speak up. The survey also confirmed that our people are motivated to go beyond what is required of them, and do what is needed to get the job done.

Viewpoint also highlighted areas where we can improve how we work at a local level. We have created an online tool to generate action plans to deliver these improvements. Around 1,500 plans are logged on the system, with many others held offline. These plans will help our leaders enhance the working environment for our people.

Developing our people

Enabling our people to excel is one of our Governing Principles, meaning their development is key. That development may consist of informal on-the-job training right through to highly specialist and technical training. Increasingly we are moving to a "blended learning" approach. What this means is an appropriate balance of face-to-face learning and web-based learning. We are in the process of rolling out e-learning programmes which are both cost effective for us and flexible for our people, who can access them at their own location and at a time that suits them.

We developed our Skills for You programme in partnership with UK Government departments, trade unions and training providers. It offers our people the chance to improve their literacy, numeracy and language skills while continuing with their workplace learning. Since its introduction, we have assessed 3,500 of our people with over 800 achieving a qualification.

In 2010 we will be appointing a third party as our national Skills for Life partner, who will market our programme across our UK businesses and offer an easy, standardised means of engaging with the programme but with local flexible delivery tailored to the needs of each contract.

Recognising achievement

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 in areas such as safety and ethics. In 2009, 158 individuals and teams were recognised with an award.

Managing our People

We continually look to improve our efficiency, including the ways we manage our people. Our aim is to have intuitive, easy to use tools, processes and systems which make it easier to manage our growing workforce and deliver even higher levels of productivity and service as a result. We are creating a global template for all the processes involved in people management, which will both reduce cost and ensure a consistent experience for our people, wherever they work. We have piloted this in our Dubai Metro contract.

Key people-related objectives for 2010

Objective	Comment
Extend learning tools within the online Serco Academy	We will make tools available company-wide based on need, including a bespoke online induction programme due to be launched. All new starters will complete the programme within three months of starting and there will be sufficient licences to also allow participation of existing employees.
Standardise best practice in people management across the Group	We will make it easier for line managers to deliver a common experience to employees to enable them to excel. The employee lifecycle will be documented.
To connect business performance metrics and levels of engagement	We will develop measures to analyse the link between engagement and business performance.

Corporate responsibility

We can only achieve our vision if we are trusted by all those who touch our business – our customers, people, partners, suppliers and the communities we work in. This means we must consider our responsibilities in everything we do.

Since our inception, we have been a values-led business. Our Governing Principles set out these values (see page 5) and our systems and culture ensure that we operate in the right way.



We divide corporate responsibility into four pillars – safety, people, community and the environment. Our work for our customers encompasses all four pillars, but there are many things we do which go beyond our contractual or legal requirements.

Our approaches to safety, community and the environment are summarised below. Page 47 details how we engage with, develop and manage our people. We also publish a separate Corporate Responsibility Review, which contains many examples of how we put our responsibilities into action.

The Business in the Community (BitC) Corporate Responsibility Index provides a useful overall measure of our performance. We were pleased that for the third year running, we achieved a gold rating.

Safety

Our approach to safety is simple: we never compromise. Operating safely is vital if our people, customers and society are to trust us.

Often our work is safety-critical: carrying train passengers, enabling flights with air traffic control and expert support for the nuclear industry are just some examples. In these areas, you would expect our safety systems to be robust. But we must have appropriate and consistent standards wherever we operate, with strong leadership and engaged people.

It is, of course, morally unacceptable for people to suffer avoidable injuries, but it is also good business sense to prevent them. Avoiding an incident saves time, repair costs and insurance expenses. These, though, are only the immediate costs. Lost trust is much harder and more expensive to restore. Where necessary, then, we go beyond our legal obligations to improve safety.



Our focus on safety resulted in a significant reduction in our reportable accident rate, from 995 per 100,000 employees in 2008 to 678 in 2009. This was partly due to an increase in the number of employees who joined Serco in relatively low-risk occupations. Adjusting for this gives a reportable accident rate of 930, a good reduction on the previous year.

The lost time injury rate fell from 1,587 per 100,000 employees to 1,034, although the average lost time per incident rose by nearly 7%. We continue to focus on the prevention of accidents. In addition, Human Resources are reviewing the broader issue of all absence and developing a more consistent policy for managing it, as well as more active absence management.

We are always pleased when others recognise our efforts. Our BitC score for health, safety and well-being was 92%, significantly better than the average for

our sector (82%) and for the index (79%). The Royal Society for the Prevention of Accidents (RoSPA) gave our businesses 29 awards and commendations in 2009. This included both finalists for RoSPA's highest accolade, the Sir George Earle trophy. Northern Rail won, with the National Physical Laboratory as runner up. The British Safety Council also rewarded our court escorting contract with a Sword of Honour.

In the US, the safety of our air traffic control services was recognised again this year when, for the fifth time since 2003, a Serco-run tower won the Willie F Card FAA Contract Tower Service Award. The award is given for excellence in safety and customer service.

We want to continue to improve our safety performance and we approach this in two ways. The first is to emphasise competency and training, so our people have the skills, knowledge

and experience to work safely. Continually refreshing their thinking about safety is fundamental here.

The second strand is the development of our monitoring of near misses, so we can learn from them and stop them – or a real incident – from happening again.

Across Serco, we are also getting better at standardising many aspects of our operations. Our policies set the requirements, but our businesses have often developed their own ways of meeting these requirements. By standardising, we help our businesses meet our requirements and free them to focus on their customers.

We also share best practice. For example, our team at Port Kembla, Australia, has passed more than one million hours since their last lost time injury. Their approach to safety has now become a reference point for Serco in Asia Pacific.

Key objectives for 2010

Our key health and safety objectives for 2010:

Objective	Comment
Continued focus on reducing reportable incidents	30% reduction by end of 2012 against 2008 baseline
Reduce the amount of lost time as a result of incidents through active rehabilitation	50% reduction by end of 2012 against 2008 baseline
Develop systems and processes to manage and monitor near miss events more effectively	We will establish a baseline for future target improvements for 2012

Corporate responsibility continued

Community

Much of our work directly benefits the local communities where we operate. Many of our people also live in those communities and we want them to be proud of what we do. For our business to thrive, we need communities to trust us to work in the right way and make a difference to their lives.

Recruiting from local communities is an important part of our integration. The case studies on the Dubai Metro (page 31) and our Australian immigration centres (page 21) are just two examples of how we do this.

Customers increasingly use us to drive social improvements. For example, councils want the leisure centres we run to improve health and inclusion, and reduce crime and joblessness in their area.

Time and again, though, we go beyond the contract with innovations that help both us and the community. Employability, for example, is a common theme in our community work.

Serco's sponsorship and bursary for the Duke of Edinburgh Award equips disadvantaged children with vital life skills; building trust, teamwork, confidence and self-esteem. We also sponsored Business in the Community's Big Conversation campaign, to make work experience meaningful, relevant and inspiring. Contracts ranging from RAF Fylingdales to the National Physical Laboratory showed school students what work can offer them.

Our people respond generously to others' needs. For example, this year, our Australian and Middle Eastern businesses raised significant sums for the victims of natural disasters. Serco's Executive Committee spent four days building houses for Habitat for Humanity, while others supported causes close to their customers.

In total, we aim to invest 1% of our pre-tax profits into the community, through donations, assets, gifts in kind and employee time. In 2009, we invested £1,746,261, representing approximately 1% of our profit. We also continued to significantly outperform both the BitC index average and our sector for community management. We scored 100% for community investment and achieved a substantial increase in our community partnerships score, which rose from 69% to 83%.

Key objectives for 2010

Our key community-related objectives for 2010:

Objective	Comment
Increasing work experience for students in the UK	We will develop and implement a sustainable project to increase the number of worthwhile and interesting work experience placements for students and share this knowledge across the business.
Capture knowledge and improve working practices with the third sector	We will develop guidance to help both business and third sector organisations work together through better understanding of each others' practices.

Environment

Serco's aim is to minimise our impact on the environment. Reducing our carbon dioxide emissions is central to our environmental work, both in delivering our contracts and our company-wide infrastructure. We try to approach this with the same rigour we bring to managing safety.

Notwithstanding our moral obligation to cut our carbon footprint, and the financial savings we can make, we also need to comply with tightening laws and regulations. These include the UK Government's CRC Energy Efficiency Scheme (formerly known as the Carbon Reduction Commitment), which begins in April 2010.

Serco completed the Carbon Disclosure Project. This is an independent not-for-profit organisation which holds the largest database of corporate climate change

information in the world. Requests are issued on behalf of institutional investors, purchasing organisations and government bodies. This was the first year in which Serco has participated in this Project. Serco achieved a creditable score of 50 (out of 100). This is at the high end of our market sector.

During 2009 we reduced our carbon dioxide emissions from 257.3m tonnes to 226.7m tonnes, a decline of 11.9%.

The majority of our CO₂ emissions come from electricity usage. One of our programmes is the installation of smart utility meters. Traditional meters only allow us to track our energy consumption on a quarterly basis. Smart meters give us real-time information, enabling us to monitor usage and devise ways to cut it. We can also identify trends and act quickly when something such as faulty equipment causes usage to rise. Overall, we reduced our electricity consumption by 6.5% in 2009.

The environment also represents a significant opportunity for Serco, and our services are increasingly geared towards helping our customers manage their responsibilities and winning new work using our environmental expertise. Our Sustainability Management Services business advises customers and improves our own performance. We also have a great depth of experience in environmental services for local authorities and companies.

Finally, it is important for us to use our knowledge to inform our customers' environmental agendas. We do this not only through our day-to-day interactions with them but also by joining in the public debate, on our own behalf and through bodies such as the Confederation of British Industry and the Private Sector Council in the US. Businesses and public services have an important role to play in protecting the environment, and we are determined to take on our full responsibility in this area.

Key objectives for 2010

Our key environment objectives for 2010:

Objective	Comment
10% reduction in CO ₂ /£m revenue by end 2010 against 2008 baseline (0.0735)	We will continue the work completed in 2009 to drive a number of initiatives with a view to further reduce our emissions. These are specific to divisions and will be monitored through our internal board structure.
Embed a single environmental management system and operating procedures across all operations	We will be using our experience of implementing an integrated health and safety management system in the development and implementation of the environmental management system. Work has commenced and is being monitored by the Environment Oversight Group.
Implement a carbon accounting system to ensure accurate consumption reporting on energy, fuel used for business, travel, waste and water	Following a competitive selection process, we purchased Greenstones Acco2untenterprise system. This system will go live in the early part of 2010 and provide reporting provision for the CRC Energy Efficiency Scheme, Carbon Disclosure Project and Carbon Trust as well as supporting Serco Group reporting.

Principal risks and uncertainties

Serco has a well-established and embedded system of internal control, including financial, operational and compliance controls and risk management, designed to safeguard shareholders' investments and our assets and reputation.

The Board has overall responsibility for our internal control system and for reviewing its effectiveness, and has delegated to management the implementation of policies on risk and control.

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

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

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

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

Our approach to risk within the Serco Management System

The Serco Management System (SMS) sets out policy standards, systems and processes that identify, review and report risks at all levels of our business and in the Group as a whole, with the aim of safeguarding our shareholders' investments, our stakeholders' interests, and our assets and reputation.

We regularly review the risk management processes we apply throughout our business as part of the SMS. This ensures they reflect the nature of the activities we undertake and the business and operational risks inherent in them, and therefore the level of control we consider necessary to protect our interests and those of our stakeholders.

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

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

Risk identification

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

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

Risk assessment

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

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

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

Risk planning and control

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

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

Risk mitigation involves us identifying appropriate measures, including contingency plans, to reduce the severity of the risks' impact, should they occur. This includes developing crisis management plans in response to risks whose potential impact warrants a specific management process.

The SMS requires every contract to develop a risk management plan reflecting assessed risks and supported by appropriate measures and contingency plans to mitigate the impact of the risks.

Risk monitoring

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

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

Principal risks and uncertainties continued

Principal risks

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

The Group's key stakeholders include, but are not limited to, shareholders, customers, suppliers, staff, trade unions, government, regulators, banks and insurers. The way that we operate as a responsible company recognises the interests of the community in areas such as social, environmental and ethical impact, as described under corporate responsibility on page 50.

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

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

Key Internal risks

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

Key External risks

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

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

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

Managing and mitigating risk

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

Some of our key management and control techniques defined in the SMS are set out below:

- our operating processes fully reflect the principles of clear delegation of authority and segregation of duties
- comprehensive business review processes ensure we meet customer expectations, regulatory requirements, and performance criteria including operational effectiveness, investment returns, cash flow requirements and profitability
- we monitor and regularly review key performance indicators. These include analysis of business performance and variances from plan, customer satisfaction and retention data, staff turnover and satisfaction levels, occupational health and safety incidents, and error and exception reporting
- selective recruitment, succession planning and other human resource policies and practices ensure that staff skills are aligned with Serco's current and future needs

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

Internal audit

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

- Group internal audit;
- functional internal audit; and
- divisional internal audit.

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

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

In addition to these programmes, each operating division maintains a divisional risk register, from which we develop a divisional internal audit programme. This programme selects a number of contracts for review based on certain key risks. These reviews are completed through a self-assessment programme focused on testing the controls which manage and mitigate these key risks. Divisional audit committees, which track and report on the progress of the divisional internal audit programme, meet three times a year.

The Head of Internal Audit oversees the internal audit process, as well as acting as the conduit for sharing best practice, and flagging emerging risks to ensure each part of the business benefits from the wider scale of the Group's assurance activity.

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

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

Directors, Secretary and Advisors

Chairman Kevin Beeston

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

Secretary Joanne Roberts

*Non-Executive Director

^Senior Independent Director

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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 2009 Serco Group plc complied fully with the provisions of Section 1 of the 2008 Combined Code on Corporate Governance issued by the Financial Reporting Council (the Code). The paragraphs below, together with Our performance section on pages 14 to 57 and the Remuneration Report on pages 70 to 80, 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 68 and 69.

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 Our performance section on pages 14 to 57 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 2009, 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

The Company's Articles of Association include provisions concerning conflicts of interest reflecting amendments which were approved by shareholders at the 2008 Annual General Meeting. The Board has in place procedures for Directors to report any potential or actual conflicts to the other members of the Board for their authorisation where appropriate. 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.

The process of reviewing conflicts disclosed, and authorisations given, is repeated at least annually. Any conflicts or potential conflicts considered by the Board and any authorisations given are recorded in the Board minutes and in a register of Directors' conflicts which is maintained by the Company Secretary.

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 half-year 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 62 and 63.

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 is shown in the table on page 61.

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

The roles of the Chairman and the Chief Executive are separately held and the division of their responsibilities is clearly established, set out in writing, and agreed by the Board.

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.

In October 2009 Kevin Beeston announced his intention to retire from the Board of Serco Group plc at the conclusion of the Company's 2010 Annual General Meeting. The procedure for the appointment of his successor is underway, led by Margaret Ford, Senior Independent Director.

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 73.

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.

The Board continues to believe that Kevin holds a well-balanced portfolio of positions which allow him to appropriately perform his duties as Chairman for the remainder of his tenure.

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 reappointment) 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 reappointed. 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 2010 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 73 and 74 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 2009 was as follows:

	Board (4 meetings)	Audit (3 meetings)	Remuneration (4 meetings)	Nomination (3 meetings)
Kevin Beeston	4	n/a	n/a	2
Tom Corcoran	4	3	4	3
Christopher Hyman	4	n/a	n/a	n/a
Andrew Jenner	4	n/a	n/a	n/a
Leonard V. Broese van Groenou	4	3	4	3
Margaret Ford	4	3	4	3
David Richardson	4	3	4	3

Note:

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.

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 2009 the Board members were all engaged in a range of training and professional development activities. In November 2009 the Company ran a technical workshop for the members of the Audit Committee which considered the impact of corporate governance developments, such as the findings of the Walker review, as well as technical accounting areas specifically relevant to the Company. The workshop was led by our external auditors, Deloitte LLP. All training 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 fall within the remit of the Board, as it considers itself best placed to perform this role.

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 formal evaluation has been undertaken of the performance of the Board and its Committees during 2009. The evaluation was performed through the completion of an evaluation questionnaire followed by one-to-one meetings for all Directors. The Audit Committee evaluation was performed by an external facilitator. Matters covered by the Board questionnaire included: the effectiveness of Board meetings; risk and risk management; Group strategy; the structure and composition of the Board including the skill-set and experience of its members; finance and strategy; and stakeholder engagement. The Board concluded that appropriate actions have been put in place to address all matters raised, including those identified as part of the 2008 review, and that overall the Board and its Committees continued to operate effectively throughout the period.

