Stock Exchange Announcement

4 March 2014

A challenging 2013 and near-term outlook; markets remain attractive

Serco Group plc – 2013 results

Year ended 31 December	2013	2012	Change	Change at constant currency
Adjusted revenue – ongoing activities*	£5,101.3m	£4,774.6m	+6.8%	+7.8%
Adjusted revenue*	£5,143.9m	£4,913.0m	+4.7%	+5.7%
Revenue	£4,288.1m	£4,060.1m	+5.6%	+6.7%
Adjusted operating profit – ongoing activities*	£285.4m	£299.6m	(4.7%)	(2.3%)
Adjusted operating profit*	£292.0m	£314.1m	(7.0%)	(4.7%)
Operating profit	£143.8m	£272.2m	(47.1%)	(44.6%)
Adjusted profit before tax*	£254.4m	£271.6m	(6.3%)	(3.6%)
Profit before tax	£106.6m	£281.1m	(62.1%)	(59.7%)
Adjusted earnings per share (basic)*	39.53p	41.55p	(4.9%)	(2.1%)
Earnings per share (basic)	19.51p	48.94p	(60.1%)	(58.0%)
Dividend per share	10.55p	10.10p	+4.5%	n/a
Free cash flow	£84.8m	£181.2m	(£96.4m)	n/a

* Adjusted measures include Serco's proportional share of joint ventures and are before a pre-tax net exceptional charge of £90.5m (2012: net exceptional profit of £51.7m) and management's estimate of indirect costs incurred and allocation of expenses in relation to the UK Government reviews of £21.0m. Ongoing activities exclude the financial results of disposals. Notes and definitions are provided on page 2, reconciliations and descriptions of costs are included in the Finance Review on pages 25 to 38 and the income statement is presented on page 39.

Ed Casey, Acting Group CEO, said: "We have been through a difficult year and there remains much to be done to ensure the agreed programme of corporate renewal is successfully implemented. However, the work we have completed and the undertakings we have made demonstrate our commitment to achieve this.

"The events of 2013 absorbed management's focus and, therefore, interrupted the normal process of improving efficiency and developing our business into new areas. Over the second half of 2013 and until the end of January 2014 we were not able to be awarded new contracts by UK Central Government, which also had an impact on the development of our business in certain other sectors.

"Our focus is clear, to ensure that the Group has stable operations, appropriate operational controls and differentiated capabilities to make the most of the breadth of our offering across frontline and middle and back office services, and our referenceability from one country to another. I am confident that these attributes will enable Serco's return to growth in what remain fundamentally attractive service markets around the world."

Revenue growth of 5.6% for the Group; growth of 5.9% on an organic basis

- UK & Europe: organic growth of 3%, driven by first half growth from new contracts won in the previous year
- Americas: held steady, with new health and transport contract wins despite a challenging US federal market
- AMEAA: organic growth of 18%, supported by increased volume of work in immigration services
- Global Services: organic growth of 5%, with strong first half from previous awards partially offset by a weaker second half of the year

Reduced profit and cash generation

- Adjusted operating margin from ongoing activities declined to 5.6%, driven in particular by higher BPO bid investment and fewer contract awards in the year
- Adjusted earnings per share (basic) of 39.53p, a decline of 2.1% at constant currency
- Net exceptional charge of £90.5m, reflecting principally the Electronic Monitoring settlement and one-off costs, together with an estimated £21.0m of other indirect costs in relation to the UK Government reviews
- Operating profit of £143.8m, a decline of 44.6% at constant currency
- Earnings per share (basic) of 19.51p, a decline of 58.0% at constant currency
- Free cash flow declined to £84.8m after BPO working capital investment and other adverse timing effects

Increased total dividend for the year and robust financing position

- Proposed final dividend held at 7.45p; total dividend for the year of 10.55p, up 4.5%; ongoing transition to higher payout ratio
- Group recourse net debt of £725m; sufficient financing headroom maintained

Further progress on contract awards and strategic positioning

- £3.7bn of contract awards; order book of £17.1bn as at 31 December 2013
- New US contract awards broadened successfully the Americas portfolio
- Non-core disposals reflected ongoing assessment of operations against their fit to Group strategy

Challenging near-term outlook

- 2014 faces above-average contract attrition, reduced volume of work in Australian immigration services and lower expected growth from new contracts awarded
- As previously disclosed, a mid-single digit organic revenue decline and a 50-100 basis points reduction in Adjusted operating margin is anticipated
- Of 2014 revenue, order book visibility of 77%; rebid/extension revenue still to secure of 8%

Securing Serco's position in large and growing markets

- Equal bidding basis for current UK Central Government work restored following corporate renewal positive assessment; settlement reached with UK Ministry of Justice (MoJ); conclusion of UK Government audits and reviews
- Comprehensive programme of corporate renewal to ensure consistency of appropriate behaviours and improve operations across the Group
- Ongoing demand for efficient, high quality and innovative service provision from public and private sector customers around the world
- Pipeline of new bid decisions over next two years valued at approximately £12bn or aggregate annual revenue of approximately £1.4bn
- As announced recently, Rupert Soames OBE appointed as Group Chief Executive with effect from 1 June 2014; currently Group Chief Executive of Aggreko plc, the FTSE100 support services company

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Presentation

A presentation for institutional investors and analysts will be held at the London Stock Exchange, 10 Paternoster Square, London EC4M 7LS at 9.15am today. The presentation will be webcast live on www.serco.com and subsequently available on demand.

Notes and definitions:

2012 is restated for changes to accounting standards IAS 19 Revised (Employee Benefits) and IFRS 11 (Joint Arrangements).

Adjusted measures include Serco's proportional share of joint ventures. Adjusted operating profit and Adjusted profit before tax are before amortisation of intangibles arising on acquisitions, transaction-related costs and exceptional items, as shown on the face of the Group's consolidated income statement and the accompanying notes. They are also before management's estimate of indirect costs incurred and allocation of expenses in relation to the UK Government reviews. The Adjusted earnings per share measure also takes account of the tax effect of these adjusting items. Adjusted net debt includes Serco's proportional share of joint venture net cash. Reconciliations to GAAP measures, together with descriptions of each adjusting item, are included in the Finance Review on pages 25 to 38 and the income statement is presented on page 39.

Change at constant currency has been calculated by translating non-Sterling revenue and earnings for 2013 into Sterling at the average exchange rates for 2012.

Ongoing activities measures exclude the financial results of subsidiaries and operations disposed of in 2013 (being the UK occupational health business and the UK transport maintenance and technology business) and in 2012 (being nuclear consulting services, defence-related German operations, education software and UK data hosting operations).

Organic revenue growth is the change at constant currency in Adjusted revenue from ongoing activities (thereby excluding disposals) and also excludes incremental revenue from acquisitions completed in the current or prior financial year.

Free cash flow is from subsidiaries and dividends received from joint ventures, and is reconciled to recourse net debt in Section 6 of the Finance Review, and to the movement in cash and cash equivalents, including the share of joint venture cash movements, in Section 3 of the Finance Review.

The order book reflects the estimated value of future revenue based on all existing signed contracts, including Serco's proportional share of joint ventures. It excludes contracts at the preferred bidder stage and excludes the award of new Indefinite Delivery, Indefinite Quantity (IDIQ) contract vehicles and Multiple Award Contracts (MACs) where Serco are one of a number of companies able to bid for specific task orders issued under the IDIQ or MAC. The value of any task order is recognised within the order book when subsequently won.

The total opportunity pipeline is the estimated value of all future potential new, expansion, rebid and extension opportunities that are clearly defined and identifiable, including the estimate of any proportional share of future joint venture arrangements. The pipeline of new bid decisions over the next two years is the aggregate value of potential new contracts that are anticipated to be bid in the near term, where annual revenue for each is estimated to be in excess of £10m and where the estimated total contract value of each is capped at £1bn.

Chairman's summary

The events of last year are well documented: the contract issues that were identified in our UK Electronic Monitoring and Prisoner Escort & Custody Services operations should never have happened and we have apologised unreservedly for them. We are doing everything in our power to make sure that such issues cannot reoccur anywhere in our business around the world. Our objective is to deliver excellent public services with openness and transparency, and I believe the actions we have taken and are taking will support this now more than ever.

I believe that at the core of Serco is a combination of a strong ethos of public service with a real entrepreneurial drive to succeed and deliver against commitments. The independent reviews that we have performed of our culture and systems confirmed a high commitment to client service, with no evidence of a corrupt culture, and key procedures and controls that were significantly complete. The separate audits of our other MoJ contracts and the Cabinet Office's wider review across our other major UK Central Government contracts also concluded by the end of the year with no further material issues raised. However, the various reviews demonstrated the need for attitudinal change: a change I, our Board, and Ed Casey, our Acting Chief Executive, are committed to implement.

During the fourth quarter of last year we developed and set in train a comprehensive programme of corporate renewal to change the balance of drivers within our business, such that the commitment to do what is right and to deal with our customers fairly and transparently always transcends any sustained drive to outperform. This will be supported by the right management structures and controls and best-in-class lines of assurance to ensure that, through early identification of risks and issues and their swift resolution, we never again compromise on our values and ethics. Having reached a financial settlement with the UK Government prior to the end of the financial year, I was very pleased that at the end of January the Cabinet Office published a positive assessment of our programme and that Serco can now be considered on an equal basis to other suppliers for current awards.

It is hard for those outside the company to appreciate how disruptive were the events of last year: our pipeline of UK Government opportunities was impacted; reputational damage adversely affected our ability to win contracts with the private sector; and there has been significant management change at the most senior level, whilst the development and implementation of our programme of corporate renewal correctly diverted focus. The inevitable consequence has been a material loss of momentum, particularly in the UK, translating into lower organic revenue growth and profitability than we would otherwise have aimed to achieve in 2014. In addition, 2014 will be impacted by a major change of government policy affecting our large Australian immigration services contract, whilst there is also a greater impact of attrition from lost contracts such as Electronic Monitoring.

It is essential that we take the steps now that are necessary to put Serco onto a sound basis for future growth, even if to do that means a degree of reversal of past growth. Key to that is strong leadership and I am very pleased that Rupert Soames OBE has accepted the Board's invitation to take the role of Group Chief Executive. He has an outstanding track-record as chief executive of a FTSE100 company, having created very significant value for shareholders during his long tenure at Aggreko plc, a leading support services company and the world's largest temporary power generation and temperature control services business. I would like to take this opportunity to express my great appreciation on behalf of the Board of the work of Ed Casey in taking the helm in the most difficult of circumstances and providing great leadership to get the company back on track. I would also repeat my thanks to Chris Hyman for his significant contribution to Serco over 19 years.

Serco has a unique combination of capabilities with international reach. No other company has the breadth across both frontline and middle and back office services. No other company can apply the experience and track-record that we have in one of our markets in the UK, Europe, the Americas, the Middle East, Asia Pacific, or Australia to support the winning of new contracts in another geography. Serco has strong foundations and the Board is confident in the Group's ability to realise its full potential. This confidence supports the Board's decision to maintain the final dividend payment, resulting in a total dividend for the year of 10.55p, an increase of 4.5%.

