

Bringing service to life



# 2008 Annual Results

Presented by  
**Serco Group plc**

27 February 2009

# Agenda

Overview

Business review

Financial results

Summary and Outlook

Q & A

# 2008 key highlights

- Strong operational and financial performance
- Entered new markets and geographies
- Added new capabilities
- Created new business models
- Increasing growth prospects
- Investing in people, systems and business structures to support growth
- £900m funding in place to support growth

# Strong operational performance underpins growth

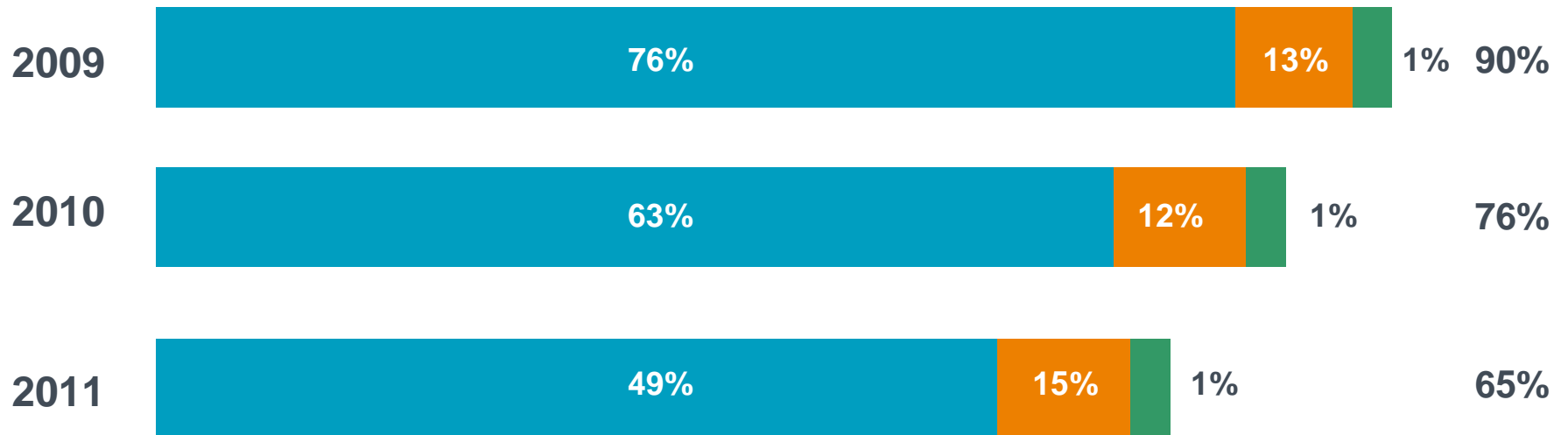
	2008	2007	Change
Revenue	£3,124m	£2,811m	11.1%
Adjusted profit before tax	£145.3m	£123.2m	17.9%
Adjusted earnings per share	22.20p	18.57p	19.5%
Dividend per share	5.00p	4.25p	17.6%
Group free cash flow	£94.2m	£97.6m	(3.5)%

# Continued focus on strategy underpins growth

- Build a balanced portfolio
  - Signed more than 200 contracts valued at £3.2bn
  - Order book of £16.3bn
  - Ongoing management of contract and investments in portfolio
- Maintain high rebid and new win rates
  - Won 90% of rebids and 50% of new bids
- Make strategic acquisitions for new skills and to enter new markets
  - Stronger base in US government services, India BPO & UK occupational health
- Develop new business models
  - Local authority partnerships
  - Foundation Trust joint venture

# Excellent revenue visibility

At 31 December 2008



 Order book

 Extensions and rebids

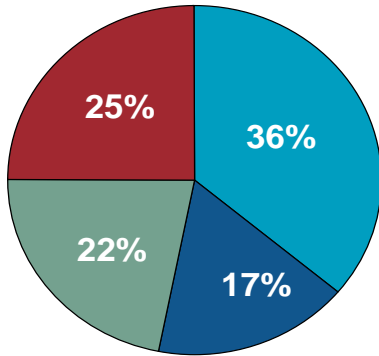
 Preferred bidder

# Ensuring continued strong performance

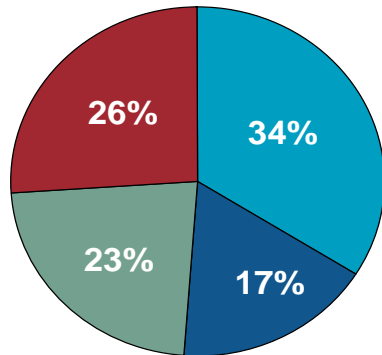
- Driving efficiency
- Selective bidding
- Portfolio management
- Enhancing capabilities in growing markets