The Directors continue to believe the experience and diversity of the Board members are key strengths, along with a strong sense of value. The Board feel well informed and key issues such as risk and strategy are well managed, with sufficient opportunity for challenge and debate. A revision to the timings of Board meetings to improve the timing of information flow has been implemented, however the number of Board meetings is a subject which the Board intend to keep under review. The composition of the Board remains a key focus, with the recruitment of a new Chairman being a critical factor in this regard.

Performance evaluation continued

The use of an external facilitator was considered for the evaluation of the Board and all its Committees, as it was for the Audit Committee, and it was agreed that the internal process followed was sufficiently robust. This will be kept under close consideration for future periods and the Board will remain mindful of any governance requirements that may evolve on this matter.

In addition 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) was carried out during the year.

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), 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, reappointment 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 2009 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 2008 Annual Review and Accounts
- 2009 Half Year Report and Auditors' report thereon
- 2009 external audit fees
- Review of the whistleblowing policy
- Assessment of the Audit Committee and the external and internal auditors (using an external facilitator)
- 2009 internal audit programme and the proposed 2010 programme
- The continuing independence of the external auditors.

Non-audit services: The Committee has reconfirmed its policy on the provision of audit and non-audit services by Deloitte LLP. It determined three categories of services; Approved (e.g. audit and related assurance services), Permitted (e.g. tax compliance and due diligence) and Not Permitted (e.g. design/implementation of financial information systems and quasi management services). The Committee, the Company, and Deloitte LLP 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 appointment of Senior Statutory Auditor is rotated every five years and, on that basis, the 2009 audit will be the last year of Nigel Mercer's tenure; he will be replaced by Richard Knights, subject to shareholders' approval of Deloitte LLP's reappointment referred to below. There are no contractual obligations that restrict the Company's current choice of external auditor. The Committee recommended to the Board that Deloitte LLP be proposed for reappointment at the forthcoming 2010 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 three times during 2009.

Responsibilities: Matters considered during the year included succession and contingency planning, Board structure and composition and the appointment of a successor to the Chairman, Kevin Beeston; at the meeting to discuss this latter item, Kevin Beeston stood down as Committee Chairman, a role assumed by Margaret Ford. 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 Nominations Committee completed a robust tender process which resulted in the appointment of a firm of external executive search consultants being engaged for the appointment of a new Chairman. In consultation with the chosen search consultants, a specification was drawn up of the role and attributes were identified that were felt to be essential for its effective performance, including what would be considered acceptable in terms of time commitment. A rigorous selection process is currently in progress and is being led, on behalf of the Nomination Committee, by Margaret Ford, Senior Independent Director.

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 70 to 80.

Executive Committees

Throughout 2009, the Board delegated responsibility for the day-to-day management of the business to the Global Management Board (GMB). The GMB, chaired by the Chief Executive, Christopher Hyman, comprised 17 senior managers representing each of the Group's operating divisions and a number of functional heads, including both Executive Directors. The GMB met formally four times during the 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 were invited to the meetings, as appropriate, to discuss aspects of their business or give presentations on specific topics. A senior group of the GMB, the Executive Team, continued to operate throughout 2009. Also chaired by the Chief Executive, it comprised four members including the Executive Directors, and had responsibility for the oversight of all aspects of the day-to-day operations and trading of the Group. The Executive Team met 11 times during the year.

With effect from 1 January 2010, a new senior management structure has been introduced, which replaces that which was in place during 2009. A new Executive Committee has been established which is chaired by the Chief Executive and comprises twelve other members, including the Group Finance Director, Regional Chief Executives and other selected corporate function heads. The Committee has delegated responsibility from the Board to ensure the effective direction and control of the business and to deliver the Group's long-term strategy and goals and will meet on a monthly basis.

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, until 2009, a shorter Annual Review and Summary Financial Statement was also available. Due to the increasing length and complexity of this summary document it has been decided that we will no longer produce this and all shareholders who receive hard copy shareholder documents will receive the full annual review for this and future years.

Shareholders were also advised at the time of our half-year results announcement that we were no longer producing a printed report of those results. Instead, a letter summarising those results was issued and a copy of the full stock exchange announcement was available on request.

Regular trading updates are published ahead of close 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.

Our communications strategy remains under review, including making greater use of online media. Shareholders will be contacted at the relevant time regarding any changes which may affect them.

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, further dialogue continued during 2009, ahead of the Company's annual general meeting, between the Chairman of the Remuneration Committee and the Company's largest shareholders (and representative bodies) in connection with the Company's triennial review of executive remuneration.

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 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 54 to 57 of the Our performance section. 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

The Directors have acknowledged the guidance on going concern and financial reporting published by the Financial Reporting Council in October 2009. This is discussed in the Finance Review starting on page 38.

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



Joanne Roberts

Secretary

25 February 2010

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 2009. Comparative figures used in this report are for the year ended 31 December 2008. The Corporate Governance Report set out on pages 59 to 64 forms part of the Statutory Directors' Report.

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 Our performance section on pages 14 to 57 reports on the activities during the year, post balance sheet events and likely future developments. The information in this section, which is required to fulfil the requirements of the Business Review, is incorporated in this Directors' Report by reference.

Share capital

The issued share capital of the Company, together with the details of shares issued during the year is shown in note 28 to the Consolidated 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.

The rules about the appointment and replacement of Directors are contained in the Company's Articles of Association. Changes to the Articles of Association must be approved by the shareholders in accordance with the legislation in force from time to time.

Dividends

An interim dividend of 1.85p (2008: 1.48p) per ordinary share was paid on 16 October 2009. The Directors recommend a final dividend of 4.40p (2008: 3.52p) per ordinary share which, if approved by shareholders at the Annual General Meeting, will be paid on 19 May 2010 to those shareholders on the register at the close of business on 12 March 2010.

Substantial shareholdings

As at 25 February 2010* 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:

	Number of shares (millions)	% held
Lloyds Banking Group plc	24.2	4.96
Fidelity International Limited	23.9	4.93
Baillie Gifford & Co	24.0	4.92
Newton Investment Management Limited	23.6	4.85
HBOS plc	20.5	4.22
Legal & General Group plc	20.3	3.99
Ignis Investment Services Limited	19.5	3.98

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 68 and 69.

In October 2009 Kevin Beeston announced his intention to retire from the Board of Serco Group plc at the conclusion of the Company's 2010 Annual General Meeting.

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 70 to 80.

Annual general meeting

The Annual General Meeting of the Company will be held at the Queen Elizabeth II Conference Centre, London at 11.00am on 11 May 2010.

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 110 to 116.

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, a share option plan and long term incentive plans for senior management, which effectively aligns their interests with those of shareholders by requiring that performance conditions 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 2009 were 32 days (2008: 28 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 2009 at £1,746,261 (2008: £1,767,168) represents 1.0% 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:



Joanne Roberts

Secretary

25 February 2010

*As at 9 March 2010, the Company had not been notified of any changes or additions to these notifiable interests.

Directors' Responsibilities

The Directors are responsible for preparing the Annual Review, Directors Report, Remuneration Report and the Consolidated 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 2006 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;
- 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; and
- make an assessment of the company's ability to continue as a going concern.

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.

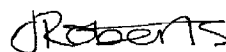
The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the parent company financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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:

- 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
- 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
25 February 2010

Directors' profiles



Kevin Stanley Beeston FCMA (47)

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. 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 Rajendran Hyman CA (SA) (46)

Chief Executive

Christopher Hyman was appointed Chief Executive of Serco Group plc in 2002. He is responsible for the day to day management of the business as well as setting the vision and strategy of the Group. He is also Chairman of the Prince of Wales' charity In Kind Direct, and a Trustee of the Africa Foundation. Christopher is a Trustee Director of the Board for Business in the Community and is Chairman for The Prince's Seeing is Believing Programme. He is also a member of the 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.

Andrew Mark Jenner ACA (41)

Finance Director

Andrew was appointed Group Finance Director in May 2002. He 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 before joining the Board in 2002. Andrew shares responsibility with the Chief Executive for our relationship with shareholders and the City. He is also responsible for the Group's risk management and assurance framework and its PFI investment business. Andrew is a non-executive Director of Galliford Try plc, one of the UK's leading construction and housebuilding groups and is Chairman of its Audit Committee.

From left to right:

Leonard V. Broese van Groenou Non-Executive Director
 Joanne Roberts Company Secretary
 Kevin Beeston Chairman
 Christopher Hyman Chief Executive
 Margaret, Baroness Ford of Cuninghame Senior Independent Director
 Tom Corcoran Non-Executive Director
 David Richardson Non-Executive Director
 Andrew Jenner Finance Director

Tom Corcoran BA PhD (65)

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 (63)

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 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 Cuninghame MA MPhil (52)

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. 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 years as Chairman. From 2000 to 2005 Margaret was a Director of Good Practice Limited, the publishing company that she founded. She was, until May 2009, Managing Director, Social Infrastructure and Development, Royal Bank of Canada Capital Markets.

Margaret is Chairman of Irvine Bay Urban Regeneration Company. She is also a non-executive Director of Grainger plc and a non-executive Director of Trade Risks Ltd. In April 2009 she was appointed as Chair of the Olympic Park Legacy Company.

David Richardson BSc FCA (58)

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 Tomkins plc and Chairman of Forth Ports plc

(1) Member of the Audit Committee

(2) Member of the Remuneration Committee

(3) Member of the Nomination Committee

Remuneration Report

Introduction

The following Report details the remuneration policy and the actual remuneration of the Directors of the Group for the year ended 31 December 2009. In preparing this Report, consideration has been given to the disclosure requirements of the 2008 Combined Code and of the Companies Act 2006. A resolution to approve this Report will be proposed at the Annual General Meeting on 11 May 2010.

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 four 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 61.

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, pension and other 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 Watson. They have provided advice to the Committee throughout the year on the overall remuneration policy and philosophy. This included the setting of the remuneration for the Executive Directors, work that commenced in 2008 with shareholder consultation in the early part of 2009 and final shareholder approval of the new arrangements at the annual general meeting held in May 2009. Fees paid to Towers Watson during the period totalled £122,083.

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

Remuneration policy

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.

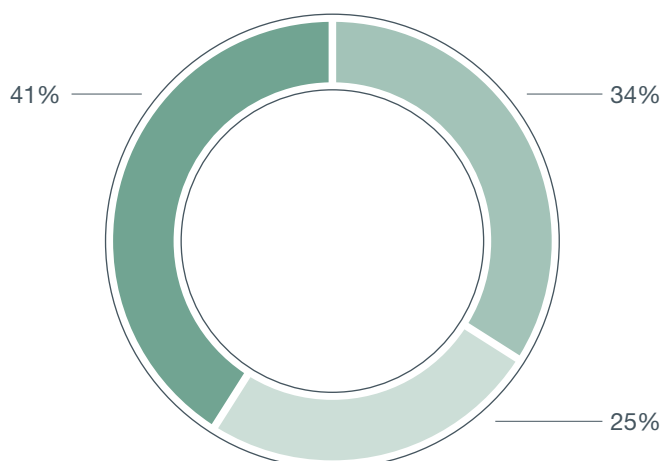
The elements of remuneration

Composition

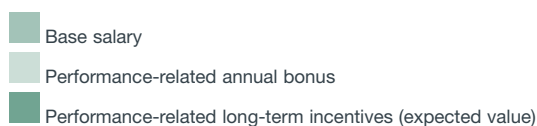
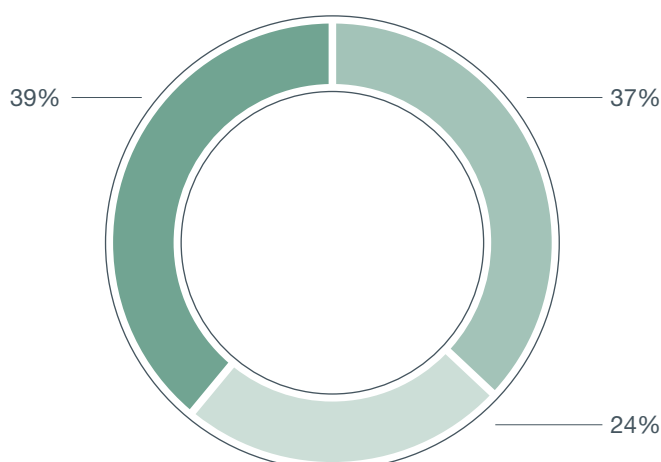
The remuneration package for Executive Directors consists of base salary, annual bonus, long-term share-based incentives, pension and other benefits. The Group's policy is to ensure that a significant proportion of the package is related to performance.

The relative proportions of the performance-related and fixed elements of remuneration (excluding pension and other benefits) for Executive Directors - assuming 'on-target' remuneration - is shown below.

Remuneration for Chief Executive



Remuneration for Finance Director



Base salary

The Committee's policy is to set the base salaries of the Executive Directors so as to ensure that total target remuneration is competitive.

The comparator group comprises the companies within the FTSE 51 to 130 that are in the proprietary database of the Committee's advisors. 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 comparator group gives access to a robust and stable data set and is also 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.

There were no changes to the base salaries of the Executive Directors during the period.

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. Payment for target performance is at 75% of base salary for the Chief Executive and 65% of base salary for the Finance Director.

Financial measures are based on the Serco Group results and the non-financial measures are individually set. The three financial measures for 2009 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 2009 assessed performance against a number of strategically important areas.

The maximum annual bonus opportunity is 150% of base salary for the Chief Executive and 130% of base salary for the Finance Director. On the basis of Serco's performance in 2009, annual awards of 135% and 117% of salary have been determined. The Executive Directors delivered a financial performance that exceeded target. Serco's financial performance for the year is described in more detail in the Our performance section starting on page 14. The Executive Directors also delivered a number of strategic objectives in the areas of the integration of acquisitions, the development of both the Group strategy and the Balance Sheet strategy, plus improvements in Group governance.

The bonus objectives for 2010 have been set on a similar basis. Annual bonuses are not pensionable.

Share-based remuneration

Following approval at the annual general meeting in May 2009, long-term share incentives are awarded to Executive Directors under the Serco Group plc Deferred Bonus Plan (DBP) and the Serco Group plc Performance Share Plan (PSP). Prior to 2009 awards were made 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 leavers have been adopted.

The measurement of the performance targets is undertaken by Mercer for the LTIP, DBP and PSP, and in relation to the Earnings Per Share (EPS) element of the targets is audited by Deloitte LLP. The conditions relating to the plans are detailed below.

Deferred Bonus Plan

Following shareholder approval in 2009, the Executive Directors were invited to participate in the DBP. Executive Directors can elect to defer, for three financial years, up to 50% of the bonus earned by purchasing shares in the Company pursuant to the terms of the DBP. The shares purchased will be matched by the Company if two stretching performance targets are met.

The two performance measures are independent and each determines the vesting of half of the matching shares. The measures are Total Shareholder Return (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.

TSR element:

- No matching shares will be awarded if the Group does not meet or exceed the median TSR of the comparator group
- An award of matching shares of one half of the gross value of the bonus deferred will vest for median or threshold performance
- An award of 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.

EPS element:

- If the annual compound growth in EPS does not meet threshold then no matching shares will vest
- If compound growth in EPS is at threshold then 25% of this part of the matching award will vest
- For compound growth in EPS of between threshold and maximum then this part of the award will vest on a straight line basis to 100%.

For awards made in 2009, the performance range for the first year of the performance period will be annual growth in EPS of 13% to 19%, for subsequent years the range will be compound growth in EPS of 9% at threshold and 14% per year at maximum.

The definition of EPS is basic EPS excluding material acquisitions, disposals, currency movements and before amortisation of acquired intangibles.

The Committee has discretion to vary the proportion of awards that vest under the DBP to ensure that the outcomes are fair and appropriately reflect the underlying financial performance of the Group.

In 2009 both the Chief Executive and the Finance Director elected to defer 50% of their bonus into the DBP.

Performance Share Plan

Shareholders approved the PSP at the annual general meeting in May 2009. The PSP awards granted to the Executive Directors are calculated at a face value on grant of 200% of base salary for the Chief Executive and 175% of base salary for the Finance Director.

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 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 growth 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 growth, superior and at the top end of the range. Median or threshold performance will trigger the vesting of 25% of the award. Performance between median/threshold and upper quartile/superior will be on a straight line basis.

The Committee has discretion to vary the proportion of awards that vest under the Plan to ensure that the outcomes are fair and appropriately reflect the underlying financial performance of the Group.

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 continue to believe 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 DBP. 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 PSP, greater weight has been placed on relative TSR to underscore the importance of longer term alignment with shareholders' interests.

Sharesave

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

Share ownership policy

The share ownership requirement for the Chief Executive is two times base salary and one times base salary for the Finance Director. Executive Directors are required to retain in shares 50% of the net value of any performance shares or options exercised until they satisfy the shareholding requirement.

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

	Ordinary shareholding at 31 December 2009 (530p)		Ordinary shareholding at 31 December 2008 (450.50p)	
	Number of shares	% of salary	Number of shares	% of salary
Chief Executive	735,510	604%	166,440	116%
Finance Director	198,075	276%	104,874	124%

Pension, 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.