Chief Executive's review

2013 has brought significant challenges, in particular from certain contract issues with the UK Ministry of Justice. Organic revenue growth was 5.9%, driven principally from contract awards in the previous year. Profitability declined due to less work with UK Central Government and fewer wins in the BPO market. Net exceptional charges, reflecting principally the Electronic Monitoring settlement, totalled £90.5m, with other indirect costs and charges related to the effects the UK Government reviews had on the business estimated by management at £21.0m. Adjusted EPS, before these exceptional charges and costs, were 39.53p, a decline of 2.1% at constant currency. Free cash flow also declined in the year. The dividend payment is increasing, reflecting our ongoing transition to a higher payout ratio. The Group maintains a robust financing position.

The value of contract awards totalled £3.7bn in the year, with further progress made on the strategic positioning of our portfolio. The outlook for 2014 remains challenging, with lower profits anticipated. We will continue our efforts to rebuild the confidence of our UK Government customer and strengthen the Group as a whole through the comprehensive corporate renewal programme. There is ongoing demand in large and growing markets for our services, with a pipeline of opportunities to take the business forward.

Organic revenue growth of 5.9% for the Group

Adjusted revenue from ongoing activities was £5.1bn, a growth of 7.8% at constant currency. Excluding incremental revenue from acquisitions, our portfolio across multiple markets and varied conditions delivered organic revenue growth of 5.9%.

In the UK & Europe division, organic revenue growth was 3% in 2013. This was driven by the additional revenue in the first half from previous new contracts in their initial year of operation, including community healthcare in Suffolk, the Northern Isles ferry services in Scotland, and asylum applicant accommodation and transport services in North West England and Scotland & Northern Ireland. The Electronic Monitoring (EM) and Prisoner Escort & Custody Services (PECS) contract issues impacted the second half of the year whilst we worked to regain eligibility for new UK Central Government contract awards. Good progress continued to be made on extending existing contracts in areas such as environmental services, non-clinical health operations and defence training and support.

In the Americas division revenue held steady, a positive outcome given the third year of a declining and uncertain US federal contracting market driven by government budget and funding issues. Momentum was achieved in the second half of the year through the start of major new contracts in healthcare eligibility processing and state government transportation support.

The AMEAA division achieved organic revenue growth of 18%. A significant proportion of this was due to an increased volume of work providing immigration services in Australia. This contract, having grown to be the largest within the Group, began to see lower volume levels by the end of the year following significant changes to government policies that are expected to continue to reduce the size of the contract in 2014. Numerous new contract developments were achieved in other parts of the region, particularly the Middle East.

The Global Services division, representing Serco's BPO middle and back office skills and capabilities, achieved organic revenue growth of 5% in 2013. After a strong first half which included the first year of operation of previous new relationships such as Shop Direct and AEGON UK, the second half saw performance weaken. There was a lower level of work with UK Central Government customers and fewer major private sector bids were won than in 2012.

Reduced profit and cash generation

Adjusted operating profit from ongoing activities was £285.4m, representing a 2.3% decline at constant currency and a margin decline to 5.6% compared to 6.3% in 2012. The principal drivers of the margin reduction included: increased investment in contract bidding and new market development activity in the Global Services division; reduced discretionary and ad hoc project work and the general challenge Serco faced in progressing UK contract awards over the latter part of the year; and other margin mix effects such as lower margins on initial stages of new contracts or from related operational issues, and the start of the new five-year pricing period at the Atomic Weapons Establishment (AWE).

Adjusted profit before tax was £254.4m and Adjusted earnings per share were 39.53p, declining by 3.6% and 2.1% respectively at constant currency.

The Group incurred a net exceptional charge of £90.5m in the year. This reflected principally the settlement reached with the UK Ministry of Justice in respect of the issues arising on the Electronic Monitoring contract, as well as the direct one-off costs regarding the UK Central Government audits and reviews, and the development of Serco's corporate renewal programme. In addition, there were an estimated £21.0m of other related costs.

Group free cash flow declined to £84.8m compared with £181.2m in the previous year. There was an anticipated incremental working capital investment in BPO activities and lower dividends from joint ventures. There was a greater adverse timing impact that reduced cash flows on certain contracts, including some delays to customer payments and some timing differences of cash costs incurred compared to our contractual customer invoicing profile.

Earnings, cash flow, financing and related matters are described fully in the Finance Review on pages 25 to 38.

Increased total dividend for the year and robust financing position

The Board has proposed an increase of 4.5% to 10.55p in the total dividend for the year, holding the 2013 final dividend at last year's 7.45p. This reflects our ongoing transition to a higher payout ratio. Based on Adjusted basic earnings per share of 39.53p, the dividend represents a payout of 27% (2012: 24%), or dividend cover of 3.75x (2012: 4.11x). The Board set out in 2013 the intention to move to dividend cover of 2.5-3x over time, beyond which point it would expect to revert to increasing the total dividend each year in line with the increase in underlying earnings. The final dividend will be paid, subject to shareholder approval, on 14 May 2014 to shareholders on the register on 14 March 2014.

Serco also maintains sufficient and suitable financing strength and funding arrangements for anticipated corporate purposes. Adjusted total net debt has increased from £581m to £701m, principally as a result of the cash payments related to the exceptional charges. The Group's financial leverage ratio remains, however, suitably below our credit facility financial covenants.

Further progress on contract awards and strategic positioning

Contract awards in 2013 totalled £3.7bn, representing signed contracts valued at £3.5bn and preferred bidder appointments of a further £0.2bn. Our order book stood at £17.1bn at 31 December 2013 (£19.1bn at 31 December 2012). Wins included smaller and medium-sized awards which are important to growth, as well as significant rebids, extensions, expansions and new contracts. Of the total contract award value, approximately 40% reflected services newly contracted with Serco, with approximately 60% being rebids or extensions.

Notable contract awards, along with approximate total value and contract length where appropriate, included:

- Build and operate additional capacity at HMP Thameside (£120m over 22 years)
- Operation of the Docklands Light Railway in London (£100m over 18 months)
- Environmental services for various UK councils (£100m over four-to-eight year terms)
- Non-clinical support services for Plymouth Hospitals NHS Trust (£40m over three years)
- Multi-engine pilot training at RAF Cranwell (£36m over five years)
- Parking enforcement services for London borough councils (£30m over five years)
- European Space Agency operational IT support for satellite infrastructure (€30m over five years)
- Defence Science and Technology Laboratory (Dstl) procurement services (£15-25m over seven years)
- London Cycle Hire phase 3 expansion in London (£15m over three years)
- European Parliament telephony and communication equipment support (€17m over six years)
- Pre-deployment training for the UK's Ministry of Defence (£10m over one year)
- US healthcare eligibility processing support (excluding optional tasks, US$600m over five years)
- Driver examination services in Ontario, Canada (C$500m over ten years)
- Virginia Department of Transportation (VDOT) operational services (US$355m over six years)
- US IDIQ task orders – across areas including IT systems and services, human capital management, engineering support, logistics and programme management – totalling over US$180m
- Systems engineering and technical assistance for US intelligence community (US$40m over five years)
- City of Colorado Springs fleet management and maintenance services (US$35m over five years)
- Dubai Metro operation and maintenance (£355m over five years)
- Australian immigration detention services (volume-related value over six months)
- Hong Kong road transportation management, operation and maintenance (£80m over six years)
- Facilities management services in the United Arab Emirates (£30m over six years)
- Iraq air traffic control services, training and support (£24m over 18 months)
- Tramway operation and maintenance in Dubai (£18m over five years)
- Middle East logistics and base support for the Australian Defence Force (£18m over one year)
- Healthcare support services in Abu Dhabi (£5m over three years)
- Procurement, finance and accounting services for a NHS Hospital Trust (£112m over four years)
- UK Central Government BPO services including Child Maintenance Group (£100m over three years)
- Customer management services for UK leading high street retailer (£50m over ten years)
- Public sector shared services for the United Arab Emirates (£24m over four years)
- Citizen contact services and ICT support for UK councils (totalling £20m over five years)
- BPO services for Indian banking, energy and telecom customers (totalling £20m over three years)

More details of some of these awards are in the Divisional Reviews, with further information and other smaller and medium-sized awards described in the contract news updates and announcements on www.serco.com.

New contract awards in the Americas division are broadening our portfolio in this region. We successfully leveraged Serco's global capabilities to achieve growth in the transportation market; the VDOT contract deepens our credentials further and the successful rebid of driver examination services in Canada strengthens our managed service capability. The award by the United States Department of Health and Human Services' Centers for Medicare & Medicaid Services (CMS), where Serco is providing eligibility processing support for the new federally-facilitated marketplace, is a significant development for our involvement in US healthcare and expands our customer reach in an attractive market.

Our proactive portfolio management involves an ongoing assessment of operations against their fit to the Group's strategy. This has resulted in further disposals – principally our UK occupational health and UK transport maintenance and technology businesses – which had become non-core to Serco's future development in the health and transportation markets. While remaining primarily focused on organic growth, we would consider potential infill acquisitions that bring additional skills, capabilities or market access to enhance the portfolio. We will also continue to evaluate the potential for further non-core disposals.

Challenging near-term outlook

As previously disclosed, our business plans reflect specific challenges that lead us to expect a further reduction in profits in 2014. At the same time, we are working to secure Serco's position in large and growing markets to strengthen our performance in the longer term.

In 2014, the level of contract attrition will have a greater impact than the Group has faced in the past. The incremental revenue contribution from new contract awards is not expected to fully offset the attrition, with this in part a consequence of the issues faced in the latter part of 2013. The most significant factor is that following recent immigration policy changes, lower volumes of work in Australia are anticipated to reduce Group revenue further; our operations which grew to over £450m of revenue in 2013 could reduce up to 50%, though the nature of this work makes it difficult to forecast. These factors are each described more fully in the Divisional Reviews.

Serco's revenue visibility from its order book as at the start of this year was 77% for 2014 and 52% for 2015. This reflects the progress made during 2013 in securing rebids and extensions, as well as the contribution of new wins. Recurring task orders, project work and additional services for existing customers typically add a further 5-10% to the Group's total visibility in individual years. There is additional revenue that can be secured through known near-term extension and rebid processes, amounting to 8% of anticipated Group revenue in 2014 and 19% in 2015. Major contracts due for extension or rebid, with their approximate contribution to Group revenue in 2013 and existing contract end date, are as follows:

- Australian immigration detention services (9%, December 2014)
- Northern Rail franchise in the UK, operated in partnership with Abellio (6%, April 2014)
- defence garrison support services in Australia, operated in partnership with Sodexo (2%, June 2014)
- operation of the Docklands Light Railway in London (2%, September 2014)
- systems engineering and technical assistance contracts for a US intelligence agency (1%, 2014)

Serco's internal forecasts for 2014 imply a mid-single digit percentage decline in terms of Group organic revenue. This takes into account the above factors, including assumed success in securing rebids and extensions, as well as assumed incremental revenue contribution from successful outcomes of current bid opportunities. Compared to £5.1bn of Adjusted revenue from ongoing activities in 2013, for 2014 we anticipate £4.7-4.9bn at constant currency.