# Market sector and geographical analysis

Revenue by market

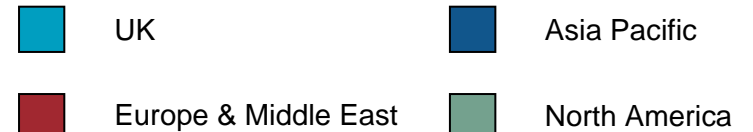
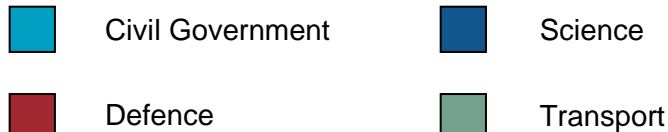
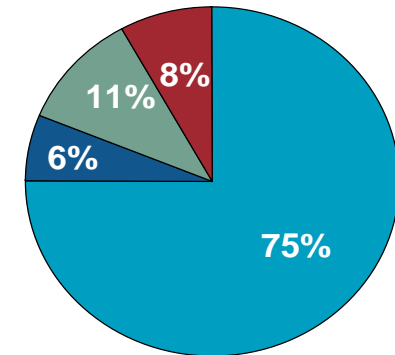
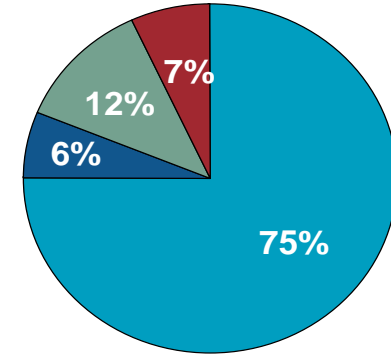


2008 £3,124m



2007 £2,811m

Revenue by geography





# Civil Government

Strong organic growth: expansion of existing contracts; good win and rebid performance

- 18.4% revenue increase to £1,127m representing 36% of the group (2007: 34%)
  
- Home Affairs
  - £100m expansion of two UK prison contracts - HMPs Dovegate and Lowdham Grange
  - Borallon prison, Australia, operating successfully
  
- IT and BPO services
  - £265m Glasgow City Council partnership started and progressing successfully
  - New £19m, seven year, ICT contract with Derby City Council
  - Existing businesslink.gov contract extended by £42m over three years
  - £11m of new work with South East and South West regional development agencies

# Civil Government

Strong organic growth: expansion of existing contracts; good win and rebid performance

## ■ Education and Children's Services

- Renewed and expanded education contract with Walsall Council (12 years £345m)
- Extension to Sure Start Children's Centres roll out (two years £15m)
- Aiming High for Disabled Children programme (two years £5.5m)

## ■ Healthcare

- Innovative joint venture for pathology market with Guys' and St Thomas's NHS Foundation Trust (ten years £250m) (announced January 2009)
- New and renewed occupational health contracts
- Cornwall out of hours doctors service contract renewed (two years £14.5m)

## ■ Integrated Services

- Innovative models lead to £300m of environmental services work with London Borough of Hammersmith & Fulham and Milton Keynes City Council
- Integrated services contract with Deloitte (five years £50m)

# Civil Government

## Growth areas

- Home Affairs
  - UK and Australia potential in offender and migration management
- IT & BPO
  - US system integration and cyber-security
  - UK local council partnerships and environmental management
  - India BPO
- Education and Children's Services
  - Service integration programmes in support of UK Children's Plan
- Health
  - UK NHS primary care market and support services provision
- Welfare to Work
  - New approach in UK to reduce long term unemployment
  - Will increase private sector involvement

# Defence

Strong organic growth and wins in operational support

- 9.1% revenue increase to £786m representing 25% of the group (2007: 26%)
- UK
  - Strong organic growth in air support service contracts
  - Surface finish services, delivered at 16 bases (10 years £68m)
  - More than 50 employees awarded military service medals
- Australia
  - Two garrison support services contracts with combined value of AUS\$362m
    - Northern Territory garrison support (nine years)
    - North Queensland garrison support (nine years)

# Defence

Strong organic growth and wins in operational support

## ■ US

- Supporting stretched military personnel
  - Army Career and Alumni Program (two years up to US\$32m)
  - Freedom Team Salute recognition programme (two years US\$21m)
  - Casualty Support Services contract (one year US\$9m; up to US\$44.5m)
- Driving cost efficiency
  - Pricefighters cost analysis rebid (1+4 option years US\$41m)
- Integrating data and systems
  - Space and Naval Warfare Systems Command (five years US\$18.5m)

# Defence

## Growth areas

- UK Defence Industrial Strategy
  - Operational support to front line commands
  - Integration of people, infrastructure, training and technology
- US Defence spending increasing
  - Harmonisation and modernisation of IT
  - Military personnel support services

# Transport

## UK skills enabling international opportunities

- 2.4% revenue increase to £671m representing 22% of the group (2007: 23%)
- Light Rail
  - Dubai Metro operations commence September 2009 (12.5 years £500m)
  - DLR increasing capacity
  - Manchester Metrolink and Copenhagen Metro ended in 2007
- Heavy Rail
  - Northern Rail and Merseyrail delivered strong revenue growth
  - Northern Rail named Train Operator of the Year
  - Merseyrail achieving high customer satisfaction scores
  - GSR market weaknesses mitigated with cost control and new premium service
  - £20m extension to Network Rail rail grinding contract