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.

New service contracts were put in place during the period, which reflect areas of best practice.

The new service contracts have a notice period of 12 months. 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.

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 2009
Christopher Hyman	30 August 1994	1 April 1999	10 June 2009	Rolling contract of 12 months notice period
Andrew Jenner	4 November 1996	3 May 2002	10 June 2009	Rolling contract of 12 months notice period

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.

Andrew Jenner served as a non-executive Director of Galliford Try plc during the year. Fees payable in the year were £38,400. 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 2009, 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' fees are not performance related.

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

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.

	1 January 2009 to date £	
Chairman ⁽¹⁾	230,000	
	1 January to 31 August 2009 £	From 1 September 2009 to date £
Board member	45,000	50,000
Committee Chairmanship	10,000	10,000
Senior Independent Director	10,000	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. There was no change to the annual fees payable to the Chairman during the period.

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 2009 ⁽¹⁾
Chairman:			
Kevin Beeston ⁽²⁾	29 February 1996	1 September 2007	28 months
Non-Executive Directors ⁽³⁾:			
Margaret Ford	8 October 2003	7 October 2003	28 months
Leonard V. Broese van Groenou	3 April 2006	20 February 2006	16 months
David Richardson	2 June 2003	29 May 2003	28 months
Tom Corcoran	3 December 2007	3 December 2007	16 months

⁽¹⁾ The unexpired term is taken from the date of last re-election at the annual general meeting

⁽²⁾ In October 2009 Kevin Beeston announced his intention to retire from the Board of Serco Group plc at the conclusion of the Company's 2010 Annual General Meeting.

⁽³⁾ 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 £	Total estimated value of any non cash benefits £	Total remuneration excluding pensions 2009 £	Total remuneration excluding pensions 2008 £
Kevin Beeston	2	230,000	Nil	Nil	56,693	286,693	272,797
Christopher Hyman	1,2	645,000	Nil	870,750	62,932	1,578,682	1,180,105
Andrew Jenner	1,2	380,000	Nil	444,600	63,243	887,843	731,452
Leonard V. Broese van Groenou		Nil	56,700	Nil	Nil	56,700	55,000
Margaret Ford		Nil	56,700	Nil	Nil	56,700	55,000
David Richardson		Nil	56,700	Nil	Nil	56,700	55,000
Tom Corcoran		Nil	46,700	Nil	Nil	46,700	45,000
Total		1,255,000	216,800	1,315,350	182,868	2,970,018	2,394,354

Notes:

- The bonuses shown include performance bonuses earned in the period under review, but not paid in the financial year.
- The value of the non cash benefits relates to the provision of a car allowance (fully inclusive of all scheme costs including insurance and maintenance) and private healthcare.
- Remuneration is shown gross of salary sacrificed under the SMART scheme. See page 72.

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 2009	Ordinary shares of 2p each fully paid at 31 December 2009
Kevin Beeston		100,000	293,925
Leonard V. Broese van Groenou		5,375	5,375
Margaret Ford		14,481	14,481
Christopher Hyman	3	166,440	735,510
Andrew Jenner	3	104,874	198,075
David Richardson		15,000	15,000
Tom Corcoran		4,000	4,000

Notes:

- As at 9 March 2010, Margaret Ford held 6,481 shares and Andrew Jenner held 301,117 shares. The shareholdings of the remaining Directors were unchanged as at that date.
- Ordinary shares are beneficial holdings which include the Directors' personal holdings and those of their spouses and minor children.
- 38,303 of Christopher Hyman's and 22,331 of Andrew Jenner's shares are held in trust on their behalf under the terms of their participation in the Deferred Bonus Plan. Provided such shares remain in trust for three years and subject to certain performance conditions, they are also granted an award over matching shares equivalent to two times the gross bonus initially used for the share purchase. Security has been granted to Christopher Hyman's bank over 85,564 ordinary shares held in his name.

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 2009 were as follows:

	Awards held at 1 January 2009	Market price at grant (pence)	Vested during the period	Market price on vesting (pence)	Awards held at 31 December 2009	Performance period	Vesting date
Christopher Hyman	17,749	334	17,749	356	-	1 Jan 2006 - 31 Dec 2008	22 Mar 2009
Andrew Jenner	10,649	334	10,649	356	-	1 Jan 2006 - 31 Dec 2008	22 Mar 2009

Notes:

- The DBS has now been closed and no further awards will be made under its terms.
- 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.
- The performance condition attached to the awards made on 22 March 2006 ended on 31 December 2008. TSR performance relative to the comparator group was in the upper quartile (93rd percentile). A one for one match of shares deferred was made in March 2009.
- The aggregate of the total theoretical gains on options exercised by Directors during 2009 amounted to £0.1m. This is calculated by reference to the difference between the closing mid-market price of the shares on the date of exercise and the exercise price of the options, disregarding whether such shares were sold or retained on exercise, and is stated before tax. Of the 28,398 shares exercised, 17,098 were retained.

(ii) Serco Group plc Deferred Bonus Plan (DBP)

Conditional rights to receive matching shares over Serco Group plc's ordinary shares under the DBP held by Directors at 31 December 2009 were as follows:

	Awards held at 1 January 2009	Market price at grant (pence)	Granted during the period	Awards held at 31 December 2009	Performance period	Vesting date
Christopher Hyman	-	404	130,754	130,754	1 Jan 2009 - 31 Dec 2011	12 Jun 2012
Andrew Jenner	-	408	76,232	76,232	1 Jan 2009 - 31 Dec 2011	11 Jun 2012

Notes:

- The awards shown in the table are the maximum number of shares that can vest under the performance conditions.
- The performance conditions attached to the awards are described on page 71.

(iii) Serco Group plc Performance Share Plan (PSP)

The conditional rights to Serco Group plc ordinary shares under the PSP held by Directors at 31 December 2009 were as follows:

	Awards held at 1 January 2009	Market price at grant (pence)	Granted during the period	Awards held at 31 December 2009	Performance period	Earliest vesting date	Latest exercise date
Christopher Hyman	-	408	315,789	315,789	1 Jan 2009 - 31 Dec 2011	22 Jun 2012	21 Jun 2019
Andrew Jenner	-	408	162,790	162,790	1 Jan 2009 - 31 Dec 2011	22 Jun 2012	21 Jun 2019

Notes:

1. Awards take the form of nominal cost options.
2. Awards made are calculated at a face value on grant of 200% and 175% of base salary for the Chief Executive and Finance Director respectively.
3. The performance conditions attached to the awards are described on page 72.

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

The LTIP has been replaced by the PSP. The conditional rights to Serco Group plc ordinary shares under the LTIP held by Directors at 31 December 2009 were as follows:

	Awards held at 1 January 2009	Market price at grant (pence)	Vested during the period	Market price on vesting (pence)	Awards held at 31 December 2009	Performance period	Earliest vesting date	Latest exercise date
Kevin Beeston	147,928	349	295,856	371	-	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	295,856	371	-	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	177,514	371	-	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

Notes:

1. The final award to Executive Directors under this plan was made in November 2007.
2. Awards take the form of nominal cost options.
3. Awards made are calculated at 100% of salary at the time of grant.
4. 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.
5. No awards were granted or lapsed during the period.
6. The performance conditions attached to the awards which vested on 5 May 2009 achieved top decile performance resulting in 200% of the award vesting.
7. On 31 December 2009 the performance conditions attached to the awards made on 29 November 2006 were satisfied. Performance between upper quartile and upper decile was achieved resulting in 195.42% of the award vesting.
8. Awards held by Kevin Beeston relate to his tenure as an Executive Director prior to September 2007.
9. The aggregate of the total theoretical gains on options exercised by Directors during 2009 amounted to £2.85m. This is calculated by reference to the difference between the closing mid-market price of the shares on the date of exercise and the exercise price of the options, disregarding whether such shares were sold or retained on exercise, and is stated before tax. Of the 769,226 options exercised, 473,370 shares were retained.

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

The LTIS was superseded by the LTIP. The conditional rights to Serco Group plc ordinary shares under the LTIS held by Directors at 31 December 2009 were as follows:

	Awards held at 1 January 2009	Market price at grant (pence)	Market price on vesting (pence)	Awards held at 31 December 2009	Performance period	Earliest vesting date	Date of expiry of awards
Kevin Beeston	103,467*	153	314	-	1 Jan 2003 - 31 Dec 2005	31 Dec 2005	5 May 2013
	119,411	231	462	-	1 Jan 2005 - 31 Dec 2007	31 Dec 2007	21 Dec 2014
Christopher Hyman	32,868	426	153	-	1 Jan 2000 - 31 Dec 2002	31 Dec 2002	4 Apr 2010
	43,540*	490	172	-	1 Jan 2001 - 31 Dec 2003	31 Dec 2003	23 Nov 2010
	35,056*	465	240	-	1 Jan 2002 - 31 Dec 2004	31 Dec 2004	15 Nov 2011
	103,467*	153	314	-	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	-	1 Jan 2005 - 31 Dec 2007	31 Dec 2007	21 Dec 2014
Andrew Jenner	62,081*	153	314	-	1 Jan 2003 - 31 Dec 2005	31 Dec 2005	5 May 2013
	105,138*	175	382	-	1 Jan 2004 - 31 Dec 2006	31 Dec 2006	26 Nov 2013
	76,101	231	462	-	1 Jan 2005 - 31 Dec 2007	31 Dec 2007	21 Dec 2014

Notes:

1. The last award to Executive Directors under the LTIS was made in June 2005.
2. The awards shown in the table have all vested.
3. 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.
4. No awards were awarded or lapsed during the year.
5. 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.
6. Awards take the form of nominal cost options.
7. Awards made are calculated at 100% of salary at the time of grant.
8. Awards held by Kevin Beeston relate to his tenure as an Executive Director prior to September 2007.
9. The aggregate of the total theoretical gains on options exercised by Directors during 2009 amounted to £3.57m. This is calculated by reference to the difference between the closing mid-market price of the shares on the date of vesting and the exercise price of the options, disregarding whether such shares were sold or retained on exercise, and is stated before tax. Of the 973,682 options exercised, 233,303 shares were retained.

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

Options over Serco Group plc ordinary shares granted under the 1998 EOP and the 2005 EOP and held by Directors at 1 January 2009 and 31 December 2009 were as follows:

	Awards held at 1 January 2009	Exercised during period	Awards held at 31 December 2009	Market price on exercise date (pence)	Exercise price (pence)	Date from which exercisable	Date of expiry of options
Kevin Beeston	58,764	58,764	-	503	426	5 Apr 2003	4 Apr 2010
	91,321*	91,321	-	503	435	28 Mar 2004	27 Mar 2011
	135,768*	135,768	-	348	264	3 May 2005	2 May 2012
	289,515*	289,515	-	348	153	6 May 2006	5 May 2013
	219,320*	219,320	-	348	217	3 Mar 2007	2 Mar 2014
	183,404	183,404	-	503	235	29 Apr 2008	28 Apr 2015
	147,492	147,492	-	503	339	5 May 2009	4 May 2016
	120,798	-	120,798	-	439	19 Mar 2010	18 Mar 2017
Christopher Hyman	40,812	40,812	-	358	245	1 Apr 2002	31 Mar 2009
	49,830	49,830	-	524	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	12,336	12,336	-	523	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

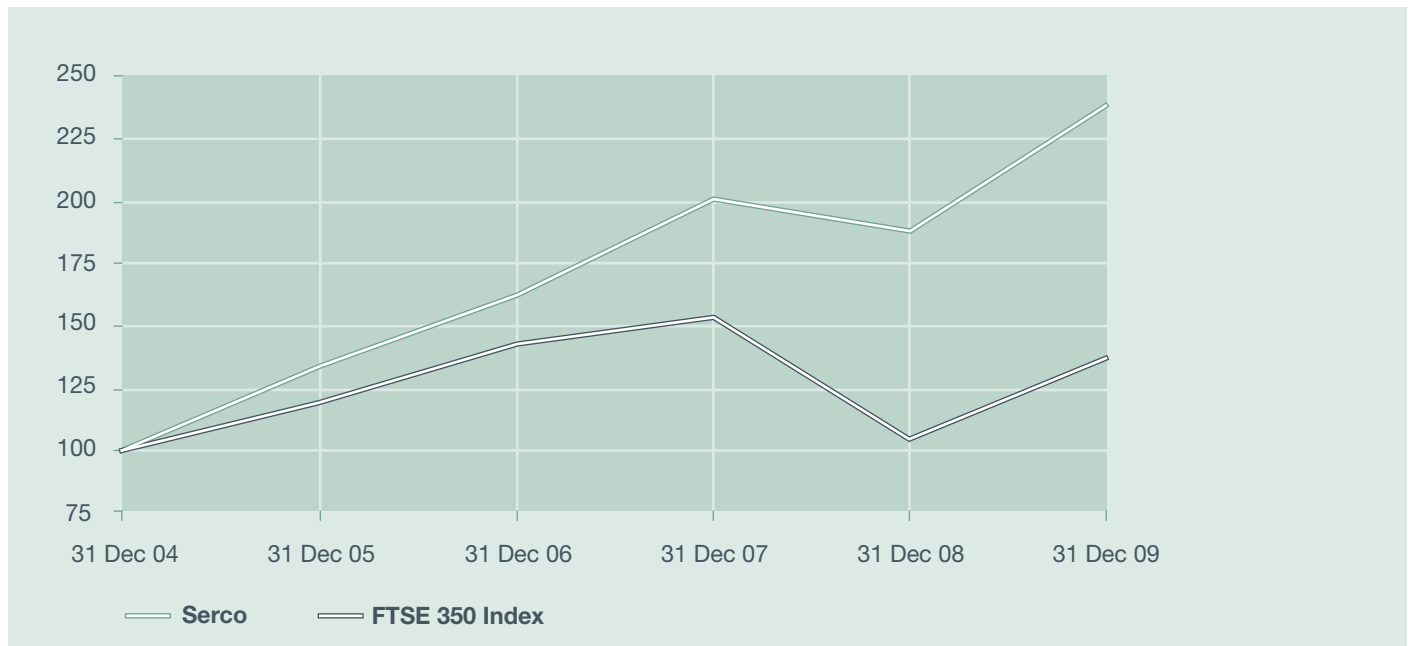
Notes:

- The final award to Executive Directors under this plan was made in February 2008.
- The awards shown in the table are the maximum number of shares that can vest under the performance conditions.
- The extent to which an award will vest is measured by reference to the Group's Earnings Per Share (EPS) performance relative to the Retail Prices Index (RPI) over the three-year performance period.
- 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.
- No payment was made for the grant of the awards.
- Grants of options under the EOP are calculated at 100% of salary at the time of grant.
- The market price of the Company's ordinary shares at the close of business on 31 December 2009 was 530.00p and the range during the year to 31 December 2009 was 349.00p to 540.00p.
- For options granted which completed their performance period on 31 December 2009, the Group's EPS growth was 24.42% per annum over the three-year performance period which resulted in 100% of options vesting. The level at which maximum vesting would occur was 11.98% per annum.
- Awards held by Kevin Beeston relate to his tenure as an Executive Director prior to September 2007.
- The aggregate of the total theoretical gains on options exercised by Directors during 2009 amounted to £1.91m. This is calculated by reference to the difference between the closing mid-market price of the shares on the date of exercise and the exercise price of the options, disregarding whether such shares were sold or retained on exercise, and is stated before tax. Of the 1,228,562 options exercised, 320,555 shares were retained.

Comparison of total shareholder returns

Sercos Group plc total shareholder return (TSR) vs FTSE 350 Total Return Index

Value of investment of £100 on 31 December 2004



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.

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 117. 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 2009	Transfer value of accrued benefits at 31 December 2008	Director's contributions for the year	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)
	£	£	£	£	£ p.a.	£ p.a.	£	£ p.a.
Kevin Beeston	3,564,341	3,591,340	-	-26,999	774	774	9,874	279,460
Christopher Hyman	1,702,542	1,275,901	-	426,641	25,037	25,037	399,386	106,731
Andrew Jenner	857,573	628,494	-	229,079	14,624	14,624	209,587	59,837

Notes:

- 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, to 5 April 2006 when he opted out of the scheme. The increase in accrued pension during the year is normally shown both as a gross increase and excluding any increase in respect of inflation. In the measurement year used for 2009 inflation has been negative and so the figures shown assume that none of the pension increase over the year is due to inflation. Hence the increase in accrued pension over the year, net of inflation, shown in (6), is the same as the gross increase in pension shown in (5).
- 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.
- The pension which Kevin Beeston had accrued up to 5 April 2006 is increased in line with his final pensionable remuneration (averaged over the best three years) since 5 April 2006. There is a small increase in his accrued pension over the year to 31 December 2009 due to the method of calculating his pensionable remuneration.
- Transfer values have been calculated in accordance with the current transfer value regulations. The assumptions to be used for calculating transfer values have been 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. (The effect of market movements on the transfer value assumptions over the year has resulted in a slight decrease in the transfer value for Kevin Beeston.)
- 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. It is based on the increase in the accrued pension.
- The 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.
- 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.