Our internal forecasts for 2014 also imply a further reduction in the Group's Adjusted operating margin of 50-100 basis points. This takes into account the impact on the average margin of the above-mentioned revenue factors, together with the ongoing incremental cost of corporate renewal programme delivery estimated at approximately £10m.

Based on the above, the Group's Adjusted operating profit in 2014 would be approximately £220-250m at constant currency. This compares to £285.4m Adjusted operating profit from ongoing activities for 2013.

Adjusted net finance costs are anticipated to be approximately £40m. The Adjusted effective tax rate and weighted average number of shares are also expected to be broadly unchanged. This would result in Adjusted EPS of 28-33p at constant currency. As previously announced, a restructuring charge estimated at £10-15m will be incurred in 2014 to implement further reductions in headcount and related costs, and one-off costs to implement the corporate renewal programme are estimated at £15m.

Our constant currency forecasts assume the average exchange rates in 2013 prevail through 2014. The Group has approximately half of its revenue in non-sterling currencies, therefore if the sterling average rate were stronger in 2014 then the Group's results in reported currency terms would reduce, and vice versa.

Free cash flow in 2014 is anticipated to be higher than 2013, reflecting lower working capital investment in BPO activity and some reversal of the adverse timing impacts experienced in 2013. Net debt at the end of the year is expected to be broadly unchanged from that at the end of 2013. The Group anticipates that sufficient financing headroom would be maintained.

Securing Serco's position in large and growing markets

The focus of 2014 will be to take the actions necessary to return the business to longer term growth in revenue and profitability. Whilst Serco has strong foundations in its breadth of proven capabilities across front, middle and back office services, its long history of delivering excellent service and its geographical reach, there is much to do in 2014. We must stabilise those UK operations impacted by the events of 2013, implement the plan of corporate renewal, re-establish our momentum within our markets particularly in the UK and the private sector, and ensure we continue to build differentiated capabilities that will secure the Group's future progress in large and growing markets.

Our various public service operations for UK Government make it collectively our single largest customer, with 2013 and 2014 involving substantial effort to rebuild confidence in Serco. There have been three main areas of activity. Firstly, we cooperated fully with the detailed independent forensic audit of the EM contract, the separate audits of our other MoJ contracts and the Cabinet Office's wider review across our other major UK Central Government contracts. Beyond the EM and PECS issues that had previously been identified, no further material issues were raised and the audits and reviews were, therefore, concluded satisfactorily by the end of 2013.

Secondly, Serco agreed a settlement with the MoJ in respect of the issues arising on the EM contract. The settlement reflected the difference in interpretation regarding billing arrangements for the EM contract since 2005, together with a repayment of an element of past profit earned on the contract, interest and the UK Government's costs of the audits and reviews.

Thirdly, Serco has developed and is now in the process of implementing the comprehensive programme of corporate renewal that we outlined in our announcement in January 2014 to ensure consistency of behaviours and strengthen operations across the Group. Our plan was assessed externally by an Oversight Group of Government non-executive directors, with independent advisers appointed by the Government to review our progress against agreed milestones. In January 2014 a positive assessment was provided on our programme, confirming Serco's consideration on an equal basis to other suppliers for current Central Government contract awards.

A stronger Serco will be positioned to benefit from the ongoing demand for efficient, high quality and innovative service provision from public and private sector customers around the world. In each of our major markets – the UK, the US and the countries in which we operate within the AMEAA region – there is substantial spend by governments that is expected to continue to generate long-term growth in each of our main areas of service provision: Transport; Defence; Home Affairs (including justice, borders and welfare services); Health; and other areas of integrated facilities management. Our latest assessment of the total addressable market spend in these areas is equivalent to over £150bn of annual spend.

In overall terms, total government expenditure that has been outsourced to date as service contracts is estimated at 10-20%, with policy development suggesting that governments will continue to expand this proportion. In developed economies the primary driver remains fiscal pressure on government spending, while the established presence that Serco also has in developing economies adds further opportunity given the likely continued higher growth in demand for new or significantly improved services for citizens. Meanwhile the global BPO market is both large and continues to grow, and Serco will look to further develop its strategic positioning with both private sector and public sector customers in this market.

We are tracking a total opportunity pipeline valued at an estimated £29bn. Versus a year ago, the reduction from approximately £31bn reflects where we have won, lost or taken the decision to withdraw from bidding. Over the next two years, our pipeline of new bids, which excludes the value of rebids and potential extensions, has an estimated total value of £12bn, or aggregate annual revenue of approximately £1.4bn. This near-term pipeline consists of approximately 40 opportunities that each have anticipated annual revenue of at least £10m and are at a relatively advanced stage of tendering. Described in more detail in the Divisional Reviews, examples of notable opportunities include those for:

- UK Defence Infrastructure Organisation (DIO)
- UK Magnox nuclear site decommissioning activities
- UK transport operations such as the Caledonian Sleeper rail service and Clyde & Hebrides ferry services
- UK military air traffic management support services
- UK NHS trust integrated facilities management
- UK local council environmental services opportunities
- US Navy systems and engineering services

- US Patent & Trademark Office citizen services
- US Department of State passport services
- US state transportation operations
- Australia new-build prison in Victoria
- Sydney North West Rail link and light rail opportunities in the region
- Middle East air navigation and other transport systems operation
- Private sector customer contact, account management and multi-channel support services bids
- Public sector citizen contact and other BPO support

Serco's portfolio of operations and opportunities around the world continues to provide elements of both resilience and future growth potential. Whilst the Group has a challenging near-term outlook, and successful delivery of corporate renewal is required, our position should be restored to one of strength in what remain large and growing markets. There exists a balance of risks and opportunities, but the Board is confident in the potential for Serco's long-term growth. While we will strategically review our involvement in certain markets, and continue our proactive portfolio management, the Group's strategy remains to operate a strong and diverse contract portfolio, reducing our exposure to market fluctuations, enabling us to select the best opportunities where they arise and allowing us to transfer expertise and insight across sectors and geographies.

Divisional Reviews

This section is presented according to Serco's structure in 2013 of four divisions based around our principal markets:

- UK & Europe,
- Americas,
- AMEAA (Australasia, Middle East, Asia and Africa), and
- Global Services.

The section includes references to contract awards which are significant because of their value or their strategic contribution to our business. Further details of these, as well as other medium and smaller-sized contracts, can be found on our website www.serco.com.

UK & Europe – 2013 review

The UK & Europe division includes our frontline services in: Transport and Local Direct Services; Defence & Science; Home Affairs (encompassing justice-related operations, immigration and border security, and welfare); and Health.

Adjusted revenue from ongoing activities grew by 3% to £2,514m (2012: £2,436m), and represented 49% of the Group (2012: 51%). On an organic basis, revenue also grew by 3%. Adjusted operating profit from ongoing operations declined by 8% to £150.7m (2012: £163.4m), with the margin declining to 6.0% (2012: 6.7%). Including the impact of disposals, Adjusted revenue was broadly flat at £2,557m (2012: £2,561m) and Adjusted operating profit declined by 11% to £157.3m (2012: £177.1m).

Whilst the first half of 2013 grew strongly driven principally by the additional revenue of the new contracts that started in the second half of 2012 as well as additional project-based work on certain contracts, the issues that arose with the UK Government impacted our business in the second half of the year. As a consequence, revenue in the second half declined against the comparable period in 2012 given the lower contribution from new contract starts and less discretionary and ad hoc project work.

The margin reduction reflected the initial stages of the major new contract starts which tend to involve greater upfront investment, the effect of the new five-year pricing period for our management and operation of the Atomic Weapons Establishment (AWE) and the lower margin on managing capital projects for certain customers.

Transport & Local Direct Services

Operations across Transport and Local Direct Services account for approximately 40% of UK & Europe Adjusted revenue from ongoing activities.

At Northern Rail, in the most recent National Passenger Survey (NPS), overall customer satisfaction was broadly level on a year earlier. We continue to invest in areas that will improve our customers' experience with us, including the upkeep of our trains and keeping passengers informed. The challenge of increasing capacity will be a major focus for the successor franchise, which we would anticipate bidding on during 2015 ahead of its start in February 2016. At Merseyrail, we are very pleased that it has continued to be ranked top in the NPS for overall customer satisfaction. At the Docklands Light Railway (DLR), all-time high performance metrics were achieved in the year and an 18-month extension was signed with a value of approximately £100m.

Ferry services to the Northern Isles of Scotland completed their first full year under Serco's management. This has seen the refurbishment of all three passenger vessels and numerous other improvements delivered to assist increasing usage of the lifeline freight and passenger services. In similar operations, Serco and its local joint venture partner Strömma Turism & Sjöfart AB were selected during the year to manage and operate four ferries currently carrying over two million passengers annually in Stockholm.

Serco delivered the phase 3 expansion of London Cycle Hire for Transport for London, adding approximately 5,600 new docking points, and 2,400 new bikes to western boroughs. Serco was also awarded an innovative new contract to provide end-to-end on-street parking enforcement for the West London Alliance, a partnership between Ealing, Hounslow and Brent borough councils.

In Local Direct Services, Serco successfully extended or rebid its contracts for environmental services for Canterbury City Council, Welwyn Hatfield Borough Council and Breckland Borough Council, valued in total at over £100m. Our operations for Sandwell Metropolitan Borough Council saw the opening of a new £10m waste transfer station in Tipton, handling more than 1,700 tonnes of waste and recycling each week.

Defence & Science

Operations across Defence and Science account for approximately 30% of UK & Europe Adjusted revenue.

Our management and operation of the Atomic Weapons Establishment (AWE), as part of a joint venture with Lockheed Martin and Jacobs Engineering, began the next five-year pricing period in April 2013. Strong operational performance and programme delivery has continued. Projects that became fully operational in the period included Orion, AWE's new laser facility, which is now one of the world's most powerful lasers and of immense interest both internationally and to the wider academic community working in areas such as fusion energy and astrophysics. Meanwhile, at Serco's strategic partnership with the Defence Science and Technology Laboratory (Dstl), further target service options such as procurement have been added to the existing prime contract.

In our support services for the Armed Forces, Serco extended and then subsequently rebid successfully its Multi-Engine Pilot Training (MEPT) contract at RAF Cranwell, valued at approximately £36m over five years. Serco provides annually up to 5,500 flying hours in the King Air B200 aircraft as well as up to 2,700 aircraft simulator hours. Other extended contracts included maintenance for the Search and Rescue fleet of Sea King aircraft, our Multi-Activity Contract at RAF Brize Norton and our Air Traffic Services at Wattisham for the British Army's Apache helicopter fleet. In related services for the private sector, Serco has rebid and expanded its services to Airbus for air traffic control, manoeuvring area safety training, air traffic engineering and facilities management services. We also successfully rebid our support to the United States Air Force in Europe (USAFE), which provides transportation, supply and facilities management. For the British Army, our pre-deployment training Contemporary Operating Environment Force (COEFOR) contract was extended for a further year.

Operations in Europe have similarly been successfully rebid during 2013. Serco will continue to manage the European Space Agency's (ESA) operational control centre infrastructure and tracking stations network

(ESTRACK) under a five-year contract worth over €30m. We rebid our contract providing telephony, videoconferencing and cabling support across European Parliament sites, and expanded it further to cover TV distribution in a new contract valued at approximately €17m over a maximum of six years.