# Transport

## UK skills enabling international opportunities

- Traffic management
  - San Francisco smart parking service (two years US\$23m)
  - Dubai bus and journey planner (£6m)
- Civil marine
  - UK Woolwich Ferry operations (1.5 years £11m)
- Air Traffic Control
  - UAE Area Control Centre contract renewed (three years £28m)



# Transport

## Growth areas

- Rail
  - Significant pipeline of opportunities in the UAE
- Traffic management
  - Technology based solutions for traffic, road pricing and parking
- Civil marine
  - Extending naval expertise into civilian market

# Science

## Technology and innovation at the heart of growth

- 11.7% revenue increase to £540m representing 17% of the group (2007:17%)
  
- AWE
  - Orion research building opened on schedule in March
  - Programme to build new assembly plant has started
  - Strong health, safety and environmental performance
  
- Nuclear
  - £30m of new business for technical and assurance services
  - British Energy technical support contract (five years, up to £30m to partners)

# Science

## Growth areas

- AWE
  - Site upgrade
- Nuclear
  - Regulatory and assurance services
  - Civil nuclear overseas

# SI International

- SI International's 2008 performance in line with expectations
  - US\$575.5m revenue
  - US\$36.7m underlying Adjusted operating profit
  - 6.4% margin
- Fast integration well advanced
  - Management and business re-organisation complete
  - Bid pipelines processes reviewed and integrated
  - Re-brand nearing completion
- PTO and EPMII contracts operating well
- Good progress on cost synergies

# SI International brings new opportunities

- SI adds £1bn to order book and over £2bn to pipeline
- Now serving all branches of US military, numerous civilian agencies and the intelligence community
- Cross fertilising skills, capabilities and customers
  - IT and enterprise architecture for more efficient HR services
  - IT and network skills from US Air Force to US Army
  - Enterprise architecture from US Dept of Defense to US Army

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**serco**

Andrew Jenner

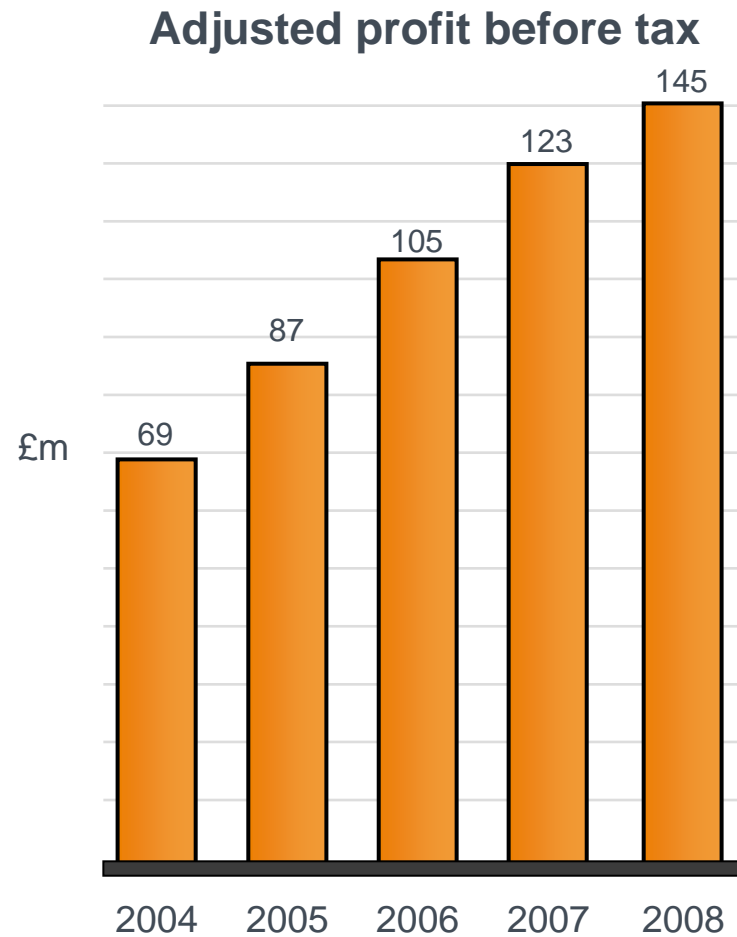
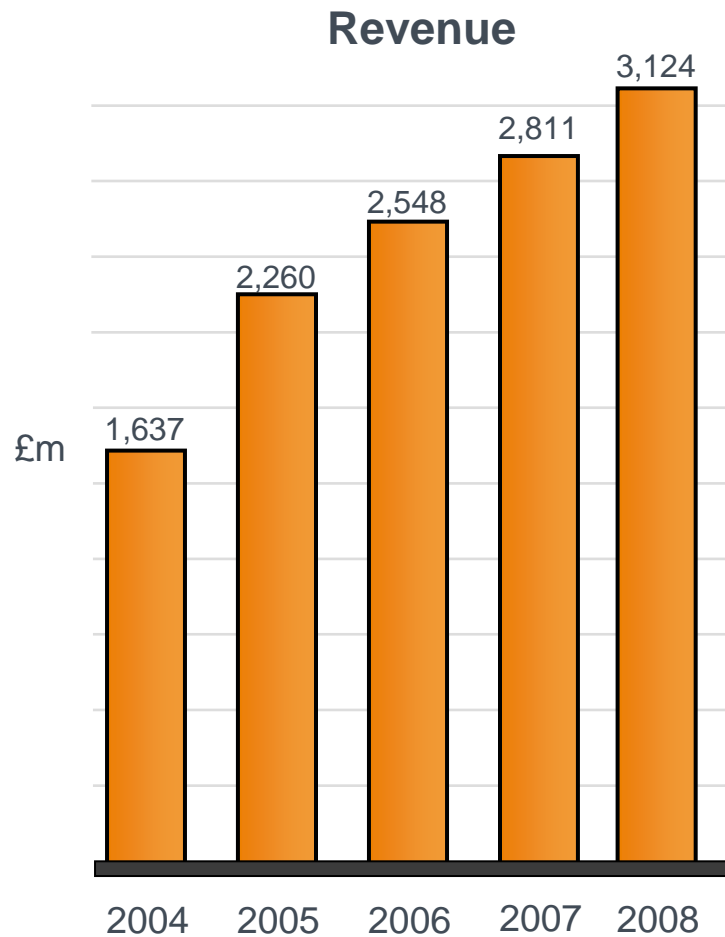
Financial review