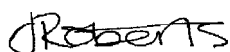
Share dilution

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 2009, 5.72% and 4.43% 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 November 2009 a loan of £2.4m was made to the Employee Benefit Trust to ensure sufficient shares were available to meet its ongoing liabilities.

The Trust held 5,650,253 and 3,436,547 ordinary shares at 1 January 2009 and 31 December 2009 respectively.

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



Joanne Roberts

Secretary

25 February 2010

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 2009 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Changes in Equity, the Consolidated Balance Sheet, the Consolidated Cash Flow Statement and the related notes 1 to 36. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an 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

As explained more fully in the Directors' Responsibilities statement, the Directors are responsible for the preparation of the Group financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the Group financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements.

Opinion on the Group Financial Statements

In our opinion the Group Financial Statements:

- give a true and fair view of the state of the Group's affairs as at 31 December 2009 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

Opinion on other matters prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

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

- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- the Directors' statement contained within the Corporate Governance Report in relation to going concern; and
- the part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the June 2008 Combined Code specified for our review.

Other matter

We have reported separately on the parent Company Financial Statements of Serco Group plc for the year ended 31 December 2009 and on the information in the Remuneration Report that is described as having been audited.



Nigel Mercer (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditors
London, UK
25 February 2010

Consolidated Income Statement

For the year ended 31 December 2009

	Note	2009 £m	2008 £m
Continuing operations			
Revenue	4,5	3,970.0	3,123.5
Cost of sales		(3,383.2)	(2,666.7)
Gross profit		586.8	456.8
Administrative expenses		(357.1)	(291.6)
Other expenses – amortisation of intangibles arising on acquisition	14	(17.6)	(9.2)
Total administrative expenses		(374.7)	(300.8)
Operating profit	5,6	212.1	156.0
Investment revenue	8	2.7	8.2
Finance costs	9	(37.7)	(28.1)
Profit before tax		177.1	136.1
Tax	10	(46.9)	(36.5)
Profit for the year		130.2	99.6
Attributable to:			
Equity holders of the parent		130.2	99.5
Minority interest		-	0.1
Earnings per share (EPS)			
Basic EPS	12	26.76p	20.49p
Diluted EPS	12	26.45p	20.18p

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2009

	Note	2009 £m	2008 £m
Profit for the year		130.2	99.6
Other comprehensive income for the year:			
Net actuarial (loss)/gain on defined benefit pension schemes ¹	26	(259.0)	8.7
Actuarial gain on reimbursable rights ¹	26	117.1	50.6
Net exchange (loss)/gain on translation of foreign operations ²		(9.9)	54.1
Fair value (loss)/gain on cash flow hedges during the year ²		(6.3)	14.2
Tax credit/(charge) on items taken directly to equity	10	45.2	(21.3)
Recycling of cumulative net hedging reserve ²		0.2	(0.7)
Total comprehensive income for the year		17.5	205.2
Attributable to:			
Equity holders of the parent		17.5	205.1
Minority interest		-	0.1

1. Recorded in Retirement benefit obligations reserve in the Consolidated Statement of Changes in Equity.

2. Recorded in Hedging and translation reserve in the Consolidated Statement of Changes in Equity.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2009

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

Consolidated Balance Sheet

At 31 December 2009

	Note	2009 £m	Restated* 2008 £m
Non-current assets			
Goodwill	13	898.4	963.2
Other intangible assets	14	164.4	192.7
Property, plant and equipment	16	129.2	115.4
Trade and other receivables	19	181.4	121.1
Retirement benefit asset	26	-	62.4
Deferred tax assets	22	48.0	20.0
Derivative financial instruments	25	2.5	5.6
		1,423.9	1,480.4
Current assets			
Inventories	18	65.9	50.2
Trade and other receivables	19	720.9	725.7
Cash and cash equivalents	20	319.4	250.8
Derivative financial instruments	25	1.4	5.0
		1,107.6	1,031.7
		2,531.5	2,512.1
Total assets			
Current liabilities			
Trade and other payables	24	(771.6)	(756.2)
Current tax liabilities		(14.1)	(19.5)
Obligations under finance leases	23	(6.0)	(4.5)
Loans	21	(110.7)	(36.8)
Derivative financial instruments	25	(5.5)	(4.2)
		(907.9)	(821.2)
Non-current liabilities			
Trade and other payables	24	(23.1)	(32.7)
Obligations under finance leases	23	(18.0)	(12.7)
Loans	21	(543.2)	(710.9)
Derivative financial instruments	25	(1.7)	(0.4)
Retirement benefit obligations	26	(294.2)	(177.1)
Provisions	27	(42.3)	(45.9)
Deferred tax liabilities	22	(9.0)	(25.9)
		(931.5)	(1,005.6)
		(1,839.4)	(1,826.8)
Total liabilities			
Net assets			
		692.1	685.3
Equity			
Share capital	28	9.8	9.7
Share premium account	29	304.1	301.1
Capital redemption reserve		0.1	0.1
Retained earnings		444.1	339.8
Retirement benefit obligations reserve	30	(150.0)	(47.7)
Share-based payment reserve	30	49.6	40.0
Own shares reserve	30	(13.0)	(19.7)
Hedging and translation reserve	30	47.3	61.9
		692.0	685.2
Equity attributable to equity holders of the parent			
Minority interest			
		0.1	0.1
Total equity			
		692.1	685.3

*Note 15

The financial statements were approved by the Board of Directors on 25 February 2010 and signed on its behalf by:



Christopher Hyman
Chief Executive



Andrew Jenner
Finance Director

Consolidated Cash Flow Statement

For the year ended 31 December 2009

	Note	2009 £m	2008 £m
Net cash inflow from operating activities	31	235.1	162.6
Investing activities			
Interest received		2.1	7.3
Disposal of investments/business undertakings		0.6	1.9
Proceeds from disposal of property, plant and equipment		3.7	17.5
Acquisition of subsidiaries, net of cash acquired	15	(14.7)	(322.2)
Purchase of other intangible assets		(17.3)	(20.4)
Purchase of property, plant and equipment		(38.9)	(32.6)
Net cash outflow from investing activities		(64.5)	(348.5)
Financing activities			
Interest paid		(33.6)	(30.3)
Dividends paid	11	(25.9)	(21.6)
Repayment of loans		(66.8)	(78.6)
Repayment of non recourse loans		(6.5)	(7.5)
New loan advances		33.8	397.4
Other financing		-	(17.0)
Capital element of finance lease repayments		(5.7)	(8.6)
Purchase of own shares for employee benefit trust (ESOP)		(2.4)	(9.2)
Proceeds from issue of share capital and exercise of share options		10.4	5.4
Net cash (outflow)/inflow from financing activities		(96.7)	230.0
Net increase in cash and cash equivalents		73.9	44.1
Cash and cash equivalents at beginning of year		250.8	185.0
Net exchange (loss)/gain		(5.3)	21.7
Cash and cash equivalents at end of year	20	319.4	250.8

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 2006. 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

These Financial Statements on pages 82 to 133 have been prepared in accordance with International Financial Reporting Standards (IFRSs) adopted for use in the European Union (EU) 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 following principal accounting policies adopted have been applied consistently in the current and preceding financial year except as separately stated below.

As discussed in more detail in the Finance Review, these Financial Statements have been prepared on the going concern basis.

Adoption of new and revised Standards

In the current year, the following new and revised Standards and Interpretations have been adopted and have affected the amounts reported in these financial statements.

IAS 1 (revised 2007) - Presentation of Financial Statements

IAS 1 (revised 2007) requires the presentation of a statement of changes in equity as a primary statement, separate from the income statement and statement of comprehensive income. As a result, a statement of changes in equity has been included in the primary statements, showing changes in each component of equity for each period presented. In addition, IAS 1 (revised 2007) requires the presentation of a balance sheet as at the beginning of the earliest comparative period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements. As described in note 15, the Consolidated Balance Sheet for 31 December 2008 has been restated for the finalisation of provisional fair value adjustments. An opening balance sheet as at 1 January 2008 has not been presented in these accounts as it is unadjusted from the previously published version.

IFRS 8 Operating Segments

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

Improving Disclosures about Financial Instruments (amendments to IFRS 7 Financial Instruments: Disclosures)

The amendments to IFRS 7 expand the disclosures required in respect of fair value measurements and liquidity risk.

The following new and revised Standards and Interpretations have been adopted in the current year. Their adoption has not had any significant impact on the amounts reported in these Financial Statements but may impact the accounting for future transactions and arrangements.

Amendment to IFRS 2 Share-based Payment – Vesting Conditions and Cancellations (part of Improvements to IFRSs (2008))

The amendments clarify the definition of vesting conditions for the purposes of IFRS 2, introduce the concept of 'non-vesting' conditions and clarify the accounting treatment for cancellations. The amendment has been applied retrospectively in accordance with the relevant transitional provisions.

IAS 23 (revised 2007) - Borrowing Costs

The principal change to the Standard was to eliminate the option to expense all borrowing costs when incurred.

IFRIC 16 Hedges of a Net Investment in a Foreign Operation

The Interpretation provides guidance on the detailed requirements for net investment hedging for certain hedge accounting designations.

2. Significant accounting policies continued

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.

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.

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.

2. Significant accounting policies continued

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 separately 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 and 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.

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.

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 income statement.

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

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

2. Significant accounting policies continued

Long-term project-based and repeat service 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.

Segmental information

Segmental information is based on internal reports about components of the Group that are regularly reviewed by the Group's Chief Operating Decision Maker (the Chief Executive and Executive Board) in order to allocate resources to the segments and to assess their performance.

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 and retirement benefit asset (excluding corporation tax recoverable). 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 comprehensive income (SOCl).

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 current or prior years.

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

2. Significant accounting policies continued

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 SOCI.

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.

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 SOCI.

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 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 SOCI. The change in fair value of the reimbursable rights that is not presented in the income statement is reported in the SOCI.

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.

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.

2. Significant accounting policies continued

Taxation continued

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.

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).

Share-based payment

The Group has applied the requirements of IFRS 2 Share-based Payment (amended January 2008). 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 payments to certain employees and operates an HMRC approved Save As You Earn (SAYE) share option scheme open to eligible employees which allows the purchase of shares at a discount. These are measured at fair value at the date of grant. The fair value is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest. SAYE options are treated as cancelled when employees cease to contribute to the scheme, resulting in an acceleration of the remainder of the related expense.

Where the fair value of share options requires the use of a valuation model, fair value is measured by use of the Black Scholes, Binomial Lattice or Monte Carlo Simulation models depending on the type of scheme, as set out in note 33. 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.

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 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.

2. Significant accounting policies continued

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 25.

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.

Details of the fair values of the derivative instruments used for hedging purposes and movements in the hedging and translation reserve in equity are detailed in the SOCI and described in note 25.

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, 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.

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, 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.

2. Significant accounting policies continued

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):

IFRS 1 (amended) / IAS 27 (amended)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
IFRS 3 (revised 2008)	Business Combinations
IAS 27 (revised 2008)	Consolidated and Separate Financial Statements
IAS 28 (revised 2008) Improvements to IFRSs (April 2009)	Investments in Associates
IFRIC 17	Distributions of Non-cash Assets to Owners

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 the treatment of acquisition of subsidiaries when IFRS 3 (revised 2008) 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 acquisition costs of £2.0m (2008: £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 CGUs to which goodwill has been allocated. The value in use calculation involves an estimation of the future cash flows of CGUs and also the selection of appropriate discount rates, which involves judgement, to use to calculate present values (note 13). The carrying value of goodwill is £898.4m (2008: £963.2m restated) 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 (note 26). The value of retirement benefit obligations at the balance sheet date is £294.2m (2008: £177.1m). The value of retirement benefit assets is £nil (2008: £62.4m). Details of the impact of changes in assumptions relating to retirement benefit obligations are disclosed in the Finance Review (page 44).

4. Revenue

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

	2009 £m	2008 £m
Rendering of services	3,824.0	2,950.3
Revenue from long-term project-based contracts	146.0	173.2
Revenue as disclosed in the Consolidated Income Statement	3,970.0	3,123.5
Investment revenue (note 8)	2.7	8.2
Total revenue as defined in IAS 18	3,972.7	3,131.7

5. Segmental information

Information reported to the Group's Chief Operating Decision Maker (the Chief Executive and the Executive Board) for the purposes of resource allocation and assessment of segment performance focuses on the categories of customer identified using their respective markets. Details of the different products and services provided to each operating segment are provided in the Our business and Our performance sections. The Group's reportable operating segments under IFRS 8 are:

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

The following is an analysis of the Group's revenue and results by operating segment in the year ended 31 December 2009.

Reportable segments

Year ended 31 December 2009	Civil Government £m	Defence £m	Transport £m	Science £m	Total £m
Revenue	1,556.1	1,019.9	788.7	605.3	3,970.0
Result					
Segment result	77.8	78.3	36.0	63.7	255.8
Corporate expenses					(43.7)
Operating profit					212.1
Investment revenue					2.7
Finance costs					(37.7)
Profit before tax					177.1
Tax					(46.9)
Profit for the year					130.2
Capital expenditure including acquisitions					
Property, plant and equipment	32.3	7.2	9.4	2.9	51.8
Goodwill	6.2	-	-	-	6.2
Intangible assets: segments	9.1	1.5	-	-	10.6
Intangible assets: corporate					6.9
					17.5
Depreciation and amortisation					
Depreciation	21.6	5.2	6.1	1.5	34.4
Amortisation: segments	14.4	5.3	10.0	1.1	30.8
Amortisation: corporate					9.7
					40.5
Segment assets					
Reportable segment assets	1,110.6	496.6	205.6	316.1	2,128.9
Corporate assets					30.0
					2,158.9
Segment liabilities					
Reportable segment liabilities	(376.2)	(138.6)	(152.7)	(282.8)	(950.3)
Corporate liabilities					(138.6)
					(1,088.9)

5. Segmental information continued

Reportable 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 (as previously stated)	233.4	134.2	-	-	367.6
Fair value adjustments in respect of 2008 acquisitions (note 15)	(1.5)	-	-	-	(1.5)
Goodwill (restated)	231.9	134.2	-	-	366.1
Intangible assets: segments (as previously stated)	39.8	25.3	1.7	0.8	67.6
Fair value adjustments in respect of 2008 acquisitions (note 15)	1.4	-	-	-	1.4
Intangible assets: segmental (restated)	41.2	25.3	1.7	0.8	69.0
Intangible assets: corporate					7.0
					76.0
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					
Reportable segment assets (as previously stated)	1,138.2	585.6	168.5	260.2	2,152.5
Fair value adjustments in respect of 2008 acquisitions (note 15)	(1.4)	-	-	-	(1.4)
Reportable segment assets (restated)	1,136.8	585.6	168.5	260.2	2,151.1
Corporate assets					67.6
					2,218.7
Segment liabilities					
Reportable segment liabilities (as previously stated)	(382.0)	(175.7)	(141.2)	(249.9)	(948.8)
Fair value adjustments in respect of 2008 acquisitions (note 15)	1.3	-	-	-	1.3
Reportable segment liabilities (restated)	(380.7)	(175.7)	(141.2)	(249.9)	(947.5)
Corporate liabilities					(18.5)
					(966.0)

5. Segmental information continued

	2009 £m	As previously stated 2008 £m	Restated* 2008 £m
Segment assets comprise:			
Goodwill	898.4	964.7	963.2
Other intangible assets	164.4	191.3	192.7
Property, plant and equipment	129.2	115.4	115.4
Trade and other receivables: non-current	181.4	121.1	121.1
Retirement benefit assets	-	62.4	62.4
Inventories	65.9	50.2	50.2
Trade and other receivables: current excluding Corporation tax recoverable	719.6	715.0	713.7
	2,158.9	2,220.1	2,218.7

*Note 15

	2009 £m	As previously stated 2008 £m	Restated* 2008 £m
Segment liabilities comprise:			
Trade and other payables: current	(771.6)	(754.7)	(756.2)
Trade and other payables: non-current	(23.1)	(35.5)	(32.7)
Retirement benefit obligations	(294.2)	(177.1)	(177.1)
	(1,088.9)	(967.3)	(966.0)

*Note 15

Geographical information

	Year ended 31 December 2009		Year ended 31 December 2008	
	Revenue £m	Non-current assets* £m	Revenue £m	Non-current assets* £m
United Kingdom	2,541.9	734.9	2,334.6	674.3
United States	819.2	404.8	311.4	484.5
Other countries	608.9	233.7	477.5	233.6
	3,970.0	1,373.4	3,123.5	1,392.4

*Non-current assets exclude financial instruments, deferred tax assets and retirement benefit assets.