Home Affairs

Operations across the Home Affairs market account for approximately 20% of UK & Europe Adjusted revenue.

During the year a detailed independent forensic audit of our Electronic Monitoring (EM) contract was completed with Serco's full cooperation, with the audit identifying issues with billing. A settlement of £64.3m with the MoJ reflected the difference in contract interpretation regarding the billing arrangements since 2005, together with a repayment of past profit earned on the contract, interest and the UK Government's costs of the audits and reviews. The difference in contract interpretation led to instances of daily charges being applied when there was an open Court Order but where no active monitoring was taking place. The settlement was full and final in respect of contractual claims with the proviso that additional payments might be sought in limited circumstances, such as if criminality were to be established. Serco continues to cooperate fully with the ongoing investigations by the Serious Fraud Office. The settlement was included as an exceptional cost in the year. The EM contract underwent an accelerated transition to the new service provider, with the associated costs of this reflected within management's estimate of other costs in relation to the UK Government reviews.

A second significant contract issue also arose during the year. Serco and the MoJ jointly referred misreporting of data on the Prisoner Escort & Custody Services (PECS) contract to the City of London Police. Under the contract Serco is required to deliver defendants to Court with performance measured against the defendant being 'Designated Ready and Available for Court Time' (DRACT). Serco identified misreporting of DRACT data locally such that performance reported to the customer was overstated. A settlement of £2.0m was reached in repayment of profit earned since the contract was renewed in 2011; this was included as an exceptional cost in the year. Significant cost was incurred to deliver service improvements that enabled the MoJ to confirm that Serco could retain this contract whilst forgoing any future profits; this cost is included within management's estimate of other indirect costs in relation to the UK Government reviews.

Separate audits of all of our MoJ contracts, as well as the Cabinet Office's wider review across the range of our other major UK Central Government contracts, concluded in December 2013. Beyond the EM and PECS contracts, no further material issues were raised.

Within our custodial operations, at HMP Thameside, Her Majesty's Chief Inspector of Prisons and more recently the Independent Monitoring Board have recognised the progress that has been made since the prison first opened, which has included a number of health and welfare initiatives to improve operational performance at this new London prison. Supporting the MoJ's programme to modernise the UK prison estate, we are increasing the capacity of HMP Thameside with a contract expansion valued at £120m over 22 years which includes a £36m 18-month construction phase. During the year Serco transitioned HMP & YOI Ashfield from being a Young Offender Institution to being an Adult Male prison. At HMP & YOI Doncaster our payment by results pilot programme saw significant improvement in reoffending rates for prisoners serving less than twelve months; this work and our London Community Payback contract will conclude by the end of 2014 in order for them to be rolled into the Government's new Transforming Rehabilitation programme, where Serco will look at opportunities to support others in the development of the new probation services market.

As reported by the National Audit Office in January 2014, our contract under the Home Office's COMPASS programme to provide accommodation and support services to almost 10,000 asylum applicants in the North West of England and in Scotland and Northern Ireland has experienced a challenging transition since taking over the service in late 2012. Whilst the report recognised that Serco had worked hard to raise standards, there remains scope for further improvement and we are committed to working with our customer and our partners in local government, the NHS and the voluntary sector to achieve that.

In the welfare market, Government statistics for the Work Programme show that the national picture is improving and that Serco continues to achieve good results in its two contracts. To date, we have helped 20,000 long-term unemployed people into employment across the South Yorkshire and West Midlands regions. The NCS Network, a partnership of Serco, Catch22, the National Youth Agency, UK Youth and vInspired, is delivering the National Citizen Service across six regions in the UK. More than 10,000 young people have completed the programme in the first year, gaining skills useful for their future working lives.

Health

Operations across Health account for approximately 10% of UK & Europe Adjusted revenue.

Core to our strategy in the UK is providing healthcare organisations with integrated facilities management. For example, Serco signed an extension to continue providing support services to Plymouth Hospitals NHS Trust valued at approximately £40m over three years. Our UK skills and capabilities in this sector have also continued to be important references for contracts won in other regions.

Operations at certain clinical health contracts have proven challenging in 2013. Our management of Braintree Hospital has been impacted by lower levels of patient referrals than predicted, with Serco's ability to improve utilisation of the hospital being limited. At our Cornwall GP out-of-hours contract, overall patient feedback is positive and the Care Quality Commission's (CQC) report noted the improvements made and that essential standards of quality and safety were being fully met. However, the implementation of the NHS Pathways IT system during the year proved an additional challenge for a contract that Serco has acknowledged publicly that it has not delivered as successfully as it should have. As announced in December 2013, Serco will end these two contracts early.

Serco began a significant new contract for the NHS in Suffolk in October 2012, providing a wide range of community health services. The contract is one of the first of its kind and runs for three years. Serco has delivered some early benefits in 2013 such as reducing the length of stay in community hospitals by around a week and improving access to the service by establishing a 24-hour care coordination centre. However, demand on the service has increased and it is taking longer than anticipated to bring about the operational performance levels that are expected. At all times Serco has ensured that the service is properly resourced to deliver a safe, quality service and will continue to do so. Serco remains committed to the community healthcare market and to the service in Suffolk.

Provisions for estimated losses in future years on the Suffolk and Cornwall contracts, together with provisions against the underlying assets of the Braintree contract, led to a non-cash exceptional charge of £17.6m in the year.

UK & Europe – future developments

The 2014 financial year will be impacted by a greater level of attrition, which includes the ending of contracts such as the Electronic Monitoring service and the anticipated transition of the management and operation of the UK's National Physical Laboratory; these two significant contracts together have previously accounted for around 5% of divisional revenue. The overall level of attrition is expected to have a greater impact on profitability. A reduced level of project-related work is also anticipated compared to 2013.

Over the next two years, significant Serco contracts that require extending or rebidding include:

- Northern Rail, where the existing contract is due to expire in April 2014 and revenue in 2013 was approximately 13% of the UK & Europe division; Serco is in advanced stages of agreeing an extension to continue operations through to early 2016 at which point the franchise would be retendered
- Docklands Light Railway, where the existing contract is due to expire in September 2014 and revenue in 2013 was approximately 3-4% of the UK & Europe division; Serco is currently one of three shortlisted parties bidding for the next contract

Future growth is expected to be driven by competitive outsourcing continuing to support the UK Government's aim of achieving savings whilst improving services and social outcomes. The reform of public services provision is an ongoing process, with the Cabinet Office and spending departments continuing to bring new opportunities to market. Bids and market development in other areas continue to be pursued, including direct services for local government, non-clinical and community healthcare services, and other frontline support to organisations in the UK and Europe. In addition, middle and back office opportunities for local and central government will be pursued in conjunction with the skills and capabilities of our Global Services division.

New bid opportunities that are expected to be decided over the next two years include:

- strategic partner to the MoD to deliver further efficiencies to the Defence Infrastructure Organisation (DIO)
- management of decommissioning activities at 12 UK nuclear sites in partnership with CH2M HILL and AREVA
- operational and engineering support for the Defence Fire and Risk Management Organisation (DFRMO)
- transport operations including the Caledonian Sleeper rail service and Clyde & Hebrides ferry services
- operational support for Programme GATEWAY at RAF Brize Norton
- engineering and support services to UK military air traffic management
- non-clinical health support services to an NHS trust
- numerous environmental and integrated waste management services for local councils

As previously noted, from 2014 the operations of this division will split into two with a separate division for our UK Central Government work to achieve a focus on government as a collective customer.

Americas – 2013 review

Our Americas division provides professional, technology and management services focused primarily on the US Federal Government including every branch of the military, a broad range of civilian agencies and the national intelligence community. We also provide services to the Canadian Government and to selected US state and municipal governments.

Adjusted revenue from ongoing activities on a reported currency basis grew by 1% to £765m (2012: £753m) and represented 15% of the Group (2012: 16%). On a constant currency basis, before the effect of a marginal strengthening of the average US dollar rate, organic growth held steady. Adjusted operating profit from ongoing activities grew by 7% on a reported currency basis at £58.8m (2012: £55.2m), with the margin increasing to 7.7% (2012: 7.3%).

Challenging conditions have continued for US federal contractors. During 2013, both the Department of Defense and civilian agencies had to implement automatic spending cuts known as 'sequestration'. Failure to reach a budget agreement resulted in a US Federal Government shutdown lasting several weeks in October. Additionally, 'small business set asides' have restricted our ability to compete as the prime contractor in some cases, and government emphasis on lowest price solutions versus best value has remained a significant pressure.

In the third year of a US federal contracting market reducing in size, Serco's performance of holding organic revenue steady was a good outcome. Growth was achieved in the second half of the year through the start of major new contracts for CMS and VDOT. The increase in margin includes the benefit of higher margin project work performed during the year, further cost reduction activity and a leverage effect of returning back to growth in the second half of 2013.

Reflecting a significant development in our strategy to broaden the Americas portfolio, Serco was awarded a major new contract by the United States Department of Health and Human Services' Centers for Medicare & Medicaid Services (CMS). Since July 2013, Serco has been providing processing support for applications submitted for enrolment into a Qualified Health Plan and for insurance affordability programmes. The contract had an initial one-year base period valued at approximately US$115m with four one-year options, with a potential total contract value of approximately US$1.25bn including all option periods and optional tasks. Following a modification to the contract, the value has increased to US$202m in the first year. Serco has set up four facilities and hired over 3,000 staff and subcontractors who are processing paper applications and working with consumers seeking healthcare coverage through the federally-facilitated marketplace. Future operational levels will be dependent on funding and policy development of the Affordable Care Act, which legislated for the development of the services Serco is supporting.

Serco was awarded a new contract for the Virginia Department of Transportation (VDOT), with this further significant portfolio development building on the skills and capabilities that we deliver in other parts of the Group around the world. Serco is integrating and operating VDOT's transportation operations centres, managing the Safety Service Patrol, and implementing a state-wide advanced traffic management system that oversees 57,000 miles of roadway. The contract has a six-year base period valued at US$355m and three two-year option periods. Also in the transportation market, Serco successfully rebid its Driver Examination Services contract for the Ontario Ministry of Transportation (MTO) in Canada. Serco is providing these vital services as part of a ten-year partnership with estimated revenue to Serco of approximately C$500m over the contract term. Serco is responsible for overseeing approximately 575,000 knowledge tests and 675,000 road tests annually at 95 testing centres across Ontario, and the new contract is expanded to include upgrading and enhancing information technology solutions.

Existing Sea Enterprise and HRsolutions IDIQ frameworks generated wins, modifications and extensions worth US$139m during the year. This includes integrating and upgrading IT systems for the US Navy and human resource services for the US Army. Task orders valued at US$22m were awarded under the Alliant IDIQ through which Serco provides a full range of integrated information technology solutions to Federal civilian agencies and the Department of Defense. Serco is the sole provider on the C4I2TSR IDIQ which supports the US Air Force Space Command's command and control systems, with this generating task orders valued at US$25m in 2013. Serco also provides systems engineering and technical assistance to the US intelligence community, and signed a five-year extension to one of its contracts valued at approximately US$40m.