2008 Annual Results

# Financial review

- Income statement
- Cash flow
- Net debt
- Financing
- Guidance

# Income statement



Note: Adjusted profit before tax is profit before tax and amortisation of acquired intangibles.



# Income statement

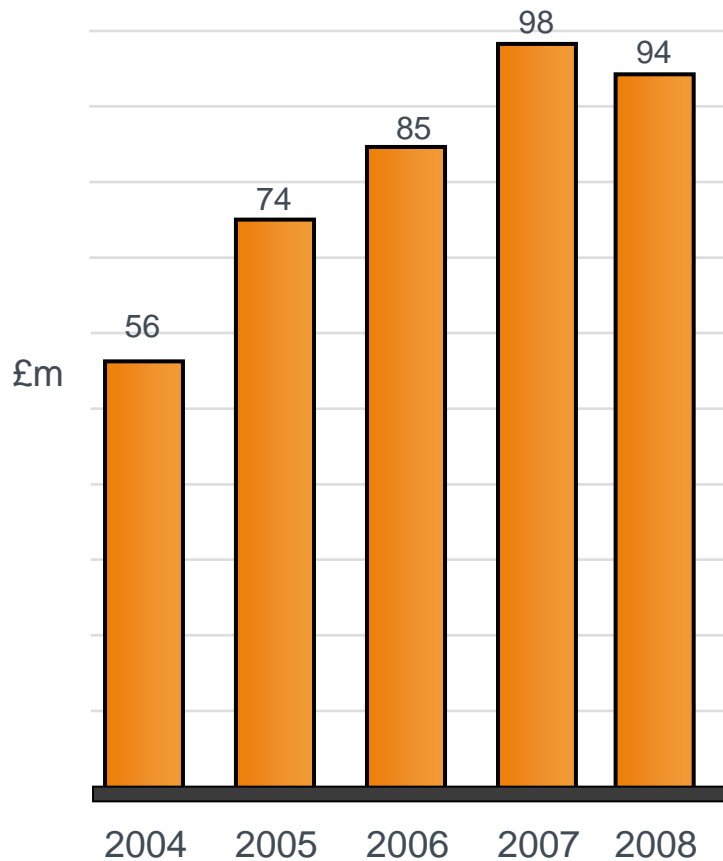
<b>Year ended 31 December</b>	<b>2008 £m</b>	<b>2007 £m</b>	<b>Increase</b>
Revenue	3,123.5	2,810.7	11.1%
Adjusted operating profit	165.2	142.0	16.3%
<i>Margin</i>	5.3%	5.1%	
Investment revenue and finance costs	(19.9)	(18.8)	
Adjusted profit before tax	145.3	123.2	17.9%
<i>Margin</i>	4.7%	4.4%	
Amortisation of acquired intangibles	(9.2)	(8.6)	
Profit before tax	136.1	114.6	18.8%