Revenues from external customers are attributed to individual countries on the basis of the location of the customer.

Information about major customers

The Group has two major governmental customers which each represent more than ten per cent of Group revenues. The customers' revenues were respectively £2,351.6m (2008: £2,174.9m) across all reported segments and £796.1m (2008: £293.6m) across all reported segments other than the Science segment.

6. Operating profit

Operating profit is stated after charging/(crediting):

	2009 £m	2008 £m
Net foreign exchange (gains)/losses	(3.4)	1.0
Research and development costs	47.1	43.2
Loss/(profit) on disposal of property, plant and equipment	2.0	(4.6)
Depreciation and impairment of property, plant and equipment (note 16)	34.4	26.0
Amortisation of intangible assets – arising on acquisition (note 14)	17.6	9.2
Amortisation and impairment of intangible assets – other (note 14)	22.9	20.1
Staff costs (note 7)	1,628.4	1,306.0
Bad debt provision charged to income statement (note 19)	1.4	1.3
Fair value adjustment on financial instruments:		
- recycling of amounts on discontinued cash flow hedges (note 25(e))	0.2	0.1
- forward foreign exchange contracts: non-designated hedges (note 25(a))	3.0	(1.3)
Operating lease payments	104.5	81.7
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.

	2009 £m	2008 £m
Fees payable to the Company's auditors for the audit of the Company's annual accounts	0.9	0.9
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	0.7
Total audit fees	1.6	1.6
Other services pursuant to legislation	0.1	0.2
Tax services	0.2	0.2
Other services	0.3	0.4
Total non-audit fees	0.6	0.8

7. Staff costs

The average monthly number of employees (including executive directors) was:

	2009 Number	2008 Number
Civil Government	33,392	19,380
Defence	12,555	11,564
Transport	8,073	7,595
Science	3,424	3,882
Unallocated	266	263
	57,710	42,684

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

Aggregate remuneration comprised:

	2009 £m	2008 £m
Wages and salaries	1,402.1	1,114.0
Social security costs	126.7	99.1
Other pension costs (note 26)	92.4	85.9
	1,621.2	1,299.0
Share-based payment expense (note 33)	7.2	7.0
Total staff costs	1,628.4	1,306.0

8. Investment revenue

	2009 £m	2008 £m
Net fair value adjustments on derivative financial instruments	-	0.3
Interest receivable by PFI companies	-	1.0
Interest receivable on other loans and deposits	2.7	6.9
	2.7	8.2

9. Finance costs

	2009 £m	2008 £m
Interest payable on non recourse loans	1.6	2.7
Interest payable on obligations under finance leases	1.8	1.3
Interest payable on other loans	26.8	23.5
Movement in discount on provisions and deferred consideration	1.2	-
Net interest payable on retirement benefit obligations (note 26)	6.3	0.6
	37.7	28.1

10. Tax

10(a) Income tax recognised in the income statement

	2009 £m	2008 £m
Current income tax		
Current income tax expense	56.2	32.7
Adjustments in respect of prior years	(9.1)	(2.8)
Deferred tax		
Current year	(2.0)	8.9
Adjustments in respect of prior years	1.8	(2.3)
	46.9	36.5

The tax expense for the year can be reconciled to the profit in the Consolidated Income Statement as follows:

	2009 £m	2008 £m
Profit before tax	177.1	136.1
Tax calculated at a rate of 28% (2008: 28.5%)	49.6	38.8
Expenses not deductible for tax purposes	3.8	5.9
Unrelieved tax losses	2.1	0.4
Effect of the use of unrecognised tax losses	(0.4)	(1.9)
Untaxed income	(0.9)	(0.7)
Overseas rate differences	3.4	2.3
Tax incentives	(3.4)	(3.2)
Adjustments in respect of prior years	(7.3)	(5.1)
Tax charge	46.9	36.5

10(b) Income tax recognised in the SOCI

	2009 £m	2008 £m
Current tax		
Relating to cash flow hedges	0.3	-
Recorded in Retirement benefit obligations reserve	(0.5)	-
Recorded in Share-based payment reserve	(3.2)	(0.9)
Deferred tax		
Relating to cash flow hedges	(1.7)	3.9
Recorded in Retirement benefit obligations reserve	(39.1)	16.8
Recorded in Share-based payment reserve	(1.0)	1.5
	(45.2)	21.3

11. Dividends

	2009 £m	2008 £m
Amounts recognised as distributions to equity holders in the year:		
Final dividend for the year ended 31 December 2008 of 3.52p per share on 481.1 million ordinary shares (2008: final dividend for the year ended 31 December 2007 of 3.02p per share on 480.2 million ordinary shares)	16.9	14.5
Interim dividend for the year ended 31 December 2009 of 1.85p per share on 489.0 million ordinary shares (2008: interim dividend for the year ended 31 December 2008 of 1.48p per share on 480.3 million ordinary shares)	9.0	7.1
	25.9	21.6
Proposed final dividend for the year ended 31 December 2009 of 4.40p per share on 487.5 million ordinary shares (2008: 3.52p on 481.1 million ordinary shares)	21.4	16.9

The proposed final dividend for 2009 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 30(c)).

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 (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

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

Earnings

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

At 31 December 2009 options over 894,000 (2008: 1,955,000) shares were excluded from the weighted average number of shares used for calculating diluted EPS 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 2008	542.1
Additions	367.6
Exchange differences	55.0
At 31 December 2008 (as previously stated)	964.7
Fair value adjustments on 2008 acquisitions (note 15)	(1.5)
At 1 January 2009 (restated)	963.2
Additions	6.2
Reduction in deferred consideration payable on Amtech Private Limited (Infovision)	(16.5)
Exchange differences	(54.5)
At 31 December 2009	898.4

Additions during the year include goodwill in respect of the acquisitions of Sandrunner Limited and GSTS Pathology LLP (note 15).

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 reportable segments:

Cost

	2009 £m	As previously stated 2008 £m	Restated* 2008 £m
Civil Government	509.4	548.4	546.9
Defence	257.7	280.6	280.6
Transport	21.1	21.4	21.4
Science	110.2	114.3	114.3
At 31 December	898.4	964.7	963.2

*Note 15

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 2009, the Group as a whole had revenue visibility of 91% for the next 12 month period based upon the order book. Visibility of planned 2011 and 2012 revenues are already 76% and 64% respectively.

Current identified opportunities at 31 December 2009 total £17.1bn. 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 Our business and Our performance sections.

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 1.1% and 6.0%.

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

13. Goodwill continued

Capital expenditure

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

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 Company. 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 25(h). In preparation of the impairment reviews an additional premium is added for new, non government customers, if, in management's 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:

	2009 %	2008 %
Civil Government	10.6 – 11.8	10.6 – 11.8
Defence	10.6 – 11.6	10.6 – 11.6
Transport	11.1 – 11.6	11.1 – 13.1
Science	10.6 – 11.8	10.6 – 11.8

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 2009 was £274.5m. Due to the potential impact of the adverse market conditions currently affecting the IT sector, the Group has undertaken extensive impairment testing. Consistent with the testing conducted for the year ended 31 December 2008, this has included 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 and a CGU involved in the provision of tourist rail travel.
 - The goodwill attributable to the provision of aviation ground handling services is £4.8m. As stated in the Annual Review and Accounts for the year ended 31 December 2008, sensitivity analysis indicated a future possible impairment if market conditions deteriorated. During 2009, adverse market conditions have continued to prevail and the cash flow of the business is dependent upon successfully securing a number of business opportunities. Should these not be secured, a goodwill impairment charge may be required.
 - The goodwill attributable to the provision of tourist rail travel is £7.7m. At the beginning of the financial period, the fair value of goodwill was substantially in excess of the book value. During 2009, the challenging economic environment affected the tourism industry and, to a lesser extent, the financial performance of this CGU. While management is confident of the ability of this business to generate future cash flows in excess of goodwill, an extended period of reduced passenger yields could result in the CGU requiring a goodwill impairment charge.

14. Other intangible assets

	Acquisition related		Other		Total £m
	Customer relationships £m	Licences and franchises £m	Software and development expenditure £m	Pension related intangibles £m	
Cost					
At 1 January 2009 (restated)	77.5	68.1	120.8	26.7	293.1
Arising on acquisition	0.2	-	-	-	0.2
Additions	-	-	17.3	-	17.3
Disposals	-	(1.8)	(4.2)	-	(6.0)
Reclassifications to property, plant and equipment	-	-	(0.5)	-	(0.5)
Exchange differences	(6.0)	3.2	0.5	(0.1)	(2.4)
At 31 December 2009	71.7	69.5	133.9	26.6	301.7
Amortisation and impairment					
At 1 January 2009	12.1	36.9	39.1	12.3	100.4
Charge for the year	10.9	6.7	19.9	3.0	40.5
Disposals	-	(1.8)	(4.2)	-	(6.0)
Exchange differences	(0.5)	2.3	0.7	(0.1)	2.4
At 31 December 2009	22.5	44.1	55.5	15.2	137.3
Net book value					
At 31 December 2009	49.2	25.4	78.4	11.4	164.4

	Acquisition related		Other		Total £m
	Customer relationships £m	Licences and franchises £m	Software and development expenditure £m	Pension related intangibles £m	
Cost					
At 1 January 2008	22.4	62.0	93.9	26.7	205.0
Arising on acquisition	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 (as previously stated)	77.5	68.1	119.4	26.7	291.7
Fair value adjustment arising on 2008 acquisitions (note 15)	-	-	1.4	-	1.4
At 31 December 2008 (restated)	77.5	68.1	120.8	26.7	293.1
Amortisation and impairment					
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 (restated)	65.4	31.2	81.7	14.4	192.7

Customer relationships acquired during the year are amortised over the 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 £17.6m (2008: £9.2m).

The Group is carrying £78.4m (2008: £81.7m restated) in relation to Software and development expenditure which includes assets relating to Formula 100, the Group's global SAP rollout, of £32.8m (2008: £37.6m). The amortisation period of this asset has five years (2008: six years) remaining. The Group is carrying £49.2m (2008: £65.4m) in relation to Customer relationships of which the principal component is £39.2m (2008: £51.8m) relating to SI International, Inc.. The remaining average life of these Customer relationship intangible assets is approximately six years.

15. Acquisitions

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

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

- a) On 28 January 2009, the Group acquired 100% of the share capital of Sandrunner Limited. Net assets acquired total £0.2m purchased for consideration of £1.3m, consisting of £0.3m of cash and £1.0m in deferred consideration resulting in £1.1m of goodwill relating to future opportunities in consulting. Sandrunner Limited is a management consultancy based in the UK.
- b) On 2 February 2009, the Group acquired a 50% interest in GSTS Pathology LLP (GSTS) from Pathology Services Limited, a subsidiary of the Guy's and St Thomas' NHS Foundation Trust (the Trust). GSTS provides pathology services to the Trust and various third parties. Related net cash outflows on acquisition were £4.8m consisting of £5.5m consideration (including directly attributable costs) and £0.7m of cash acquired. Net assets acquired total £0.4m. Goodwill of £5.1m has been recognised relating to future opportunities in pathology services.

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

Amendments to provisional fair value adjustments

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

The fair value adjustments arising from the acquisition of SI and Infovision were finalised in the current year, with adjustments made to the previously published fair values. The Consolidated Balance Sheet at 31 December 2008 has been restated to reflect the finalisation of the fair value adjustments.

SI

Net liabilities on acquisition

	Provisional fair value £m	Final fair value adjustments £m	Fair value £m
Intangible assets	51.8	-	51.8
Property, plant and equipment	5.3	-	5.3
Trade and other receivables	91.5	7.5	99.0
Cash and cash equivalents	13.2	-	13.2
Trade and other payables	(62.0)	-	(62.0)
Loans	(69.9)	-	(69.9)
Deferred tax liabilities	(14.2)	0.1	(14.1)
Provisions	(25.1)	(7.6)	(32.7)
Net liabilities acquired	(9.4)	-	(9.4)

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

Infovision

Net assets on acquisition

	Provisional fair value £m	Final fair value adjustments £m	Fair value £m
Intangible assets	2.1	1.4	3.5
Property, plant and equipment	5.4	-	5.4
Trade and other receivables	9.9	(1.3)	8.6
Deferred tax assets	0.2	0.3	0.5
Trade and other payables	(10.4)	1.3	(9.1)
Loans	(3.0)	-	(3.0)
Provisions	(2.2)	(0.2)	(2.4)
Net assets acquired	2.0	1.5	3.5

The fair value adjustments represent management's best estimate of the adjustments required to restate the assets and liabilities of Infovision to fair value at acquisition. The fair value adjustments principally relate to recognition of intangible assets and restatement of trade receivables to reflect their recoverability.

16. 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 2009	7.6	39.0	246.4	293.0
Additions	0.1	11.0	39.6	50.7
Reclassification from intangible assets	-	-	0.5	0.5
Disposals	-	(2.6)	(32.7)	(35.3)
Arising on acquisition	-	-	1.1	1.1
Exchange differences	(0.3)	(0.3)	10.3	9.7
At 31 December 2009	7.4	47.1	265.2	319.7
Accumulated depreciation and impairment				
At 1 January 2009	3.3	17.9	156.4	177.6
Charge for the year	0.2	4.9	29.3	34.4
Disposals	-	(2.0)	(27.6)	(29.6)
Exchange differences	(0.2)	(0.6)	8.9	8.1
At 31 December 2009	3.3	20.2	167.0	190.5
Net book value				
At 31 December 2009	4.1	26.9	98.2	129.2

	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	-	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

The carrying amount of the Group's Machinery, motor vehicles, furniture and equipment includes an amount of £22.1m (2008: £17.0m) in respect of assets held under finance leases.

The carrying amount of the Group's Short-leasehold building improvements includes an amount of £3.0m (2008: £2.4m) in respect of assets held under finance leases.

17. 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 Consolidated Balance Sheet is as follows:

Income statement

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

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

Balance sheet

	2009 £m	2008 £m
Non-current assets	186.4	128.8
Current assets	145.4	117.7
Current liabilities	(129.8)	(115.8)
Non-current liabilities	(162.5)	(103.7)
Net assets	39.5	27.0

18. Inventories

	2009 £m	2008 £m
Service spares	22.6	16.4
Parts awaiting installation	18.0	11.9
Long-term project-based contract balances	25.3	21.9
	65.9	50.2

As at 31 December 2009, £nil (2008: £nil) of advances received from customers were included within Long-term project-based contract balances. As at 31 December 2009, the Group had £nil (2008: £nil) of contract retentions held by customers.

19. Trade and other receivables

	2009 £m	2008 £m
Trade and other receivables: non-current		
Amounts owed by joint ventures	2.7	1.9
Amounts recoverable on retirement benefit obligations (note 26)	144.3	89.6
Other debtors	34.4	29.6
	181.4	121.1

	2009 £m	As previously stated 2008 £m	Restated* 2008 £m
Trade and other receivables: current			
Trade receivables	514.7	525.1	523.2
Other amounts recoverable on contracts	65.2	61.5	61.5
Prepayments and accrued income	81.4	84.1	84.1
Other debtors	58.3	44.3	44.9
	719.6	715.0	713.7
Corporation tax recoverable	1.3	4.5	12.0
	720.9	719.5	725.7

*Note 15

The Directors estimate that the carrying amount of trade receivables approximates to their fair value.

As at 31 December 2009, trade receivables of £4.6m (2008: £2.7m) 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 £3.4m as at 31 December 2009 (2008: £2.7m) primarily because our customers either have a sovereign credit rating being government organisations or are blue chip private sector companies.

The ageing of trade receivables is as follows:

	2009 £m	As previously stated 2008 £m	Restated* 2008 £m
Neither billed, impaired nor past due	438.5	463.3	463.3
Not impaired but overdue by less than 30 days	40.9	37.3	37.3
Not impaired but overdue by between 30 and 60 days	11.8	12.3	10.4
Not impaired but overdue by more than 60 days	22.3	12.2	12.2
Impaired	4.6	2.7	2.7
Bad debt provision	(3.4)	(2.7)	(2.7)
	514.7	525.1	523.2

*Note 15

Movements in the Group bad debt provision are as follows:

	2009 £m	2008 £m
At 1 January	2.7	1.4
Charged to income statement	1.4	1.3
Utilised	(0.6)	(0.6)
Arising on acquisition	-	0.3
Exchange differences	(0.1)	0.3
At 31 December	3.4	2.7

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.