Americas – future developments

The 2014 financial year will be impacted by the ending of certain areas of work for the US Federal Retirement Thrift Investment Board, the Department of Veteran Affairs and the US Army; together, these contracts have previously accounted for around 8% of divisional revenue and a greater proportion of profits. The level of higher margin project work experienced in 2013 is not expected to repeat. The annualisation of the CMS and VDOT new contract awards should substantially offset the revenue impact.

Over the next two years, significant Serco contracts that require extending or rebidding include:

- IT support services for a US intelligence agency, where the existing contracts expire at various points in 2014 and revenue in 2013 was approximately 9% of the Americas division
- Contracts for the US Department of Homeland Security supporting the United States Citizenship and Immigration Services, where the contracts are due to expire in November and December 2014 and revenue in 2013 was approximately 5% of the Americas division
- Support to the Department of State's National Visa Center and Kentucky Consular Center, where the contracts are now expected to be extended to January 2015 and revenue in 2013 was approximately 5% of the Americas division
- C4I2TSR services for the US Air Force, where the existing IDIQ contract vehicle is due to expire in 2014 and revenue in 2013 was approximately 4% of the Americas division

Future growth within the Federal Government services market will continue to be a challenge in the short term. While the US Federal Government is funded through September 2014, questions still remain on what the overall impact will be on specific programs and contracts. In the longer term, the market remains attractive in size and growth.

Following the progress in 2013 in broadening the Americas portfolio within sectors where Serco has strong global capabilities, we continue to pursue opportunities in our established, core market segments, which include:

acquisition and program management; defense readiness; aviation and air traffic management; C4ISR; citizen services; and facilities and asset management. We will pursue further growth opportunities in government health services and other healthcare support, and in surface transportation. With this market segment approach to growing the business, Serco Americas has recently realigned its organisational structure and adjusted growth investment to support its strategy going forward.

New bid opportunities that are expected to be decided over the next two years include:

- a significant number of task orders under the Sea Enterprise IDIQ for US Navy network services
- data capture, processing and document management for the US Patent & Trademark Office
- processing and case management for the Department of State Passport Support Services
- expanded IT and support services for the US Intelligence Community
- management of state transportation operations centres
- support to state-based exchanges for health insurance

AMEAA – 2013 review

Our AMEAA division comprises our activities in Australasia, Middle East, Asia and Africa, in which we provide a range of frontline services including transport, justice, immigration, health, defence and other direct services such as facilities management.

Adjusted revenue from ongoing activities on a reported currency basis grew by 19% to £1,050m (2012: £883m), and represented 21% of the Group (2012: 18%). On a constant currency basis, before the effect of local currency weakness against the average sterling rate, growth was 22%. Excluding the contribution from the prior year's acquisition of the remaining 50% equity stake in DMS Maritime, organic growth was 18%. A significant proportion of this was due to the volume of our work providing immigration services in Australia, with other incremental revenue coming from growing our transport and health operations in the wider AMEAA region.

Adjusted operating profit from ongoing activities grew by 28% on a reported currency basis to £82.1m (2012: £64.3m), with the margin increasing to 7.8% (2012: 7.3%). The increased margin reflects principally the beneficial effect of operational leverage, particularly in immigration services, and other cost management activity undertaken in the period.

In Immigration Services in Australia, a record number of people arrived by boat without a valid visa; over 20,000 individuals arrived in this manner in 2013 and the number of people in our care averaged 7,400. This increased the volume of work carried out under contracts Serco has for the management and operation of the detention services and the related transport arrangements. This resulted in further growth in revenue to over £450m for the Group in 2013, and the employment of more than 3,000 people across Australia. Following significant changes to government policies, the population in our care declined to below 5,000 by the end of February 2014. A six month extension to 10 December 2014 was awarded for our main contract for the detention centres.

In justice services, operational improvements at Mt Eden Corrections Facility have continued to be recognised. A new performance grading of all prisons in New Zealand has placed Mt Eden in the 'exceeding' category. In

Australia, Southern Queensland Correctional Centre was honoured with a prestigious Australian Business Award in the Innovation category, recognising a ground-breaking education project being trialled at the prison, with the ultimate aim of reducing reoffending.

Serco's pre-operational support for the Fiona Stanley Hospital in Perth continued to build over 2013 and management of the site transferred to Serco in December. The hospital is the largest public tertiary health facility in Western Australia, with Serco providing an extensive range of facilities management and support services. The first patients will be admitted in October 2014 and by early 2015 Serco will be managing more than 1,000 non-clinical staff required to operate the hospital.

Serco's presence in the health market elsewhere in the AMEAA region is developing well. Serco was awarded a new healthcare support services contract in the Middle East at Healthpoint in Abu Dhabi; Healthpoint is a fully integrated, primary care and multi-specialty hospital offering a wide range of outpatient and inpatient services. In Hong Kong, where we currently employ more than 600 people in health-related businesses, we extended our facilities management services contract covering four hospitals and one rehabilitation centre in the western districts.

Also in Hong Kong, Serco was awarded a new transportation management, operation and maintenance contract for the Tsing Sha Control Area with a total estimated value to Serco of HK$960m (approximately £80m) over the six-year base period. Our extensive air traffic control services in the region, while no longer serving Abu Dhabi, were strengthened with a new 18-month £24m contract for the Iraq Civil Aviation Authority and a new framework contract for the Qatar Civil Aviation Authority.

During the year Serco signed an extension to its contract with the Dubai Government Roads and Transport Authority (RTA) to operate and maintain the Dubai Metro. Serco has continued to deliver world class safety and operational standards including 99.9% of trains on time while also expanding ridership to over 137 million journeys in 2013. The five-year extension is valued at approximately £355m with an opportunity to extend for a further two years to 2021. Also for the RTA, Serco signed a contract for the new Dubai Tramway valued at £18m over five years. Further extending our range of services in the region, a six-year contract valued at approximately £30m was awarded to provide facilities management services in the United Arab Emirates, and a contract for employment support and training services was awarded in the Kingdom of Saudi Arabia.

In defence services, Serco extended and expanded our contract with the Australian Defence Force (ADF) to provide logistics and base support services in the Middle East. Valued at approximately £18m for a further year, we continue to deliver fully integrated support for ADF bases to ensure the provision of high quality services in areas such as maintenance and accommodation and will also assist through a complex programme of demobilisation from Afghanistan. We also secured our first direct contract to provide training services in the Middle East defence market in the period.

AMEAA – future developments

The 2014 financial year is expected to be significantly impacted by reduced activity levels for Serco's Immigration Services in Australia. Activity levels have proven unpredictable in the past due to a number of factors; however, they have fallen following recent changes in government policy and we estimate that the contract could reduce by as much as 50% in 2014. As the Group's single largest operation accounting for around 9% of Group revenue, and achieving a margin reflecting the complexity of the services involved, this is the single largest factor underlying the Group's anticipated reduction in financial performance for 2014. Having secured an extension through to December 2014, the operations are then subject to rebid.

Over the next two years the only other significant rebid in the AMEAA division relates to our various Australian regional defence garrison support services contracts operated in partnership with Sodexo. These have accounted for approximately 8% of revenue of the AMEAA division, are due to expire in June 2014 and are under evaluation currently.

There remain significant market opportunities to achieve further growth in the AMEAA region. These include: the justice market in Australia and New Zealand; non-clinical healthcare support services across the region; defence support services; transport operations including the rail, bus and aviation sectors. Serco has strong skills and capabilities in each of these operational areas within the AMEAA region, and the ability to leverage referenceability from across the Group.

New bid opportunities that are expected to be decided over the next two years include:

- a new-build prison design, construct and operate contract in Victoria, Australia, with Serco's SecurePathways consortium one of two shortlisted
- service operation of the Sydney North West Rail link, with Serco's TransForm consortium one of two shortlisted for the proposed new rapid transport system
- operation and maintenance of public bus services in Bahrain
- Oman air navigation services
- traffic management services in Abu Dhabi
- further support and operation of metro systems in the region, including the Sydney Light Rail project, with Serco's SydneyConnect consortium one of three shortlisted
- non-clinical support services to health organisations in the Middle East

Global Services – 2013 review

Our Global Services division provides Business Process Outsourcing (BPO) services to both the private and public sectors, bringing together Serco's middle and back office skills and capabilities across customer contact, transaction and financial processing, and related consulting and technology services.

Adjusted revenue from ongoing activities on a reported currency basis grew by 10% to £772m (2012: £702m), and represented 15% of the Group (2012: 15%). On a constant currency basis, before the effect of local currency weakness against the average sterling rate, growth was 12%. Excluding the contribution from the prior year's Vertex acquisition, organic growth was 5%. Adjusted operating profit from ongoing operations on a reported currency basis declined by 35% to £39.9m (2012: £61.3m), with the margin declining to 5.2% (2012: 8.7%). Including the impact of disposals, Adjusted revenue on a reported currency basis increased by 8% to £772m (2012: 716m) and Adjusted operating profit declined by 36% to £39.9m (2012: £62.1m).

The major contract awards that began in the second half of 2012, including Shop Direct and AEGON UK, helped to drive strong revenue growth in the first half of 2013. However, performance weakened in the second half of the year. There was less success in winning new contract awards, and there was a lower level of UK Central Government discretionary and ad hoc project work. The significant margin reduction reflected increased costs of contract bidding and new market development activity, the reduced level of typically higher margin project work and the transitional stage of the major new contracts which tend to involve greater upfront investment.

In our first full year of providing all customer contact services across Shop Direct's brands, we have delivered our transformation plan for the rationalisation of UK operations, the delivery of new digital services from our centre in Cardiff and the establishment of off-shore and near-shore locations in India and South Africa. This has included the transfer of around 2,000 Shop Direct employees to Serco, the introduction of three new sites and the closure of two legacy sites. Similarly with the transformation programme at AEGON UK, during our first year of operation we have successfully transitioned over 300 staff to Serco and have around 500,000 polices under management.

New contract awards in the year to private sector customers included providing a range of BPO services such as sales and payments collection for a further leading UK high street retailer. The adoption of an integrated contact centre approach saw Serco transition customer services to our centre in Sheffield as part of a ten-year contract worth approximately £50m. Of particular importance are Serco's capabilities in multi-channel contact, with specific developments for those customers who are using tablet or mobile devices for their shopping and account management needs.

At the Anglia Support Partnership, where we provide shared service support to NHS organisations, we have continued to see expansion of our platform and framework contract. A further contract was signed with a large NHS hospital trust to provide strategic procurement and finance and accounting services, involving the transfer of the trust's systems to the ASP shared service platform. The four-year contract is expected to generate revenue of approximately £112m.

Serco secured extensions in the year for a number of UK Central Government BPO contracts valued at over £100m in total (with an average extension period of three years). The contracts include the provision of specialist complex case management services for the Child Maintenance Group at the Department for Work and Pensions (DWP), managing enquiries on behalf of Jobcentre Plus and the Universities & Colleges Admissions Service (UCAS), supporting the delivery of the Department of Health's 'Healthy Start' programme and operating the Food Standards Agency's emergency helpline. For our Child Maintenance Group operations, Serco won the 'Value for Money Award' at the DWP Supplier Excellence Awards 2013, recognising our continuous improvement ethos and innovative approaches to enhancing customer experience whilst driving down costs for the DWP.