# Income statement

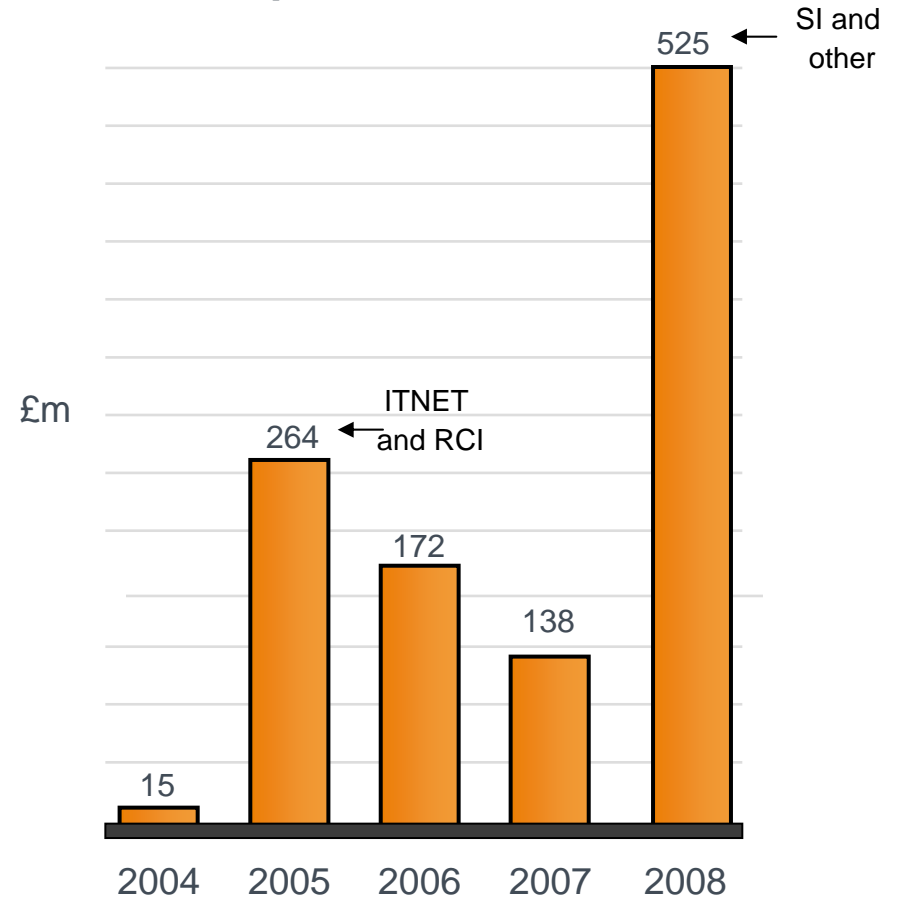
<b>Year ended 31 December</b>	<b>2008</b>	<b>2007</b>	<b>Increase</b>
Effective tax rate	26.8%	28.1%	
Average shares in issue	485.7m	482.4m	
Adjusted earnings per share	22.20p	18.57p	19.5%
Earnings per share	20.49p	16.98p	20.7%