20. Cash and cash equivalents

	Sterling 2009 £m	Other currencies 2009 £m	Total 2009 £m	Sterling 2008 £m	Other currencies 2008 £m	Total 2008 £m
Cash of project companies securing credit obligations*	-	4.3	4.3	-	4.1	4.1
Customer advance payments*	-	6.9	6.9	-	6.3	6.3
Other cash and short-term deposits	200.8	107.4	308.2	108.8	131.6	240.4
Total cash and cash equivalents	200.8	118.6	319.4	108.8	142.0	250.8

*Cash of project companies and customer advance payments totalling £11.2m (2008: £10.4m) 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.

21. Loans

	Non recourse loans 2009 £m	Other loans 2009 £m	Total 2009 £m	Non recourse loans 2008 £m	Other loans 2008 £m	Total 2008 £m
Loans are repayable as follows:						
On demand or within one year	7.2	103.5	110.7	6.5	30.3	36.8
Between one and two years	7.3	145.8	153.1	6.8	64.6	71.4
Between two and five years	14.5	351.4	365.9	20.8	571.0	591.8
After five years	-	24.2	24.2	-	47.7	47.7
	29.0	624.9	653.9	34.1	713.6	747.7
Less: amount due for settlement within one year (shown within current liabilities)	(7.2)	(103.5)	(110.7)	(6.5)	(30.3)	(36.8)
Amount due for settlement after one year	21.8	521.4	543.2	27.6	683.3	710.9

The carrying amounts and fair values of the loans are as follows:

	Carrying amount		Fair value	
	2009 £m	2008 £m	2009 £m	2008 £m
Non recourse loans	29.0	34.1	31.3	38.0
Other loans	624.9	713.6	638.8	728.8
	653.9	747.7	670.1	766.8

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.

22. 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:

	2009 £m	As previously stated 2008 £m	Restated* 2008 £m
At 1 January – liability/(asset)	5.9	(29.6)	(29.6)
Income statement (credit)/charge (note 10)	(0.2)	6.6	6.6
Acquisitions/disposals	-	7.1	6.7
Items recognised in equity and in other comprehensive income	(41.8)	22.2	22.2
Exchange differences	(2.9)	-	-
At 31 December – (asset)/liability	(39.0)	6.3	5.9

*Note 15

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 2009 (restated)	26.5	(18.7)	7.5	0.6	(10.0)	5.9
Charged/(credited) to income statement	(0.5)	1.5	6.2	0.1	(7.5)	(0.2)
Items recognised in equity and in other comprehensive income	-	(1.0)	(39.1)	(1.7)	-	(41.8)
Exchange differences	(3.4)	0.4	-	-	0.1	(2.9)
At 31 December 2009	22.6	(17.8)	(25.4)	(1.0)	(17.4)	(39.0)

The movement in deferred tax assets and liabilities during the previous year, as restated, was as follows:

	Temporary differences on assets/ intangibles Restated* £m	Share-based payment and employee benefits Restated* £m	Retirement benefit schemes £m	Derivative financial instruments £m	Other temporary differences Restated* £m	Total Restated* £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	21.4	(3.1)	-	(0.3)	(11.3)	6.7
Items recognised in equity and in other comprehensive income	(5.3)	6.8	16.8	3.9	-	22.2
At 31 December 2008 (restated)	26.5	(18.7)	7.5	0.6	(10.0)	5.9

*Note 15

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:

	2009 £m	As previously stated 2008 £m	Restated* 2008 £m
Deferred tax liabilities	9.0	25.9	25.9
Deferred tax assets	(48.0)	(19.6)	(20.0)
	(39.0)	6.3	5.9

*Note 15

22. Deferred tax continued

At the balance sheet date, the Group did not recognise deferred tax assets of £5.6m (2008: £9.7m) which principally relate to unused tax losses of £26.1m (2008: £28.0m). Losses of £1.3m expire within five years, losses of £2.1m expire within six to ten years, losses of £11.6m expire within 15 to 20 years and losses of £11.1m 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 £0.4m (2008: £7.5m). 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. The temporary differences at 31 December 2009 are significantly reduced from the previous year as a result of a change to UK tax legislation which largely exempts from UK tax, overseas dividends received on or after 1 July 2009. The temporary differences at 31 December 2009 represent only the unremitted earnings of those overseas subsidiaries where remittance of those earnings may still result in a tax liability, principally as a result of dividend withholding taxes levied by the overseas tax jurisdictions in which these subsidiaries operate.

23. Obligations under finance leases

	Minimum lease payments 2009 £m	Present value of minimum lease payments 2009 £m	Minimum lease payments 2008 £m	Present value of minimum lease payments 2008 £m
Amounts payable under finance leases:				
Within one year	7.5	6.0	5.8	4.5
Between one and five years	17.6	15.3	12.6	10.7
After five years	3.0	2.7	2.3	2.0
	28.1	24.0	20.7	17.2
Less: future finance charges	(4.1)	-	(3.5)	-
Present value of lease obligations	24.0	24.0	17.2	17.2
Less: amount due for settlement within one year (shown under current liabilities)	(7.5)	(6.0)	(5.8)	(4.5)
Amount due for settlement after one year	16.5	18.0	11.4	12.7

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.

24. Trade and other payables

	2009 £m	As previously stated 2008 £m	Restated* 2008 £m
Trade and other payables: current			
Trade creditors	197.7	225.0	226.5
Other creditors	126.4	132.6	132.6
Accruals and deferred income	447.0	397.1	397.1
Amounts owed to joint ventures	0.5	-	-
	771.6	754.7	756.2

*Note 15

The average credit period taken for trade purchases is 32 days (2008: 28 days). The Directors estimate that the fair value of trade creditors approximates to their carrying amount.

	2009 £m	As previously stated 2008 £m	Restated* 2008 £m
Trade and other payables: non-current			
Other creditors	23.1	35.4	32.6
Amounts owed to joint ventures	-	0.1	0.1
	23.1	35.5	32.7

*Note 15

25. Financial risk management

The Group held the following financial instruments at 31 December:

	Carrying amount 2009 £m	Carrying amount As previously stated 2008 £m	Carrying amount Restated* 2008 £m
Financial assets			
Derivative financial instruments at fair value	3.9	10.6	10.6
Loans and receivables at amortised cost - Trade receivables (note 19)	514.7	525.1	523.2
- Other financial assets (note 25(f))	0.8	1.4	1.4
- Cash and cash equivalents (note 20)	319.4	250.8	250.8
	838.8	787.9	786.0
Financial liabilities			
Derivative financial instruments at fair value	(7.2)	(4.6)	(4.6)
At amortised cost - Loans (note 21)	(653.9)	(747.7)	(747.7)
- Trade creditors (note 24)	(197.7)	(225.0)	(226.5)
- Obligations under finance leases (note 23)	(24.0)	(17.2)	(17.2)
	(882.8)	(994.5)	(996.0)
Net financial instruments	(44.0)	(206.6)	(210.0)

*Note 15

25(a) Derivative financial instruments

(i) Fair value of derivative financial instruments

The fair values of derivative financial instruments are calculated based on a discounted cash flow analysis using appropriate quoted interest rates for the duration of the instruments as noted below.

- **Currency swaps and interest rate swaps**

Measured at the present value of estimated future cash flows. The present value of foreign currency balances are converted at the year end exchange rate.

- **Forward foreign exchange contracts**

Measured using quoted forward exchange rates matching the maturities of the contracts.

- **Commodity futures contracts**

Measured at the present value of estimated cash flows with reference to quoted forward prices for Gas Oil. Where forward prices are not available for Gas Oil the equivalent forward price data for Brent Crude has been used as the two prices are closely related.

The classification of the fair value measurement falls into three levels, based on the degree to which the fair value is observable. The levels are as follows:

Level 1: derived from unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2: derived from other observable market data for the assets or liabilities; and

Level 3: derived from valuation techniques using data that is not based on observable market data.

Based on the above, the derivative financial instruments are considered to fall into Level 2. There were no transfers between Level 1 and 2 during the year.

(ii) Movement in derivative financial instruments

The fair valuation of derivative financial instruments results in a net liability of £3.3m (2008: £6.0m net asset), comprising non-current assets of £2.5m (2008: £5.6m), current assets of £1.4m (2008: £5.0m), current liabilities of £5.5m (2008: £4.2m) and non-current liabilities of £1.7m (2008: £0.4m).

	1 January 2009 £m	Movement in fair value of cash flow hedges £m	Movement in fair value of non- designated hedges £m	Cash flow hedges disposed of £m	31 December 2009 £m
Currency swaps	4.2	(4.7)	-	-	(0.5)
Forward foreign exchange contracts	2.2	(1.5)	(3.0)	-	(2.3)
Interest rate swaps	-	(2.1)	-	-	(2.1)
Commodity futures contracts	(0.4)	2.0	-	-	1.6
	6.0	(6.3)	(3.0)	-	(3.3)

	1 January 2008 £m	Movement in fair value of cash flow 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

25(b) Financial risk

The Board is ultimately responsible for ensuring that financial and non-financial risk 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.

25(c) Credit facilities

The Group maintains committed credit facilities to ensure that it has sufficient liquidity to maintain its ongoing operations. The Group's main facility is a £400m revolving credit facility, expiring in September 2013. As at 31 December 2009 drawings were US Dollar 195m. As at 31 December 2008, the bank facility comprised of term loans of £26m and US Dollar 229m. The Group also has facilities consisting of a £35m revolving credit facility and US Dollar 488m term loan facility, both fully drawn at 31 December 2009 and 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. These facilities were principally raised to finance the acquisition of SI.

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 25(e)).

25(d) Liquidity risk management

The Group's financial liabilities will be settled on a net basis based on the remaining period from 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
Trade creditors	197.7	-	-	-	197.7
Finance leases	7.5	7.8	9.8	3.0	28.1
Loans	110.7	153.1	365.9	24.2	653.9
Loan interest	26.0	20.5	28.3	1.2	76.0
Derivative financial liabilities	5.7	1.2	0.4	-	7.3
At 31 December 2009	347.6	182.6	404.4	28.4	963.0

	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
Trade creditors (as previously stated)	225.0	-	-	-	225.0
Fair value adjustments relating to 2008 acquisitions (note 15)	1.5	-	-	-	1.5
Trade creditors (restated)	226.5	-	-	-	226.5
Finance leases	5.8	6.2	6.4	2.3	20.7
Loans	36.8	71.4	591.8	47.7	747.7
Loan interest	28.1	26.9	53.1	3.6	111.7
Derivative financial liabilities	1.3	0.2	0.2	-	1.7
At 31 December 2008 (restated)	298.5	104.7	651.5	53.6	1,108.3

25(d) Liquidity risk management continued

The maturity of the fair value of derivative financial instruments is as follows:

	Currency swaps £m	Forward foreign exchange contracts £m	Interest rate swaps £m	Commodity futures contracts £m	Total £m
On demand or within one year	(0.1)	(1.7)	(3.1)	0.8	(4.1)
Between one and two years	(0.2)	(0.3)	0.5	0.8	0.8
Between two and five years	(0.2)	(0.3)	0.5	-	-
After five years	-	-	-	-	-
At 31 December 2009	(0.5)	(2.3)	(2.1)	1.6	(3.3)

Forward foreign exchange contracts comprise a non-current asset of £0.6m (2008: £1.0m), a current asset of £0.6m (2008: £4.8m), a current liability of £2.3m (2008: £3.4m), and a non-current liability of £1.2m (2008: £0.2m).

	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
At 31 December 2008	4.2	2.2	-	(0.4)	6.0

25(e) Foreign exchange risk**(i) 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.

(ii) 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 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.

(iii) 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.

25(e) Foreign exchange risk continued

At the balance sheet date, the net total notional amount of outstanding forward foreign exchange and currency swap contracts to which the Group is committed is £74.8m (2008: £99.7m). These arrangements are mainly designed to address significant exchange exposures for the next six years (2008: seven years).

Cash flow hedges

At 31 December 2009, 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:

	Notional amount 2009 USDm	Receivable USD interest rate 2009 %	Payable GBP interest rate 2009 %	Notional amount 2008 USDm	Receivable USD interest rate 2008 %	Payable GBP interest rate 2008 %
Maturity						
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 £21.3m (2008: £52.2m).

All currency derivatives designated as cash flow hedges are highly effective and the fair value loss of £6.2m (2008: £15.7m gain) has been deferred in equity. No balances in relation to ineffectiveness have been recognised in the Consolidated Income Statement except for a previously discontinued cash flow hedge. Amounts in the hedging reserve are recycled to the income statement as the hedged transactions affect the income statement. A loss of £0.2m (2008: £0.1m) has been included in the Consolidated Income Statement, and the remaining loss of £0.4m (2008: £0.6m) is expected to be recognised in the Consolidated Income Statement in future periods.

(iv) 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, and Euro denominated borrowings, some of which have been designated as a hedge of part of the net investment in its subsidiaries in Europe. The carrying value of the designated borrowings was £386.2m (2008: £426.0m). The foreign exchange gain of £47.0m (2008: £16.1m loss) on translation into Sterling of the borrowings 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.

(v) Currency sensitivity

The Group's currency exposures that result in net currency gains and losses in the income statement and equity arise principally from US Dollar and Canadian Dollar financial instruments. At 31 December 2009, if the US Dollar had weakened by ten per cent against Sterling, with all other variables held constant, post-tax profit for the year would have been £0.1m lower (2008: £0.1m higher) mainly as a result of movements on working capital. Equity would have been £31.2m higher (2008: £34.8m) 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 2009, if the US Dollar had weakened by ten per cent against the Canadian Dollar, with all other variables held constant, post-tax profit for the year would have been unaffected (2008: £0.3m lower). Equity would have been £0.6m higher (2008: £0.5m) due to Canadian Dollar denominated non-current intercompany borrowings.

25(f) 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.

(i) Interest rate management

An analysis of financial assets and liabilities exposed to interest rate risk is set out below:

Financial assets

	Floating rate 2009 £m	Fixed rate 2009 £m	Weighted average fixed interest rate received 2009 %	Floating rate 2008 £m	Fixed rate 2008 £m	Weighted average fixed interest rate received 2008 %
Cash and cash equivalents	319.4	-		250.8	-	
Other financial assets	0.2	0.6	6.00	0.2	1.2	6.00
	319.6	0.6		251.0	1.2	

Financial liabilities

	Floating rate 2009 £m	Fixed rate 2009 £m	Weighted average fixed interest rate paid 2009 %	Floating rate 2008 £m	Fixed rate 2008 £m	Weighted average fixed interest rate paid 2008 %
Non recourse Canadian Dollar loans	-	29.0	5.27	-	34.1	5.27
Sterling loans	71.1	118.6	5.83	48.3	119.8	5.80
US Dollar loans	144.2	278.7	3.20	534.7	-	-
Other loans	12.2	0.1	12.00	7.5	3.3	12.59
	227.5	426.4		590.5	157.2	

Exposure to interest rate fluctuations is mitigated through the use of interest rate derivatives. Excluded from the above analysis is £24.0m of amounts payable under finance leases, which are subject to fixed rates of interest (2008: £17.2m).

(ii) Interest rate swaps

During 2009 the Group entered into interest rate swaps to manage its exposure to interest rate risk on US Dollar 450m of its debt by swapping floating for fixed interest rates. The profile of the interest rate swaps is as follows:

Maturity	Notional value 2009 USDm	Payable USD weighted average interest rate 2009 %	Receivable USD interest rate 2009 %
March 2011	150	1.60	3 month USD LIBOR
March 2012	300	1.83	3 month USD LIBOR

The swaps were designated as cash flow hedges and are highly effective. The fair value loss of £2.1m has therefore been deferred within equity (2008: £0.8m gain). The gain in 2008 related to interest rate swaps held by Kilmarnock Prison Services Limited, which was sold by the Group on 23 June 2008.

(iii) Interest rate sensitivity

The following sensitivity analysis has been determined on the exposure to interest rates for both derivatives and financial liabilities at the balance sheet date and on average balances held throughout the year. A 100 basis point increase in interest rates with all other variables held constant would have resulted in a gain on post-tax profit for the year to 31 December 2009 of £0.3m (2008: £1.1m loss). The gain on equity due to a 100 basis point movement would have been £4.3m (2008: £1.2m) due to movements in the fair value of derivative financial instruments held as cash flow hedges.

25(g) Price risk

The Group is exposed to commodity price risk through its joint venture rail operations due to the volatility in the price of fuel. The profile of the commodity derivatives used by the joint ventures to reduce this risk is as follows:

Maturity	Notional value 2009 Million litres	Payable fixed rate 2009 p per litre	Receivable floating rate* 2009 USD
September 2010	9.4	33.80	0.1% NWE
September 2011	44.9	28.95	0.2% NWE

*North West Europe price with 0.1% or 0.2% sulphur content

Maturity	Notional value 2008 Million litres	Payable fixed rate 2008 p per litre	Receivable floating rate* 2008 USD
September 2009	9.4	34.10	0.1% NWE
September 2010	12.5	33.80	0.1% NWE
September 2011	71.3	28.95	0.2% NWE

*North West Europe price with 0.1% or 0.2% sulphur content

All commodity derivatives were designated as cash flow hedges and were highly effective. The £2.0m gain (2008: £2.4m loss) in the fair value has therefore been deferred within equity.