In our local authority strategic partnerships, at Hertfordshire County Council we continue to transform the way services are delivered. Expanded services have included a pioneering new telecare service for adults in receipt of social care. With an initial value of £12m over five years, there is potential for further growth as the service is extended to provide wider support. At Thurrock, Serco has introduced a new debt collection programme and is providing additional ICT support as part of the council's wider transformation programme.

In an important development in our Middle East operations, Serco was awarded a new contract for shared services to over 50 government departments within the United Arab Emirates. Serco will initially provide citizen contact and issue resolution management regarding the supply of public services, with potential for the scope of the contract to be increased in the future to include other back office processing. Contact will be delivered on a unique multi-channel basis including voice, email and web chat. As per the agreement, the contract will provide employment opportunity to only Middle Eastern nationals. The initial four-year contract is estimated to be valued at approximately £24m.

In India's banking and financial services market, Serco is now the sole contact centre service provider for the country's largest public sector bank. For India's largest private sector bank, additional work awarded has led to Serco now supporting more than 75% of the collections services and becoming the largest supplier supporting card issuance on behalf of the bank. Expanding our support to the Indian public sector, we were awarded a customer support contract for energy services in the state of Punjab. Amongst other rebids and contracts won, we successfully rebid a contract valued at approximately £14m supporting a leading US credit bureau with customer services for mortgage-related queries.

Our network of BPO delivery centres saw during 2013 the opening of our first in Africa in Cape Town, South Africa, to service both international and domestic customers. The opening of our centre in Teltow, Germany, is supporting major European customers such as Sky Deutschland. Meanwhile our workforce in Cardiff, where we support multi-channel customer contact for a number of well-known UK retail brands, has almost doubled in size.

Global Services – future developments

In the 2014 financial year no significant attrition is anticipated from the ending of any individual contracts. Over the next two years there are also no significant contracts that require extending or rebidding. There are however ongoing pressures from terms renegotiations with existing customers, some reductions in activity levels as we move beyond the transition phases on previous major contract starts, and the need to rebuild the pipeline particularly after the lower level of contract awards in the second half of 2013 in part as a result of the UK Government issues.

Serco has important capabilities to offer in the attractive BPO market, with scale and depth to provide private and public sector customers with a range of end-to-end, integrated business services as they seek to reduce costs and improve efficiencies by transforming their operations. In particular, Serco has strength in offering a blend of on-shore, near-shore and off-shore service provision. We also have excellent capabilities in areas such as multi-channel customer contact services.

For the private sector, the Global Services division has added to and expanded the scope of existing customer relationships over time, and sees further potential to continue growing in this manner in the future. Referenceability and prospects are spread across large and diverse industry groups: Banking, Financial Services & Insurance; Travel, Hospitality & Transportation; Retail, Healthcare, Utilities, & Manufacturing; Telecom, Technology, Online Services & Media. With significant presence to build from in the UK and India domestic markets, we are also continuing to target opportunities in other geographies.

For the public sector, the Global Services division is working alongside the regional divisions in order to bid and deliver fully integrated solutions for their customers. The division provides bid support in areas relating to contact centre services, case management, identity verification, transaction processing, ICT, human resources and payroll, finance and accounting, and any other middle or back office support function that is required. Central Government is expected to continue to develop opportunities for shared service centre support. UK Strategic partnerships with local authorities to transform their services should also further develop as a market with increasing potential to outsource non-core supporting operations. Expanding existing local authority relationships remains a key source of future growth, as does further developing the Anglia Support Partnership shared service centre for the NHS and other health organisations.

Recognition of Serco's growing presence in the BPO market continues to build. For example, we have risen into the top 3 UK Business Process Services (BPS) providers, as compiled by leading software and IT services industry research company TechMarketView in their 2013 UK Software and IT Services Rankings report. In a separate recent report regarding the public sector, TechMarketView acknowledged Serco's progress in transitioning from a pure IT outsourcer to a BPO player, using technology to support innovation and transformation in the front and back office. We have also been recognized as a top tier BPO service provider by industry analysts and third party advisories such as Gartner, Everest, NelsonHall and HFS.

New bid opportunities that are expected to be decided over the next two years include:

- European telecom operator customer contact services and digitisation
- expanded existing and new operations for life and pensions companies
- retail multi-channel customer management services (CMS)
- Lincolnshire County Council BPO support covering Finance, HR, ICT and citizen contact
- Further local authority opportunities covering similar services

Finance Review

Overview

Revenue grew by 5.6% to £4,288.1m and operating profit, after exceptional items, was £143.8m (2012: £272.2m). Adjusted revenue from ongoing activities was £5,101.3m, a growth of 7.8% at constant currency (5.9% organic). Adjusted operating profit from ongoing activities was £285.4m, representing a 2.3% decline at constant currency. Adjusted operating margin on an ongoing basis reduced to 5.6% compared to 6.3% in 2012, a decrease of 68 basis points (59 basis points decrease at constant currency). Adjusted profit before tax declined by 6.3% to £254.4m (3.6% decline at constant currency). Group free cash flow was £84.8m, which reflected a decrease on the prior year principally as a result of working capital impacts of timing differences between the period when costs are incurred in the delivery of the contract and the period when we can contractually bill our customer and lower dividends from joint ventures.

For 2014, we are forecasting a mid-single digit percentage organic revenue decline. This reflects the lower level of incremental work won across the Group to date, the attrition from contracts lost such as Electronic Monitoring, and our latest assessment of the impact of volume reductions in our Australian immigration detention services contract. The Adjusted operating margin is anticipated to decline by approximately 50 to 100 basis points. This takes account of the margins associated with the revenue reductions together with the ongoing incremental costs of the agreed corporate renewal programme. Statutory operating profit margins before exceptional items are expected to decline but at a lesser rate reflecting the lower levels of costs and charges expected to be incurred in relation to the impact of the UK Government reviews, together with a lower amount for amortisation of intangibles arising on acquisition.

1. Income statement

The key lines of Serco's income statement for the year are summarised below and include analysis of revenue, operating profit, exceptional items, profit before tax and earnings per share. In the review of the business which follows, the statutory results have been adjusted to reflect proportional consolidation of the results of joint ventures as these businesses form a fundamental part of the way the Group works to meet the demands of its customers.

The tables show separately Adjusted revenue and Adjusted operating profit of ongoing activities, which exclude the financial results of subsidiaries and operations disposed of during the year in order to present more clearly the performance of the ongoing business. Measures of Adjusted operating profit, Adjusted profit before tax and Adjusted earnings per share are presented to assist the reader to understand the results of the underlying business, and reflect the measures used by senior management to assess the performance of the business. Adjusted measures are also calculated before amortisation of intangibles arising on acquisition, transaction-related costs, exceptional items and management's estimate of other costs and charges relating to the impact of the UK Government reviews.

The prior year results have been restated following adoption of the revisions to IAS 19 Employee Benefits and IFRS 11 Joint arrangements and also to reflect the adjustment to prior year acquisitions for provisional acquisition accounting entries. The impact of these restatements is shown in note 2 to the financial statements and has reduced reported revenue by £852.9m, profit before tax by £20.9m and profit for the year by £4.9m.

1.1 Revenue

Year ended 31 December	2013 £m	2012 (restated) £m	Change	Change at constant currency
Adjusted revenue – ongoing activities	**5,101.3**	4,774.6	6.8%	7.8%
Adjusted revenue – disposed activities	**42.6**	138.4		
Adjusted revenue	**5,143.9**	4,913.0	4.7%	5.7%
Less: Share of joint venture revenue	**(855.8)**	(852.9)		
Revenue	**4,288.1**	4,060.1	5.6%	6.7%

Adjusted revenue from ongoing activities grew by 6.8% to £5,101.3m (7.8% growth at constant currency). Organic revenue, which excludes currency effects, acquisitions and disposals, increased by 5.9%, with the drivers of this revenue performance discussed in the preceding Divisional Reviews. Revenue for the year was up 5.6% at £4,288.1m.

1.2 Operating profit

Year ended 31 December	2013 £m	2012 (restated) £m	Change	Change at constant currency
Adjusted operating profit – ongoing activities	**285.4**	299.6	(4.7%)	(2.3%)
Adjusted operating profit – disposed activities	**6.6**	14.5		
Adjusted operating profit	**292.0**	314.1	(7.0%)	(4.7%)
Amortisation of intangibles arising on acquisition	**(21.4)**	(24.1)		
Transaction-related costs	**(3.5)**	(3.7)		
Share of joint venture tax and interest	**(11.8)**	(14.7)		
Management estimation of charges related to UK Government reviews	**(21.0)**	-		
Operating profit before exceptional items	**234.3**	271.6	(13.7%)	(11.2%)
Exceptional operating items	**(90.5)**	0.6		
Operating profit	**143.8**	272.2	(47.1%)	(44.6%)
Adjusted operating margin – ongoing activities	**5.59%**	6.27%	(68bps)	(59bps)
Adjusted operating margin	**5.68%**	6.39%	(71bps)	(62bps)

Costs estimated and allocated by management as relating to the impact of UK Government reviews on the business. These costs are in addition to those identified as exceptional items on the face of the Income Statement. Included in this amount are onerous contract charges incurred in the period on other Ministry of Justice contracts, an estimation of the costs incurred on the Electronic Monitoring and PECS contracts relating to supporting the review work, bid costs incurred on proposals where management believe the Cabinet Office reviews represented a significant reason why the Group was unsuccessful, the effect of accelerated transition to a new service provider of the Electronic Monitoring contract and other specific related costs.

Adjusted operating profit from ongoing activities decreased by 4.7% to £285.4m (2.3% decline at constant currency). This represents a margin of 5.6% which is a 68 basis point decrease compared with the prior year. Drivers of the margin performance are discussed in the Divisional Reviews. Operating profit before exceptional items in the year to 31 December 2013 was £234.3m (2012: £271.6m) and operating profit, after exceptional items, was £143.8m (2012: £272.2m).

1.3 Reportable segments and ongoing activities

The table below shows the segmental results split between ongoing activities, being the part of the business which will continue into 2014, and disposed activities, being the part of the business which contributed to the 2013 and 2012 results but were disposed of during either year.

	UK & Europe	Americas	AMEAA	Global Services	Corporate	Total
Year ended 31 December 2013	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Adjusted segment revenue						
Ongoing activities	**2,514.3**	**765.3**	**1,049.5**	**772.2**	**-**	**5,101.3**
Disposed activities	**42.6**	**-**	**-**	**-**	**-**	**42.6**
Adjusted revenue	**2,556.9**	**765.3**	**1,049.5**	**772.2**	**-**	**5,143.9**
Adjusted operating profit						
Ongoing activities	**150.7**	**58.8**	**82.1**	**39.9**	**(46.1)**	**285.4**
Disposed activities	**6.6**	**-**	**-**	**-**	**-**	**6.6**
Adjusted operating profit	**157.3**	**58.8**	**82.1**	**39.9**	**(46.1)**	**292.0**
Year ended 31 December 2012						
Adjusted segment revenue						
Ongoing activities	2,436.4	753.4	883.0	701.8	-	4,774.6
Disposed activities	124.7	-	-	13.7	-	138.4
Adjusted revenue	2,561.1	753.4	883.0	715.5	-	4,913.0
Adjusted operating profit						
Ongoing activities	163.4	55.2	64.3	61.3	(44.6)	299.6
Disposed activities	13.7	-	-	0.8	-	14.5
Adjusted operating profit	177.1	55.2	64.3	62.1	(44.6)	314.1

1.4 Transaction-related costs

There were £3.5m of costs arising from transaction-related activity during the year (2012: £3.7m).