# Group free cash flow and recourse net debt

## Group free cash flow



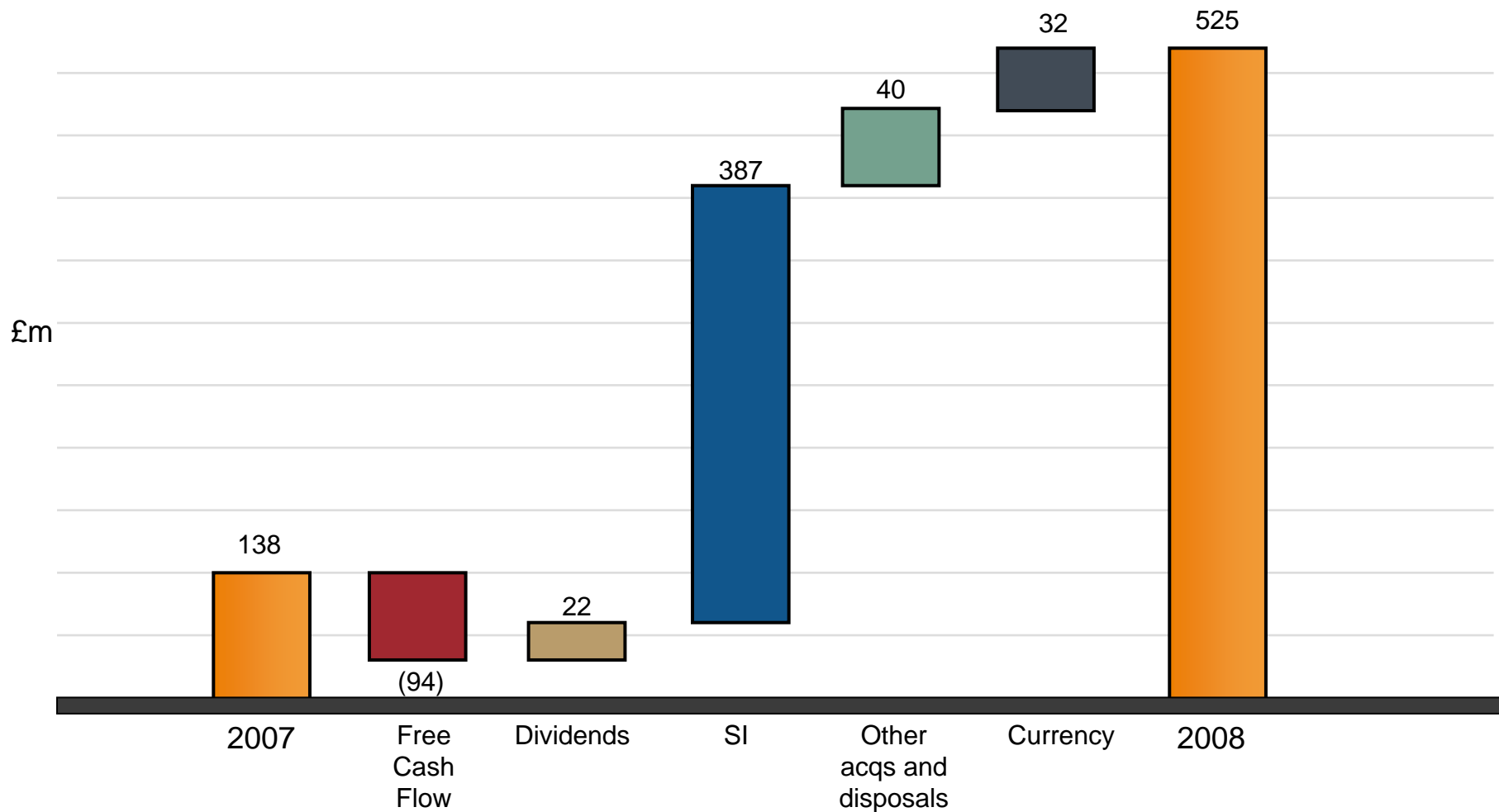
## Group recourse net debt



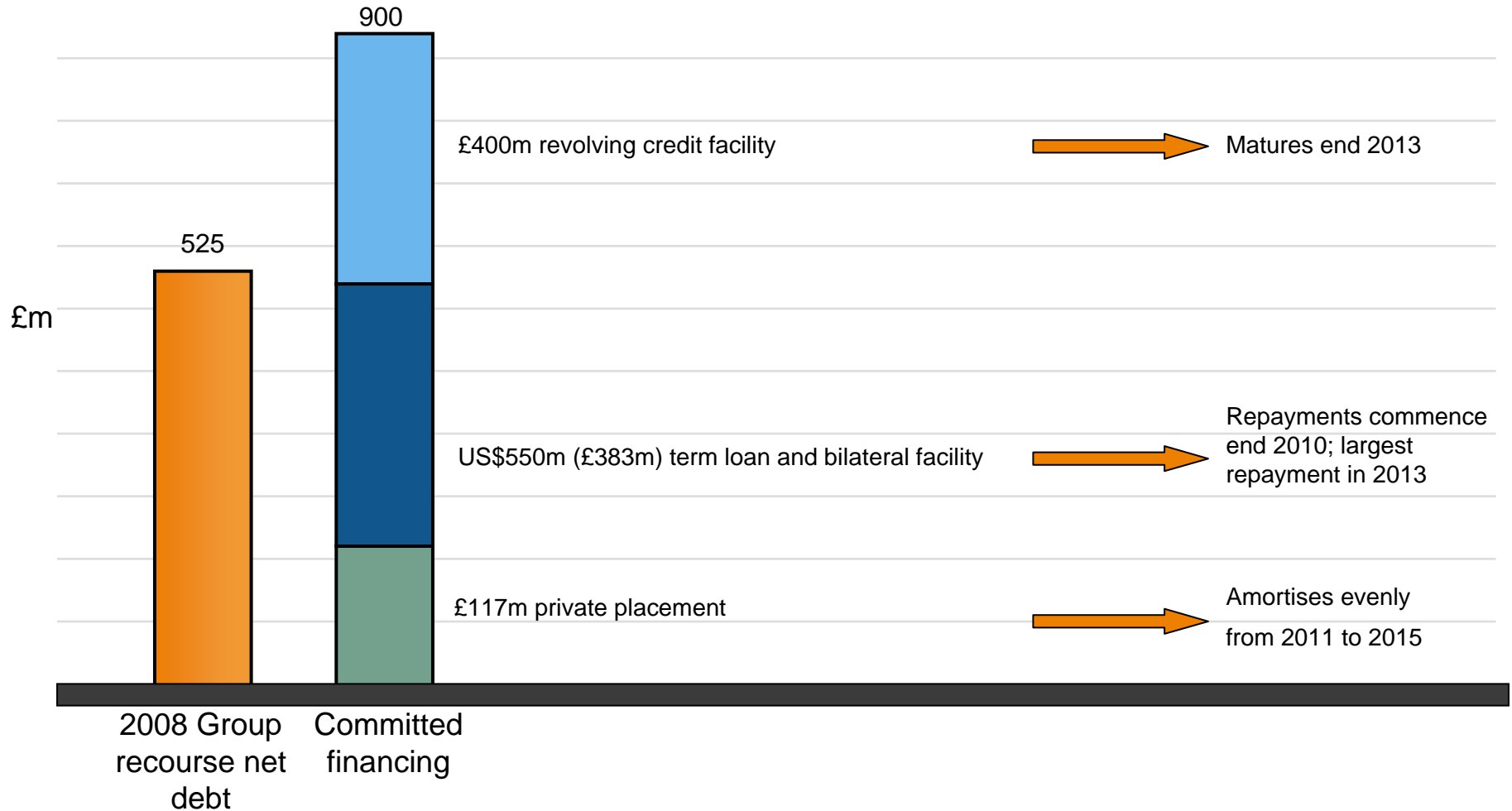
# Group free cash flow

<b>Year ended 31 December</b>	<b>2008 £m</b>	<b>2007 £m</b>
Group EBITDA	147.2	139.8
Working capital movement	(21.6)	(0.2)
Group operating cash flow	125.6	139.6
Interest	(25.0)	(25.6)
Tax	(11.8)	(5.4)
Net expenditure on tangible and intangible assets	(31.8)	(47.9)
Dividends from joint ventures	37.2	36.9
Group free cash flow	94.2	97.6