Price risk sensitivity

An increase of US Dollar 0.2 per litre in the price of fuel at the balance sheet date would result in a £3.5m increase in equity (2008: £6.5m). The sensitivity to changes in fuel prices resulting from changes in exchange rates is included within the currency sensitivity analysis (note 25(e)).

25(h) 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, as a minimum, long-term public ratings from recognised credit rating agencies of at least two 'A' ratings. It also ensures that no exposure to any one institution at any given time exceeds a pre-approved exposure limit.

25(i) Capital risk management

The Group's key objectives when managing capital are to ensure the Group has sufficient funds to meet current and future business requirements, 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 access to the equity market, debt capital market and bank market. During 2009, the Group maintained sufficient debt facilities that ensured its objectives were met.

26. 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 2009, including the proportionate share of joint ventures, was £92.4m (2008: £85.9m).

26(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 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 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 SOCI. The intangible assets are amortised over the term of the contracts.

Non contract specific

These consist of a pre-funded defined benefit scheme (the funding policy of which 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.

26(a) Defined benefit schemes continued

The assets and liabilities of the schemes at 31 December are:

	Virtually certain costs reimbursed 2009 £m	Not certain costs reimbursed 2009 £m	Non contract specific 2009 £m	Total 2009 £m
Scheme assets at fair value				
Equities	143.6	230.0	41.4	415.0
Bonds except LDI	52.7	20.9	15.2	88.8
Liability driven investments (LDI)	-	-	493.6	493.6
Gilts	-	54.4	0.9	55.3
Property	16.4	20.4	8.9	45.7
Cash and other	11.8	26.3	193.2	231.3
Annuity policies	-	2.9	24.3	27.2
Fair value of scheme assets	224.5	354.9	777.5	1,356.9
Present value of scheme liabilities	(368.8)	(476.3)	(899.3)	(1,744.4)
Net amount recognised	(144.3)	(121.4)	(121.8)	(387.5)
Members' share of surplus	-	33.5	3.3	36.8
Franchise adjustment	-	58.0	-	58.0
Effect of IFRIC 14	-	-	(1.5)	(1.5)
Net pension liability	(144.3)	(29.9)	(120.0)	(294.2)
Related assets				
Intangible assets (note 14)	-	11.4	-	11.4
Trade and other receivables (note 19)	144.3	-	-	144.3
	144.3	11.4	-	155.7

	Virtually certain costs reimbursed 2008 £m	Not certain costs reimbursed 2008 £m	Non contract specific 2008 £m	Total 2008 £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 deficit	-	17.0	1.6	18.6
Franchise adjustment	-	17.7	-	17.7
Effect of IFRIC 14 adoption	-	-	(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 19)	89.6	-	-	89.6
	89.6	14.4	-	104.0

Liabilities in relation to unfunded schemes included above amount to £48.7m (2008: £51.2m).

Certain of the Group's non contract specific schemes have 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 +0.7% (2008: gilts +0.3%).

26(a) Defined benefit schemes continued

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 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:

	Virtually certain costs reimbursed 2009 £m	Not certain costs reimbursed 2009 £m	Non contract specific 2009 £m	Total 2009 £m
Recognised in the income statement				
Current service cost – employer	7.0	12.2	14.7	33.9
Past service cost	-	-	0.7	0.7
Reimbursed to employer	(7.0)	-	-	(7.0)
Recognised in arriving at operating profit	-	12.2	15.4	27.6
Expected return on scheme assets – employer	(12.2)	(14.3)	(35.3)	(61.8)
Interest on franchise adjustment	-	(1.1)	-	(1.1)
Interest cost on scheme liabilities – employer	16.1	15.6	41.4	73.1
Reimbursed to employer	(3.9)	-	-	(3.9)
Finance cost	-	0.2	6.1	6.3
Included within the SOCI				
Actual return on scheme assets	38.3	42.5	60.9	141.7
Less: expected return on scheme assets	(12.3)	(19.9)	(36.3)	(68.5)
	26.0	22.6	24.6	73.2
Other actuarial gains and losses	(85.2)	(89.4)	(157.6)	(332.2)
Actuarial losses recognised in the SOCI	(59.2)	(66.8)	(133.0)	(259.0)
Change in IFRIC 14	-	-	0.1	0.1
Change in franchise adjustment	-	39.3	-	39.3
Change in members' share	-	16.7	1.8	18.5
Reimbursed to employer	59.2	-	-	59.2
Actuarial gains on reimbursable rights	59.2	56.0	1.9	117.1
Total pension cost recognised in the SOCI	-	(10.8)	(131.1)	(141.9)

	Virtually certain costs reimbursed 2008 £m	Not certain costs reimbursed 2008 £m	Non contract specific 2008 £m	Total 2008 £m
Recognised in the 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 SOCI				
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 and losses	53.1	70.0	149.3	272.4
Actuarial gains and losses recognised in the SOCI	(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 SOCI	-	(14.6)	73.9	59.3

26(a) Defined benefit schemes continued

Cumulative actuarial losses recognised since 1 January 2004 are £53.5m (2008: gains of £88.4m).

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 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)
Exchange differences	-	-	12.4	12.4
At 1 January 2009	267.2	356.4	719.8	1,343.4
Current service cost – employer	7.0	12.2	14.7	33.9
Current service cost – employee	-	4.8	0.6	5.4
Past service costs	-	-	0.7	0.7
Plan participants' contributions	2.5	0.7	1.1	4.3
Interest cost – employer	16.1	15.6	41.4	73.1
Interest cost – employee	-	6.0	1.1	7.1
Benefits paid	(9.2)	(8.8)	(33.4)	(51.4)
Actuarial gains and losses	85.2	89.4	157.6	332.2
Exchange differences	-	-	(4.3)	(4.3)
At 31 December 2009	368.8	476.3	899.3	1,744.4

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 2008	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)
Exchange differences	-	-	0.2	0.2
At 1 January 2009	177.6	297.3	719.2	1,194.1
Expected return on plan assets – employer	12.2	14.3	35.3	61.8
Expected return on plan assets – employee	-	5.6	1.0	6.6
Employer contributions	15.4	17.9	29.1	62.4
Contributions by employees	2.5	6.0	1.6	10.1
Benefits paid	(9.2)	(8.8)	(33.4)	(51.4)
Actuarial gains and losses	26.0	22.6	24.6	73.2
Exchange differences	-	-	0.1	0.1
At 31 December 2009	224.5	354.9	777.5	1,356.9

No assets are invested in the Group's own financial instruments, properties or other assets used by the Group.

26(a) Defined benefit schemes continued

History of experience gains and (losses)

	2009	2008	2007	2006	2005
Experience adjustments arising on scheme assets:					
Amount (£m)	73.2	(263.7)	1.4	45.8	103.6
Percentage of scheme assets	5%	(22)%	-	4%	10%
Experience adjustments arising on scheme liabilities:					
Amount (£m)	(58.2)	0.1	(5.1)	(13.1)	11.8
Percentage of the present value of scheme liabilities	(3)%	-	-	(1)%	1%
Fair value of scheme assets (£m)	1,356.9	1,194.1	1,342.8	1,186.8	992.7
Present value of scheme liabilities (£m)	(1,744.4)	(1,343.4)	(1,500.9)	(1,465.1)	(1,347.1)
Deficit (£m)	(387.5)	(149.3)	(158.1)	(278.3)	(354.4)

The normal contributions expected to be paid during the financial year ending 31 December 2010 are £60.7m.

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 2009 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 2009 and have concluded that an 'equity risk premium' of 4.1% is appropriate at 31 December 2009 (2008: 4.1%).

The overall expected return on assets is calculated as the weighted average of the expected returns for the principal asset categories held by scheme.

	2009 %	2008 %
Main assumptions:		
Rate of salary increases	3.70	3.10
Rate of increase in pensions in payment	3.30	2.60
Rate of increase in deferred pensions	3.30	2.60
Inflation assumption	3.30	2.60
Discount rate	5.80	6.00
Expected rates of return on scheme assets:		
Equities	8.60	7.95
Bonds except LDI	5.80	6.00
LDI	5.20	4.15
Gilts	4.50	3.85
Property	5.75	5.10
Cash and other	0.50	2.00
Annuity policies	5.80	6.00

	2009 Years	2008 Years
Post-retirement mortality:		
Current pensioners at 65 – male	20.3	20.3
Current pensioners at 65 – female	23.2	23.2
Future pensioners at 65 – male	21.6	21.6
Future pensioners at 65 – female	24.4	24.4

26(b) Defined contribution schemes

The Group paid employer contributions of £49.4m (2008: £34.7m) 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.

27. Provisions

	Employee related £m	Property £m	Contract £m	Other £m	Total £m
At 1 January 2008	9.0	4.7	4.7	0.2	18.6
Arising from acquisitions	-	9.3	7.4	10.6	27.3
Charged to income statement	0.6	-	-	0.3	0.9
Released to income statement	(3.7)	(4.3)	(1.0)	-	(9.0)
Utilised during the year	(0.7)	(0.1)	-	(0.1)	(0.9)
Exchange differences	0.7	0.2	0.1	0.2	1.2
At 31 December 2008 (as previously stated)	5.9	9.8	11.2	11.2	38.1
Fair value adjustments on 2008 acquisitions (note 15)	-	-	-	7.8	7.8
At 1 January 2009 (restated)	5.9	9.8	11.2	19.0	45.9
Charged to income statement	2.4	-	0.9	1.9	5.2
Released to income statement	-	-	(0.5)	-	(0.5)
Utilised during the year	(0.6)	(1.2)	(0.7)	(2.8)	(5.3)
Movement in discount rate	-	0.4	0.3	-	0.7
Exchange differences	-	(1.0)	(0.8)	(1.9)	(3.7)
At 31 December 2009	7.7	8.0	10.4	16.2	42.3

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 gained. Management has calculated the provision based on the discounted cash outflows required to settle the lease obligations.

Contract provisions primarily relate to SI 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 held for 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.

28. Share capital

	2009 £m	Number 2009 Millions	2008 £m	Number 2008 Millions
Issued and fully paid:				
486,764,440 (2008: 485,051,557) ordinary shares of 2p each at 1 January	9.7	486.8	9.7	485.1
Issued on the exercise of share options	0.1	4.1	-	1.7
490,912,075 (2008: 486,764,440) ordinary shares of 2p each at 31 December	9.8	490.9	9.7	486.8

At the Company's 2009 Annual General Meeting shareholders approved the deletion of the Company's Authorised Share Capital provisions from the Company's Articles of Association with effect from 1 October 2009, taking advantage of changes implemented by the Companies Act 2006. The Company had 550,000,000 authorised shares as at 31 December 2008.

The Company has one class of ordinary shares which carry no right to fixed income.

During the year, 4,147,635 (2008: 1,712,883) ordinary shares of 2p each were allotted to the holders of options or their personal representatives using newly listed shares.

29. Share premium account

	2009 £m	2008 £m
At 1 January	301.1	299.3
Premium on shares issued	3.0	1.8
At 31 December	304.1	301.1

30. Reserves

30(a) Retirement benefit obligations reserve

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.

30(b) Share-based payment reserve

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.

30(c) Own shares reserve

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 option schemes. At 31 December 2009, the ESOP held 3,436,547 (2008: 5,650,253) shares equal to 0.7% of the current allotted share capital (2008: 1.2%). The market value of shares held by the ESOP as at 31 December 2009 was £18,213,699 (2008: £25,454,390).

30(d) Hedging and translation reserve

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.

31. Notes to the consolidated cash flow statement

Reconciliation of operating profit to net cash inflow from operating activities

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

Additions to fixtures and equipment during the year amounting to £11.9m (2008: £8.9m) were financed by new finance leases.

31. Notes to the consolidated cash flow statement continued

Analysis of net debt

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

	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
PFI non recourse loans	(22.5)	1.6	20.9	-	-	-
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)

Non cash movements in 2008 and 2009 relate to finance leases.

32. Capital and other commitments

	2009 £m	2008 £m
Capital expenditure contracted but not provided:		
- Property, plant and equipment	5.5	0.5

Included within the balances above is joint venture capital expenditure contracted but not provided in relation to property, plant and equipment of £1.2m (2008: £0.3m).

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:

	2009 £m	2008 £m
Within one year	106.7	104.9
Between one and five years	207.3	264.8
After five years	123.5	150.0
	437.5	519.7

Principal lease commitments are within the Transport segment, with future minimum lease payments totalling £181.0m (2008: £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.

33. Share-based payment expense

The Group recognised the following expenses related to equity-settled share-based payment transactions:

	2009 £m	2008 £m
Executive Option Plan	0.5	0.7
Long Term Incentive Scheme and Plan	4.5	5.3
Sharesave 2008	1.8	1.0
Transformational Share Scheme	0.1	-
Performance Share Plan	0.2	-
Deferred Bonus Plan	0.1	-
	7.2	7.0

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:

	Number of options 2009 Thousands	Weighted average exercise price 2009 £	Number of options 2008 Thousands	Weighted average exercise price 2008 £
Outstanding at 1 January	10,948	2.65	13,724	2.53
Granted during the year	88	3.88	334	4.55
Exercised during the year	(3,634)	2.50	(2,520)	2.29
Lapsed during the year	(545)	2.98	(590)	2.36
Outstanding at 31 December	6,857	2.72	10,948	2.65

Of these options, 5,992,295 (2008: 9,606,125) were exercisable at the end of the year, with a weighted average exercise price of £2.48 (2008: £2.46).

The options outstanding at 31 December 2009 had a weighted average contractual life of 3.66 years (2008: 4.22 years). The exercise prices for options outstanding at 31 December 2009 ranged from £1.39 to £4.90 (2008: £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 £4.41 (2008: £4.20).

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 the 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.

33. Share-based payment expense continued

The inputs into the Binomial Lattice model for options granted during the year are:

	2009	2008
Weighted average share price	395p	453p
Weighted average exercise price	388p	455p
Expected volatility	26.4%	27.5%
Expected life	5 years	5 years
Risk-free rate	2.5%	4.4%
Expected dividends	1.3%	0.9%

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 Group's earnings per share (EPS) or total shareholder return (TSR) 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:

	Number of options 2009 Thousands	Weighted average exercise price 2009 £	Number of options 2008 Thousands	Weighted average exercise price 2008 £
Outstanding at 1 January	8,214	Nil	7,040	Nil
Granted during the year	351	Nil	2,224	Nil
Exercised during the year	(2,383)	Nil	(592)	Nil
Lapsed during the year	(559)	Nil	(458)	Nil
Outstanding at 31 December	5,623	Nil	8,214	Nil

Of these options, 896,487 (2008: 1,293,356) were exercisable at the end of the year.

The options outstanding at 31 December 2009 had a weighted average contractual life of 7.59 years (2008: 8.11 years).

During the year, two grants of LTIP options were made: one grant with TSR performance conditions, the other with EPS growth performance conditions. The Monte Carlo Simulation model is considered to be the most appropriate for valuing options granted under schemes where there are changes in performance conditions by which the options are measured, such as for the TSR based awards.

The inputs into the Monte Carlo Simulation model for options granted during the year are:

	2009	2008
Weighted average share price	374p	402p
Weighted average exercise price	Nil	Nil
Expected volatility	28.9%	23.2% - 26.8%
Expected life	3 years	1 - 5 years
Risk-free rate	1.8%	2.5% - 5.0%
Expected dividends	1.3%	0.9% - 1.1%

33. 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.

For the LTIP options with EPS growth performance conditions, the fair value is considered to be their face value less the present value of any dividend payments not received over the vesting period.

The assumptions for options granted during the year with EPS growth performance conditions are:

	2009
Weighted average share price	456p
Weighted average exercise price	Nil
Expected volatility	N/A
Expected life	3 years
Risk-free rate	N/A
Expected dividends	1.2%

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.

	Number of options 2009 Thousands	Weighted average exercise price 2009 £	Number of options 2008 Thousands	Weighted average exercise price 2008 £
Outstanding at 1 January	39	Nil	-	Nil
Granted during the year	53	Nil	46	Nil
Exercised during the year	-	Nil	-	Nil
Lapsed during the year	(6)	Nil	(7)	Nil
Outstanding at 31 December	86	Nil	39	Nil

None of these options were exercisable at the end of the year.

The options outstanding at 31 December 2009 had a weighted average contractual life of 1.28 years (2008: 2.33 years).

The fair value of options granted under the Transformational Share Scheme is considered to be equal to their face value as at the grant date less the present value of any dividend payments not received over the vesting period. This model is considered to be the most appropriate for valuing options granted under this scheme as the options have a £nil exercise price and are not subject to any performance conditions.