1.5 Management estimation of charges related to UK Government reviews

There were £21.0m (2012: £nil) of both costs estimated and allocated by management as relating to the impact of UK Government reviews on the business. These costs are in addition to those identified as

Exceptional items on the face of the Income Statement. Included in this amount are onerous contract charges incurred in the period on other Ministry of Justice contracts (£6m), an estimation of the costs incurred on the Electronic Monitoring and PECS contracts relating to supporting the review work (£2m), bid costs incurred on proposals where management consider the Cabinet Office reviews represented a significant reason why the Group was unsuccessful (£5m), the effect of accelerated transition to a new service provider of the Electronic Monitoring contract and other specific related costs (£8m).

1.6 Exceptional operating profit items

Year ended 31 December	**2013 £m**	2012 £m
Settlement relating to UK Government reviews	**(66.3)**	-
Costs associated with UK Government reviews	**(11.6)**	-
UK clinical health provisions	**(17.6)**	-
Restructuring costs	**(14.9)**	-
Asset impairment	**(9.6)**	-
Adjustment to deferred consideration relating to prior year acquisition	**10.3**	-
Charitable donation	**-**	(5.0)
Gain on disposal of UK transport maintenance business	**23.2**	-
Loss on disposal of UK occupational health business	**(3.9)**	-
Loss on disposal of Ascot College	**(0.1)**	-
Gain on disposal of nuclear consulting services business	**-**	57.6
Loss on disposal of German operation	**-**	(27.7)
Loss on disposal of UK data hosting operations	**-**	(11.5)
Loss on disposal of education software business	**-**	(12.8)
Net exceptional (costs)/income	**(90.5)**	0.6

Settlement amounts relating to UK Government reviews

In December 2013, following a review of the billing arrangements on the Electronic Monitoring (EM) contract by the Ministry of Justice, a settlement of £64.3m was reached in respect of the contractual claim. In addition, a £2.0m settlement was reached on the Prisoner Escort and Custody Services (PECS) contract which was also subject to Government review to reflect repayment of past profit earned on this contract.

Costs associated with UK Government reviews

Since July 2013 there have been external adviser and other directly-related incremental costs including the exit costs of certain senior management that amounted to £11.6m.

Onerous UK clinical health provisions

During the year we completed a comprehensive review of the clinical health operations in the UK. As a result, we will exit two contracts early. These contracts, together with a third loss-making contract, require provisions for estimated losses in future years together with a provision against underlying assets which in total amount to a non-cash exceptional charge of £17.6m. This has been treated as exceptional due to the non-recurring nature of the charge and its significant value.

Restructuring

As a result of a review of the cost structures in the UK businesses a restructuring charge of £14.9m was taken and when complete will reduce headcount by approximately 400 split equally between UK & Europe and Global Services.

Asset Impairment

As a result of a review of under-performing businesses and operations, an impairment charge of £9.6m was taken in relation to the carrying value of fixed assets in Great Southern Railway, a rail tourism business based in Australia, reflecting more challenging conditions in that market.

Adjustment to prior year acquisition

On assessment against earn-out criteria, an adjustment was made to the accrual for deferred consideration arising on the 2011 Intelenet acquisition of £10.3m.

Exceptional net profit on disposal of subsidiaries and operations

On 27 November 2013 the Group disposed of its UK transport maintenance and technology business for consideration of £44.9m which resulted in a gain of £23.2m. The disposal on 4 October 2013 of the occupational health business resulted in a loss of £3.9m.

1.7 Exceptional other gain

Year ended 31 December	**2013 £m**	2012 £m
Gain on step acquisition accounting of joint venture	**-**	51.1

The exceptional other gain in 2012 represents the non-cash gain arising from the step acquisition accounting of the DMS joint venture where the original 50% shareholding was restated to fair value.

1.8 Net finance costs

Year ended 31 December	2013 £m	2012 (restated) £m	Change	Change at constant currency
Adjusted net finance costs	**(37.6)**	(42.5)	(11.5%)	(11.8%)
Less: Share of joint venture net interest costs	**0.4**	0.3		
Net finance costs	**(37.2)**	(42.2)	(11.8%)	(12.1%)

Adjusted net finance costs decreased £4.9m to £37.6m (2012: £42.5m). The principal reason for this was the non-recurrence of additional costs in the prior year relating to re-financing the revolving credit facility.

1.9 Profit before tax

Year ended 31 December	2013 £m	2012 (restated) £m	Change	Change at constant currency
Adjusted profit before tax	**254.4**	271.6	(6.3%)	(3.6%)
Amortisation of intangibles arising on acquisition	**(21.4)**	(24.1)		
Transaction-related costs	**(3.5)**	(3.7)		
Share of joint venture tax	**(11.4)**	(14.4)		
Management estimation of charges related to UK Government reviews	**(21.0)**	-		
Profit before tax and before exceptional items	**197.1**	229.4	(14.1%)	(11.1%)
Exceptional items	**(90.5)**	51.7		
Profit before tax	**106.6**	281.1	(62.1%)	(59.7%)

Adjusted profit before tax decreased by 6.3% to £254.4m (3.6% decrease at constant currency). Profit before tax and before exceptional items was 14.1% lower than the prior year with the reduction following the decrease in operating profits as described above. Profit before tax was £106.6m, a reduction of 62.1% on the prior year.

1.10 Tax

Year ended 31 December	2013 £m	2012 (restated) £m	Change	Change at constant currency
Adjusted tax	**(61.1)**	(66.9)	8.7%	6.0%
Tax on amortisation of intangibles arising on acquisition	**5.5**	5.4		
Tax on transaction-related costs	**-**	0.5		
Share of joint venture tax	**11.4**	14.4		
Tax on management estimate of charges related to UK Government reviews	**4.2**	-		
Tax before exceptional items	**(40.0)**	(46.6)	14.2%	10.5%
Tax on exceptional items	**28.8**	6.5		
Tax	**(11.2)**	(40.1)	72.1%	68.2%
Adjusted effective tax rate	**24.0%**	24.6%		

The Adjusted effective tax rate was 24.0% (2012: 24.6%). The movement reflects changes in the mix of taxable profits in different jurisdictions and the reduction in the UK headline tax rate from 24% to 23% from 1 April 2013.

1.11 Earnings per share (EPS)

Year ended 31 December	**2013** pence	2012 (restated) pence	Change	Change at constant currency
Adjusted earnings per share (basic)	**39.53**	41.55	(4.9%)	(2.1%)
Amortisation of intangibles arising on acquisition	**(3.25)**	(3.81)		
Transaction-related costs	**(0.72)**	(0.65)		
Management estimate of charges related to UK Government reviews	**(3.43)**	-		
Earnings per share before exceptional items (basic)	**32.13**	37.09	(13.4%)	(10.5%)
Exceptional items	**(12.62)**	11.85		
Earnings per share (basic)	**19.51**	48.94	(60.1%)	(58.0%)

Adjusted EPS declined by 4.9% to 39.53p (2.1% decline excluding currency effects). EPS before exceptional items declined by 13.4% to 32.13p, while EPS declined 60.1% to 19.51p. EPS and Adjusted EPS are calculated on a basic weighted average share base of 489.0m (2012: 491.2m).

2. Dividend

Year ended 31 December	**2013 pence**	2012 pence	Change
Dividend per share	**10.55p**	10.10p	4.5%

The Board has proposed a final dividend for 2013 held at 7.45p, bringing the total dividend for the year to 10.55p which is an increase of 4.5%. This reflects our ongoing transition to a higher payout ratio. Based on Adjusted basic earnings per share of 39.53p, the dividend represents a payout of 27% (2012: 24%), or dividend cover of 3.75x (2012: 4.11x). The Board set out in 2013 the intention to move to dividend cover of 2.5-3x over time, beyond which point it would expect to revert to increasing the total dividend each year in line with the increase in underlying earnings. The final dividend will be paid, subject to shareholder approval, on 14 May 2014 to shareholders on the register on 14 March 2014.

3. Cash flow

The Group generated a free cash inflow of £84.8m (2012: £181.2m), the decrease arising principally as a result of incremental working capital and lower dividends from joint ventures.

Year ended 31 December	**2013** **£m**	2012 (restated) £m
Adjusted operating profit excluding joint ventures	**233.1**	236.9
Non cash items	**53.0**	56.0
Adjusted EBITDA excluding joint ventures	**286.1**	292.9
Working capital movement	**(144.0)**	(47.2)
Adjusted operating cash flow excluding joint ventures	**142.1**	245.7
Interest	**(38.2)**	(44.6)
Tax	**(18.8)**	(33.6)
Net expenditure on tangible and intangible assets*	**(51.8)**	(66.9)
Dividends from joint ventures	**51.5**	80.6
Free cash flow	**84.8**	181.2
Acquisition of subsidiaries net of cash acquired	**(18.6)**	(141.8)
Disposal of subsidiaries and operations net of cash disposed	**40.6**	131.0
Transaction-related costs	**(2.8)**	(3.9)
Purchase of own shares and issue proceeds of share capital	**(14.9)**	(10.3)
Financing**	**73.2**	(152.0)
Management estimation of charges related to UK Government reviews	**(9.2)**	-
Other exceptional items***	**(83.7)**	(5.0)
Special pension contribution	**(19.7)**	-
Dividends paid	**(51.5)**	(41.9)
Group net decrease in cash and cash equivalents	**(1.8)**	(42.7)
Adjustment to include joint venture cash impacts	**(5.6)**	(4.5)
Net decrease in cash and cash equivalents before exchange loss	**(7.4)**	(47.2)
Exchange loss	**(15.9)**	(9.0)
Net decrease in cash and cash equivalents	**(23.3)**	(56.2)

Notes:
*Net expenditure on tangible and intangible assets excludes assets funded under finance lease arrangements.
**Financing is stated net of directly reimbursed capital expenditure.
***Exceptional items include an amount of £22m due to the UK Government that was satisfied through a net settlement in relation to receipts on billed amounts due from the same customer.

3.1 Adjusted operating cash flow excluding joint ventures

Adjusted operating cash flow excluding joint ventures was £142.1m (2012: £245.7m).

The movement in working capital of £144.0m (2012: £47.2m) principally relates to timing differences between the period when costs are incurred in the delivery of the contract and the period when we can contractually bill our customer. Examples of this include Shop Direct where we have undertaken transition services in the first two years of the contract which may only be billed and recovered from the customer over a longer period; Defence Marine Services (DMS) in Australia where there has been significant vessel maintenance in the year with recovery spread over a longer period; Fiona Stanley Hospital where there has been spend related to the start of the contract which will be billed and recovered in a later period. There have additionally been outflows from the decline in the accelerated payment cycle from some of our customers in 2013 and delays to receipts from certain customers in AMEAA..