# Group recourse net debt



# Financing



# Guidance

- Guidance consistent with expectation of strong growth and prospects implied by previous guidance
- 2009 guidance to incorporate SI and exclude material currency effects
- Guidance to Adjusted operating profit margin
  - Reflects operational drivers of margin improvement
  - Consistent with market practice
- Guidance to revenue and margin by the end of 2012, reflecting confidence in medium-term prospects

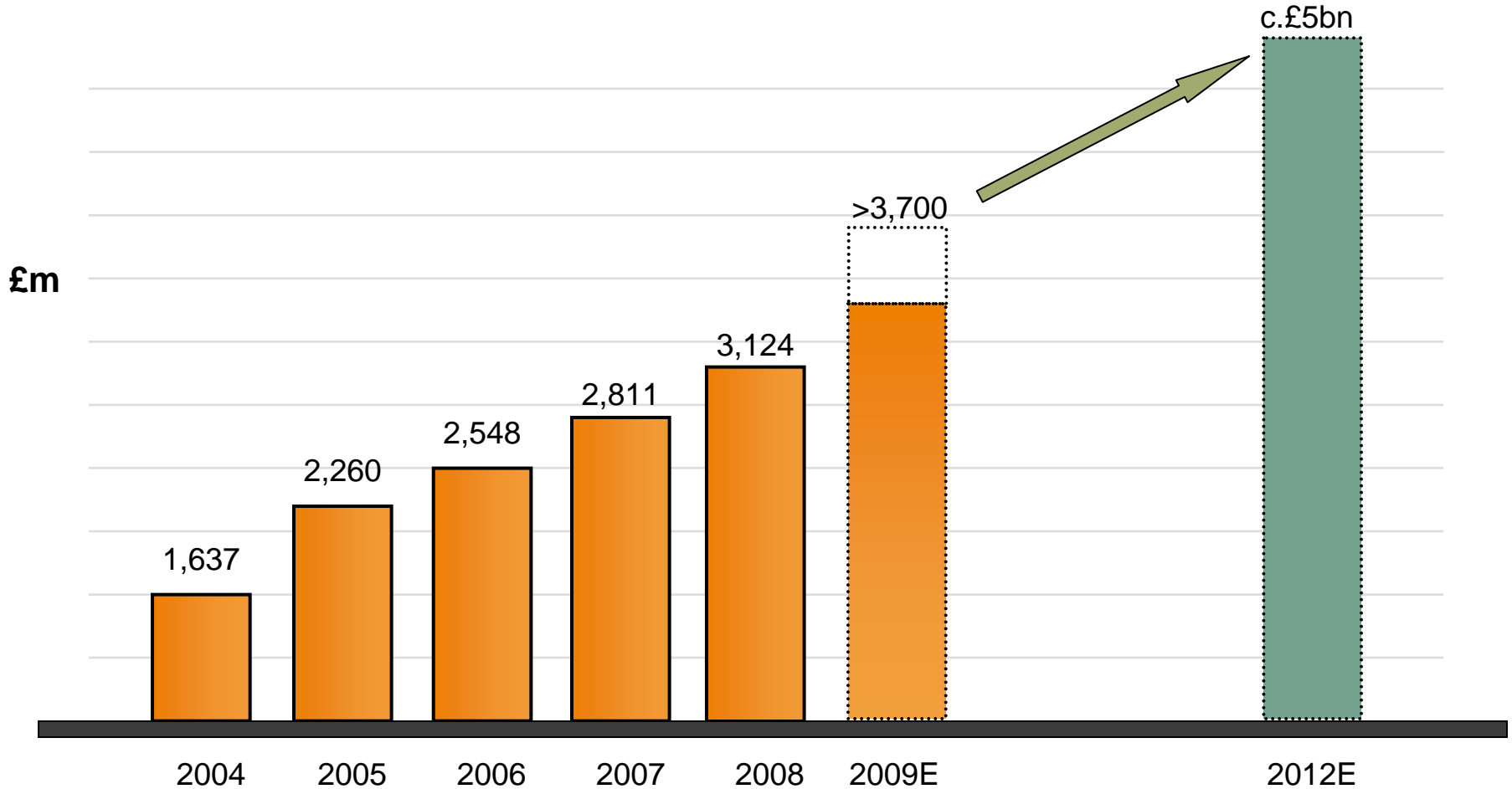
# 2009 guidance

- Excluding SI
  - Double digit revenue growth and 30 bps increase in Adjusted PBT margin\*
- Guidance for SI unchanged
  - 2009 revenue growth of approximately 7% (in line with 2008 organic growth)
  - Cost synergies principal driver of margin improvement: annual cost synergies of over US\$10m realised by end 2010
- Combined Group
  - SI enhances revenue growth by approximately 10%\*
  - Adjusted operating profit margin increase of approximately 40bps\*