The assumptions for determining the face value less any dividends are:

	2009
Weighted average share price	366p
Weighted average exercise price	Nil
Expected volatility	N/A
Expected life	2 years
Risk-free rate	N/A
Expected dividends	1.4%

33. Share-based payment expense continued

Performance Share Plan (PSP)

Under the PSP, eligible employees have been granted options with a £nil exercise price. Awards vest after the performance period of three years and are subject to the achievement of two performance measures. The primary performance measure is TSR and the secondary performance measure is based on EPS growth.

	Number of options 2009 Thousands	Weighted average exercise price 2009 £
Outstanding at 1 January	-	Nil
Granted during the year	479	Nil
Exercised during the year	-	Nil
Lapsed during the year	-	Nil
Outstanding at 31 December	479	Nil

None of these options were exercisable at the end of the year.

The options outstanding at 31 December 2009 had a weighted average contractual life of 9.48 years.

In the year, two grants were made with 70% of the options granted subject to TSR performance conditions and 30% subject to EPS growth performance conditions.

The options subject to TSR performance conditions were valued using the Monte Carlo Simulation model. The options subject to EPS growth performance conditions were deemed to have fair values equal to their face value less the present value of any dividend payments not received over the vesting period.

The Monte Carlo Simulation model is considered to be the most appropriate for valuing options granted under schemes where there are changes in performance conditions by which the options are measured, such as for the TSR based awards.

The inputs into the Monte Carlo Simulation model for options granted during the year with TSR performance conditions are:

	2009
Weighted average share price	406p
Weighted average exercise price	Nil
Expected volatility	28.8%
Expected life	3 years
Risk-free rate	2.2%
Expected dividends	1.2%

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.

The assumptions for options granted during the year with EPS growth performance conditions are:

	2009
Weighted average share price	406p
Weighted average exercise price	Nil
Expected volatility	N/A
Expected life	3 years
Risk-free rate	N/A
Expected dividends	1.2%

33. Share-based payment expense continued

Deferred Bonus Plan (DBP)

Under the DBP, eligible employees are entitled to use up to 50% of their earned annual bonus to purchase shares in the Group at market price. Provided they remain in employment for this period, the shares are retained for that period and the two performance measures (which are the same as the PSP scheme, being TSR and EPS growth) have been met, the Group will make a matching share award. For shares purchased by employees in 2009 the match was on a basis of two times the gross bonus deferred.

	Number of options 2009 Thousands	Weighted average exercise price 2009 £	Number of options 2008 Thousands	Weighted average exercise price 2008 £
Outstanding at 1 January	28	Nil	44	Nil
Granted during the year	207	Nil	-	Nil
Exercised during the year	(28)	Nil	(16)	Nil
Lapsed during the year	-	Nil	-	Nil
Outstanding at 31 December	207	Nil	28	Nil

None of these options were exercisable at the end of the year.

The options outstanding at 31 December 2009 had a weighted average contractual life of 2.45 years (2008: 0.22 years).

In the year, two grants were made with 50% of the deferred bonus subject to TSR performance conditions and 50% subject to EPS growth performance conditions.

The portion subject to TSR performance conditions was valued using the Monte Carlo Simulation model. The portion subject to EPS growth performance conditions was deemed to have a fair value equal to their face value less the present value of any dividend payments not received over the vesting period.

The Monte Carlo Simulation model is considered to be the most appropriate for valuing options granted under schemes where there are changes in performance conditions by which the options are measured, such as for the TSR based awards.

The inputs into the Monte Carlo Simulation model for options granted during the year with TSR performance conditions are:

	2009
Weighted average share price	404p
Weighted average exercise price	Nil
Expected volatility	28.9%
Expected life	3 years
Risk-free rate	1.8% - 2.4%
Expected dividends	1.2%

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.

The assumptions for options granted during the year with EPS growth performance conditions are:

	2009
Weighted average share price	404p
Weighted average exercise price	Nil
Expected volatility	N/A
Expected life	3 years
Risk-free rate	N/A
Expected dividends	1.2%

33. Share-based payment expense continued

Sharesave 2008

The Sharesave 2008 scheme provides for a purchase price equal to the daily average market price on the date of grant less ten per cent. 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:

	Number of options 2009 Thousands	Weighted average exercise price 2009 £	Number of options 2008 Thousands	Weighted average exercise price 2008 £
Outstanding at 1 January	6,760	4.0	-	Nil
Granted during the year	-	Nil	6,976	4.0
Exercised during the year	(5)	4.0	-	Nil
Lapsed during the year	(649)	4.0	(216)	4.0
Outstanding at 31 December	6,106	4.0	6,760	4.0

None of these options were exercisable at the end of the year.

The options outstanding at 31 December 2009 had a weighted average contractual life of 2.12 years (2008: 3.12 years). Given that options granted under the Sharesave scheme can be exercised at any time 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.

34. 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:

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

The following receivable balances relating to joint ventures were included in the Consolidated Balance Sheet:

	2009 £m	2008 £m
Current:		
Loans	0.6	1.2

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

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. Interest arising on loans is based on LIBOR, or its equivalent, with an appropriate margin. 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:

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

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

35. 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 2009. 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		2009	2008
United Kingdom	Serco Limited	100%	100%
	Serco-IAL Limited	100%	100%
	NPL Management Limited	100%	100%
	Serco Leisure Operating Limited	100%	100%
	Serco Regional Services Limited	100%	100%
	Serco Manchester Leisure Limited	81%	81%
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 Luxembourg SA	100%	100%
The Netherlands	Serco Facilities Management BV	100%	100%
Spain	Serco Gestion de Negocios SL	100%	100%
Switzerland	Serco Switzerland 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 (Vic) Pty 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%	100%
India	Serco BPO Private Limited	60%	60%

35. List of principal undertakings continued

Joint venture undertakings		2009	2008
United Kingdom	AWE Management Limited	33%	33%
	Merseyrail Services Holding Company Limited	50%	50%
	Northern Rail Holdings Limited	50%	50%
	GSTS Pathology LLP	50%	-
Asia Pacific			
Australia	Defence Maritime Services Pty Limited	50%	50%
	Serco Sodexo Defence Services Pty Limited	50%	50%
United Arab Emirates			
	Khadamat Facilities Management Company LLC	49%	49%
	International Aeradio (Emirates) LLC (Dubai)	49%	49%
	International Aeradio (Emirates) LLC (Abu Dhabi)	49%	49%
Other			
Bahrain	Aeradio Technical Services WLL	49%	49%
South Africa	Equity Aviation Services (Pty) 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 2009, Group companies had branches in the United Arab Emirates, 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.

36. Contingent liabilities

The Company has guaranteed overdrafts, finance leases, and bonding facilities of its joint ventures up to a maximum value of £7.0m (2008: £4.6m). The actual commitment outstanding at 31 December 2009 was £4.3m (2008: £3.5m).

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 2009 which comprise the Company Balance Sheet and the related notes 1 to 15. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an 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

As explained more fully in the Directors' Responsibilities Statement, the Directors are responsible for the preparation of the parent Company Financial Statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the parent Company Financial Statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the parent Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements.

Opinion on the parent Company Financial Statements

In our opinion the parent Company Financial Statements:

- give a true and fair view of the state of the parent Company's affairs as at 31 December 2009;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the parent Company Financial Statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent Company Financial Statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Other matter

We have reported separately on the Group Financial Statements of Serco Group plc for the year ended 31 December 2009.



Nigel Mercer (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditors
London, UK
25 February 2010

Company Balance Sheet

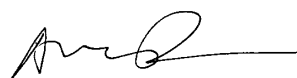
At 31 December 2009

	Note	2009 £m	2008 £m
Fixed assets			
Investments in subsidiary undertakings	3	805.5	799.6
		805.5	799.6
Current assets			
Amounts owed by subsidiary companies due after more than one year		758.8	725.4
Debtors: amounts due within one year	4	21.5	34.2
Debtors: amounts due after more than one year	4	14.6	14.3
Derivative financial instruments due within one year	7	0.5	4.6
Derivative financial instruments due after more than one year	7	1.4	5.0
Cash at bank and in hand		-	8.1
		796.8	791.6
Creditors: amounts falling due within one year			
Bank loans and overdrafts	6	(65.7)	-
Loans	6	(10.0)	(10.0)
Amounts owed to subsidiary companies		(223.1)	(168.1)
Trade creditors		(0.3)	(0.3)
Other creditors including taxation and social security	5	(1.1)	(1.0)
Derivative financial instruments	7	(5.2)	(3.3)
Accruals and deferred income		(4.7)	(7.9)
		(310.1)	(190.6)
Net current assets		486.7	601.0
Total assets less current liabilities		1,292.2	1,400.6
Creditors: amounts falling due after more than one year	6	(518.5)	(678.4)
Amounts owed to subsidiary companies		(251.1)	(237.5)
Derivative financial instruments	7	(1.7)	(0.2)
Net assets		520.9	484.5
Capital and reserves			
Called up share capital	9	9.8	9.7
Share premium account	10	304.1	301.1
Capital redemption reserve		0.1	0.1
Share-based payment reserve	11	35.9	28.7
Hedging and translation reserve	12	(1.5)	3.9
Profit and loss account	13	172.5	141.0
Shareholders' funds		520.9	484.5

The Financial Statements of the Company (registered number 2048608) were approved by the Board of Directors on 25 February 2010 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 payments to certain employees and operates an HMRC approved Save As You Earn (SAYE) share option scheme open to eligible employees which allows the purchase of shares at a discount. These are measured at fair value at the date of grant. The fair value is expensed on a straight-line basis over the vesting period, based on the Company's estimate of shares that will eventually vest.

Where the fair value of share options requires the use of a valuation model, 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 remeasurement 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: Financial Instruments - Recognition and Measurement, 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 was deferred in equity is recognised immediately in profit and loss.

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.

1. Accounting policies continued

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

Fees payable to the Company's auditors for the audit of the Company's annual accounts of £10,000 (2008: £10,000) have been borne by another group company.

3. Investments held as fixed assets

	£m
Shares in subsidiary companies at cost:	
At 1 January 2008	792.6
Options over parent Company 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 1 January 2009	799.6
Options over parent Company shares awarded to employees of subsidiaries	5.9
At 31 December 2009	805.5

On 31 December 2008, the Company acquired one additional share in Serco Holdings Limited for £50m following the capitalisation of long-term intercompany loans.

Full details of the principal subsidiaries of Serco Group plc can be found in note 35 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

	2009 £m	2008 £m
Amounts due within one year:		
Amounts owed by subsidiary companies	15.6	23.9
Corporation tax recoverable	3.4	10.1
Other debtors	2.5	0.2
	21.5	34.2
Amounts due after more than one year:		
Amounts owed by joint ventures	0.9	0.7
Other debtors	10.6	12.7
Deferred tax asset (note 8)	3.1	0.9
	14.6	14.3
	36.1	48.5

5. Other creditors including taxation and social security

	2009 £m	2008 £m
Other creditors	1.1	1.0

6. Creditors: amounts falling due after more than one year

	2009 £m	2008 £m
Loans	594.2	688.4
Less: amounts included in creditors falling due within one year – loans	(10.0)	(10.0)
Less: amounts included in creditors falling due within one year – bank loans & overdrafts	(65.7)	-
Amounts falling due after more than one year	518.5	678.4
Loans:		
Within one year or on demand	75.7	10.0
Between one and two years	143.8	64.0
Between two and five years	351.1	567.3
After five years	23.6	47.1
	594.2	688.4

7. Derivative financial instruments

	Assets 2009 £m	Liabilities 2009 £m	Assets 2008 £m	Liabilities 2008 £m
Currency swaps	-	(0.5)	4.2	-
Interest rate swaps	1.1	(3.1)	-	-
Forward foreign exchange contracts	0.8	(3.3)	5.4	(3.5)
	1.9	(6.9)	9.6	(3.5)
Analysed as:				
Non-current	1.4	(1.7)	5.0	(0.2)
Current	0.5	(5.2)	4.6	(3.3)
	1.9	(6.9)	9.6	(3.5)

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 25 to the Group's Consolidated Financial Statements.

8. Deferred tax asset

	2009 £m	2008 £m
Short-term timing difference	3.1	0.9

The movement in the deferred tax asset during the year was as follows:

	2009 £m	2008 £m
At 1 January	0.9	4.9
(Charged)/credited to the profit and loss account	(0.1)	0.3
Items taken directly to equity	2.3	(4.3)
At 31 December	3.1	0.9

9. Called up share capital

	2009 £m	Number 2009 Millions	2008 £m	Number 2008 Millions
Issued and fully paid:				
486,764,440 (2008: 485,051,557) ordinary shares of 2p each at 1 January	9.7	486.8	9.7	485.1
Issued on the exercise of share options	0.1	4.1	-	1.7
490,912,075 (2008: 486,764,440) ordinary shares of 2p each at 31 December	9.8	490.9	9.7	486.8

At the Company's 2009 Annual General Meeting shareholders approved the deletion of the Company's Authorised Share Capital provisions from the Company's Articles of Association with effect from 1 October 2009, taking advantage of changes implemented by the Companies Act 2006. The Company had 550,000,000 authorised shares as at 31 December 2008.

The Company has one class of ordinary shares which carry no right to fixed income.

During the year 4,147,635 (2008: 1,712,883) ordinary shares of 2p each were allotted to the holders of options or their personal representatives using newly listed shares.

10. Share premium account

	2009 £m	2008 £m
At 1 January	301.1	299.3
Premium on shares issued	3.0	1.8
At 31 December	304.1	301.1

11. Share-based payment reserve

	2009 £m	2008 £m
At 1 January	28.7	21.7
Options over parent Company shares awarded to employees of subsidiaries	5.9	5.3
Share-based payment expense	1.3	1.7
At 31 December	35.9	28.7

Details of the share-based payment disclosures are set out in note 33 to the Group's Consolidated Financial Statements.

12. Hedging and translation reserve

	2009 £m	2008 £m
At 1 January	3.9	(6.2)
Net fair value (loss)/gain on cash flow hedges	(8.1)	15.4
Tax credit/(charge) on items taken directly to equity	2.3	(4.3)
Net exchange gain/(loss) on translation of foreign operations	0.4	(1.0)
At 31 December	(1.5)	3.9

13. Profit and loss account

	2009 £m	2008 £m
At 1 January	141.0	126.5
Profit for the year	57.4	36.2
Equity dividends	(25.9)	(21.7)
At 31 December	172.5	141.0

As permitted by Section 408 of the Companies Act 2006, 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 2009 was £36.5m (2008: £28.3m).

The Company has also guaranteed overdrafts, finance leases, and bonding facilities of its joint ventures up to a maximum value of £7.0m (2008: £4.6m). The actual commitment outstanding at 31 December 2009 was £4.3m (2008: £3.5m).

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 34 to the Group's Consolidated Financial Statements.

Shareholder information

Group website

Go to www.serco.com for the current share price, latest news in the investors section and to read the Annual Review and Accounts.

Registrars

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. Telephone lines are open 8.30am to 5.30pm Monday to Friday.

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 Reinvestment 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 communication

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 2009 the Trust planted more than half a 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 1.5% with a minimum charge of £25 for telephone dealing and 1% with a minimum charge of £20 for internet dealing. For telephone dealing call +44 (0) 845 6037 037 between 8.30am and 4.30pm, Monday to Friday, and for internet dealing log on to www.shareview.co.uk/dealing. You will need your 11 digit shareholder reference number which will be shown on either your share certificate or recent dividend tax voucher.

Cazenove & Co Ltd 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 2009 is set out below:

Range of shareholdings	Number of shareholders	%	Number of shares	%
1 - 1,000	3,977	46.76	1,779,057	0.36
1,001 - 5,000	3,010	35.39	6,834,771	1.39
5,001 - 10,000	521	6.13	3,727,331	0.76
10,001 - 100,000	629	7.39	20,356,660	4.15
100,001 - 500,000	206	2.42	49,533,569	10.09
500,001 - 1,000,000	69	0.81	50,538,374	10.29
1,000,001 - 10,000,000	83	0.98	232,732,410	47.41
10,000,001 and above	10	0.12	125,409,903	25.55
Total	8,505	100	490,912,075	100

Financial calendar

	2010
2009 Full Year Results announcement	26 February
Ex-dividend date	10 March
Record date	12 March
Last date for receipt/revocation of DRIP dividend mandates	27 April
Interim Management Statement	11 May
Annual General Meeting	11 May
Final dividend pay date	19 May*
Half Year Results announcement	25 August**
Financial year-end	31 December

* Subject to shareholder approval

** Provisional

Printed on Cocoon Silk 50 which is certified as an FSC product manufactured with 50% recycled fibres and 50% virgin fibres.

Designed by Rare Corporate Design.
www.rarecorporate.co.uk

Printed by The Midas Press plc.
www.midaspress.plc.uk

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