\* Excluding material currency effects



# Medium-term guidance – Revenue



Excludes future material acquisitions, disposals and currency effects



Group excluding SI

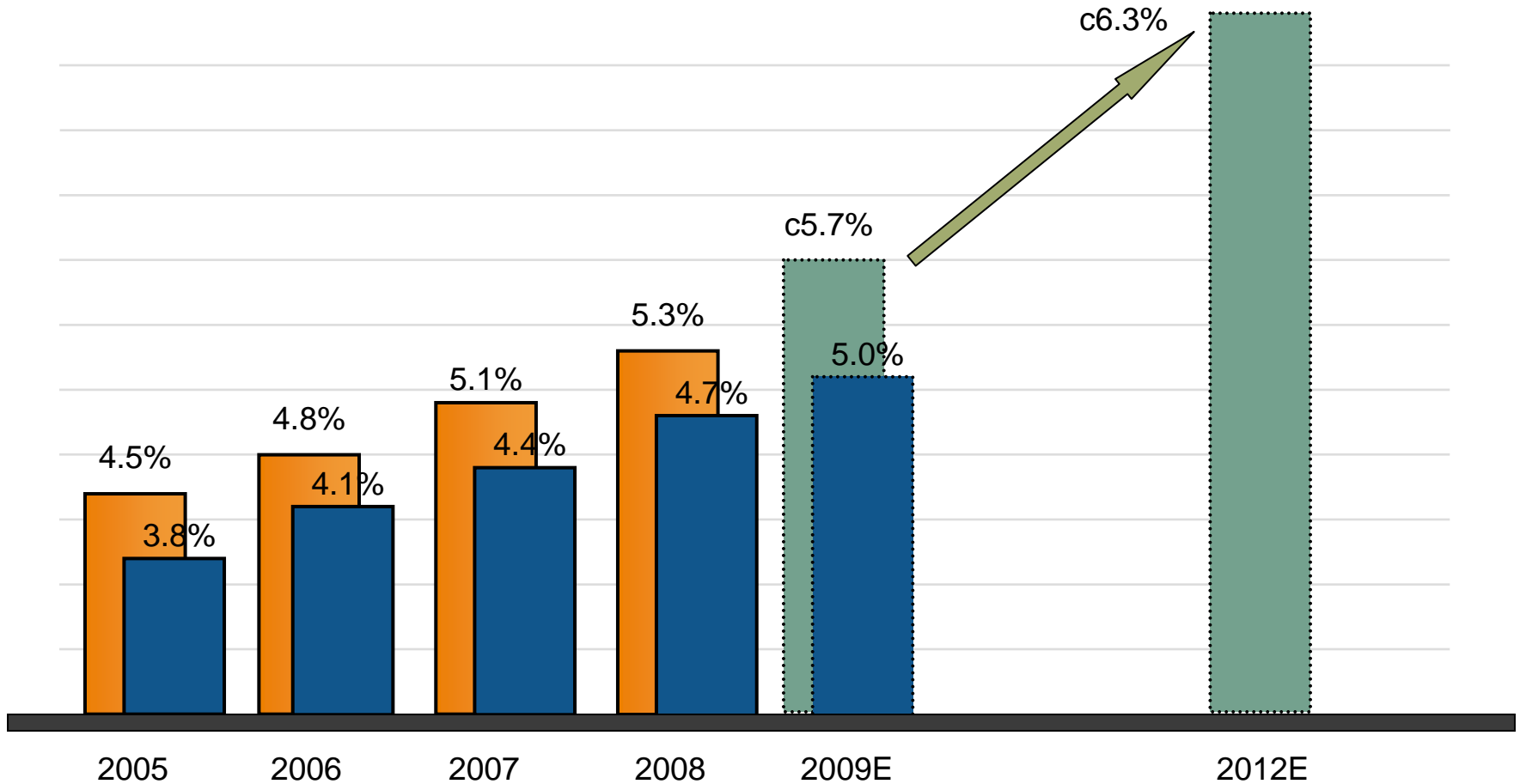


SI International



Group including SI

# Medium-term guidance – Margin



Excludes future material acquisitions, disposals and currency effects

Group Adjusted operating margin

Group Adjusted PBT margin excl SI

Group Adjusted operating margin incl SI

# Summary

- Continued strong revenue and margin performance
- Good cash flow generation
- Substantial committed financing with good maturity profile
- Guidance reflects confidence in prospects for the medium-term

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Chris Hyman

Summary and  
Outlook

2008 Annual Results

# Business focus

- Revenue
  - grow existing contract base
  - open new markets
  - introduce new models
- Margin improvement
  - portfolio management
  - operating cost savings
  - selective bidding policy

# Drivers for growth

- Customers facing similar challenges
  - congestion
  - threat of terrorism
  - climate change
  - ageing populations
  - impact of technology
- Current economic climate fuels additional pressures
  - failing businesses
  - rising unemployment
  - increasing social costs
  - reducing tax incomes

# Summary and Outlook

- Strong order book of £16.3bn
- Continuing to win 90% of rebids and one in two of new bids
- £26bn of potential opportunities
- Opportunities to grow revenue and margins
- Growth from new markets and new business models
- Increasing demand for our skills and capabilities
- Resilient business model and significant new opportunities
- Confident in future growth