3.2 Interest

Net interest paid decreased to £38.2m (2012: £44.6m), principally due to the payment in 2012 of £5.6m of facility fees relating to the refinancing of the revolving credit facility.

3.3 Tax

Tax paid was £18.8m (2012: £33.6m). Cash tax remains below the equivalent charge in the income statement principally as a result of the availability of accelerated capital allowances and other timing differences, together with the impact of tax relief on exceptional items primarily in the UK.

3.4 Net expenditure on tangible and intangible assets

Net expenditure on tangible and intangible assets was £51.8m (2012: £66.9m). This represents 1.2% of revenue (2012: 1.6%).

3.5 Dividends from joint ventures

Dividends received from joint ventures totalled £51.5m (2012: £80.6m), with the decline reflecting lower profits from joint ventures and from the impact of the former DMS joint venture which became a wholly owned subsidiary in late 2012.

3.6 Purchase of own shares and issue proceeds of share capital

The net £14.9m cash outflow in the year related to a £16.0m outflow (2012: £16.0m) for the Employee Share Ownership Trust (ESOT) in order to satisfy options granted under the Group's share option schemes and £1.1m (2012: £5.7m) of proceeds from the issue of share capital and exercise of share options.

3.7 Financing

The inflow from financing of £73.2m (2012: outflow of £152.0m) is primarily due to additional private placements taken out in the year. Further details on sources of funding are included in section 8 below.

3.8 Management estimation of charges related to UK Government reviews

There was cash spend of £9.2m (2012: nil) in relation to management's estimation of the charges related to the UK Government reviews.

3.9 Other exceptional items

There was spend of £83.7m (2012: £5.0m) in relation to other exceptional items, this included the agreed settlement paid on 23 December 2013 to the UK Central Government of £66.3m, together with related VAT of £5.8m, in relation to the Electronic Monitoring and Prisoner Escorting Service contracts. There was also £11.6m of spend in relation to restructuring and the direct costs associated with the UK reviews.

3.10 Special pension contributions

The special pension contributions of £19.7m relate to a £16.8m payment to fund the deficit on the Vertex pension fund prior to its transfer into the Group's largest defined benefit scheme, Serco Pension and Life Assurance Scheme (SPLAS), and £2.9m in relation to deficit recovery funding of the Walsall defined benefit pension scheme. The Vertex payment enabled their separate defined benefit scheme to be closed and thereby reduces ongoing administration costs.

3.11 Reconciliation of free cash flow

The table below reconciles the net cash from operating activities in the condensed consolidated cash flow statement to the free cash flow at the beginning of Section 3 of the Finance Review.

Year ended 31 December	**2013 £m**	2012 £m
Operating activities:		
Net cash inflow from operating activities	**111.3**	225.9
Investing activities:		
Net cash inflow/(outflow) from investing activities	**14.2**	(4.0)
Less: Increase in security deposits	**0.2**	-
Less: Proceeds on disposal of subsidiaries and operations	**(40.6)**	(131.0)
Less: Acquisition of subsidiaries, net of cash acquired	**18.6**	141.8
Financing activities:		
Interest paid	**(40.8)**	(47.1)
Management estimation of charges related to UK Government reviews	**9.2**	-
Transaction-related costs	**2.8**	3.9
Directly reimbursed capital expenditure and other financing items	**9.9**	(8.3)
Free cash flow	**84.8**	181.2

4. Acquisitions

Deferred consideration payments in relation to acquisitions totalled £18.6m (2012: £141.8m). This represented £11.9m in relation to the acquisition of Intelenet and £6.7m in relation to the acquisition of The Listening Company.

5. Disposals

The table below shows the net cash proceeds from the disposal of businesses and operations reflecting the cash proceeds less any cash and cash equivalents disposed and disposal costs paid in the year.

Year ended 31 December	**2013 £m**	2012 £m
UK transport maintenance business	**40.2**	-
UK occupational health business	**2.2**	-
Ascot College	**0.7**	-
Nuclear consulting services business	**-**	129.8
German operation	**-**	(3.5)
Education software business	**-**	4.7
UK data hosting operations (disposal cash costs)	**(2.5)**	-
Net cash proceeds	**40.6**	131.0

6. Net debt

At 31 December	**2013 £m**	2012 £m
Group – cash and cash equivalents	**125.1**	142.8
Group – loans	**(782.2)**	(699.5)
Group – obligations under finance leases	**(68.0)**	(50.2)
Group recourse net debt	**(725.1)**	(606.9)
Group non-recourse debt	**(20.3)**	(25.1)
Net debt	**(745.4)**	(632.0)

Adjusted net debt, which includes the proportional share of joint venture net cash of £44.2m, is £701.2m (31 December 2012: £580.7m). A reconciliation of adjusted net debt is present in section 6.3 below.

6.1 Group recourse net debt

Group recourse net debt increased by £118.2m to £725.1 (2012: £606.9m). Sources of funding are described in Section 8 below.

Cash and cash equivalents include encumbered cash of £10.2m (2012: £7.5m). This is cash relating to customer advance payments.

6.2 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 decreased by £4.8m to £20.3m. The decrease is mainly due to the final repayment of debt on our Driver Examination Services contract in Canada.

6.3 Reconciliation of free cash flow to recourse net debt

The tables below reconcile free cash flow at the beginning of Section 3 of the Finance Review to the movement in Group recourse net debt and net debt.

Year ended 31 December	2013 £m	2012 £m
Free cash flow	**84.8**	181.2
Acquisition of subsidiaries net of cash acquired	**(18.6)**	(141.8)
Disposal of subsidiaries and operations net of cash disposed	**40.6**	131.0
Transaction-related costs	**(2.8)**	(3.9)
Purchase of own shares and issue proceeds of share capital	**(14.9)**	(10.3)
New loans on acquisition of subsidiaries	**-**	(15.2)
Repayment of non-recourse loans	**(10.2)**	(8.7)
New and acquired finance leases	**(33.0)**	(26.1)
Management estimation of charges related to UK Government reviews	**(9.2)**	-
Other exceptional items	**(83.7)**	(5.0)
Special pension contribution	**(19.7)**	-
Dividends paid	**(51.5)**	(41.9)
Other financing items including foreign exchange	**-**	3.6
Movement in Group recourse net debt	**(118.2)**	62.9
Net recourse debt at 1 January	**(606.9)**	(669.8)
Recourse net debt at 31 December	**(725.1)**	(606.9)

Year ended 31 December	2013 £m	2012 £m
Repayment of non-recourse loans	**10.2**	8.7
Non-recourse loan advances	**(5.3)**	(18.4)
Foreign exchange	**(0.1)**	0.1
Movement in non-recourse net debt	**4.8**	(9.6)
Non-recourse debt at 1 January	**(25.1)**	(15.5)
Non-recourse debt at 31 December	**(20.3)**	(25.1)

Year ended 31 December	2013 £m	2012 £m
Movement in total net debt	**(113.4)**	53.3
Net debt at 1 January	**(632.0)**	(685.3)
Net debt at 31 December	**(745.4)**	**(632.0)**

7. Pensions

The Group is a sponsor of a number of defined benefit schemes and defined contribution schemes. At 31 December 2013, the net retirement benefit asset included in the balance sheet arising from our defined benefit pension scheme obligations was £42.7m (2012: £26.1m). The pension scheme asset base is £1.4bn.

Defined benefit pension schemes

At 31st December	**2013** **£m**	2012 (restated) £m
Group schemes – non contract specific	**58.4**	45.5
Contract specific schemes	**(5.5)**	(13.8)
Net retirement benefit asset	**52.9**	31.7
Intangible assets arising from rights to operate franchises and contracts	**1.0**	3.2
Deferred tax liabilities	**(11.2)**	(8.8)
Net balance sheet asset	**42.7**	26.1

Serco has two main types of scheme which are accounted for as defined benefit pension schemes. Each type has its own accounting treatment under IFRS. These are:

Non contract specific – schemes which do not relate to specific contracts or franchises. For these schemes we charge the actuarial gain or loss for the period to the consolidated statement of comprehensive income (the SOCI);

Contract specific – schemes relating to specific contracts or franchises, where the deficit will pass back to the customer or on to the next contractor at the end of the contract. For these schemes, we charge the actuarial gain or loss on our share of the deficit for the period to the SOCI, recognise a recoverable intangible asset on the balance sheet at the start of the contract or franchise and amortise the intangible asset to the income statement over the contract or franchise life. Serco has limited commercial risk in relation to the contract specific schemes because the deficit will, in general, pass back to the customer or on to the next contractor at the end of the contract.

Amongst our non contract specific schemes, the largest is the Serco Pension and Life Assurance Scheme (SPLAS). At 31 December 2013, SPLAS had a surplus of £64.2m (31 December 2012: surplus of £69.7m). This is calculated under IAS 19 Revised using market-derived rates at 31 December 2013. It therefore reflects the effect of the market conditions on investment returns in the period.

The estimated actuarial deficit of SPLAS, calculated using prudent Trustee assumptions, as at 31 December 2013 was approximately £13m (2012: £11m). The value calculated in the latest triennial review was a deficit of £24m at 5 April 2012. We continue to review the level of benefits and contributions under the scheme in the light of our business needs and changes to pension legislation.

8. Treasury

The Group has a five-year multi currency revolving credit facility of £730m (31 December 2012: £730m). This five-year multi-currency revolving credit facility, which was signed on 28 March 2012, matures in March 2017. As at 31 December 2013, £175m had been drawn (31 December 2012: £178m).

In addition to the bank facility, Serco has US private placements totalling £575m (31 December 2012: £461m) which will be repaid between 2014 and 2024, with £23m maturing in 2014. This includes $240.0m of new notes issued in May 2013.

The above facilities are unsecured and have financial and non-financial covenants and obligations typical of these arrangements. The principal financial covenants (as defined) require leverage not to exceed 3.5 times EBITDA and EBITDA to cover interest at least 3.0 times. As at 31 December 2013 these ratios were 2.3 times and 8.8 times respectively.

9. Going concern

In order to satisfy ourselves that we have adequate resources for the future, the Directors have reviewed the Group's committed funding and liquidity positions, our ability to generate cash from trading activities. The Directors have also reviewed our strategy and the principal risks we face. Whilst the current economic environment continues to contain uncertainties, our revenues are largely derived from long-term contracts and our contract portfolio is of sufficient diversity that a downturn in any particular market, sector or geography has a diluted effect on the Group as a whole.

The Group's principal funding is through a revolving credit facility and US private placements. As at 31 December 2013, the Group had £1,305m of committed credit facilities and headroom of £555m. The revolving credit facility matures in March 2017, whilst repayments of the US private placements occur between 2014 and 2024, with a scheduled repayment of £23m in August 2014. The Group fully expects to meet these repayments through operational cash flows.

Based on the information set out above, the Directors have a reasonable expectation that the Company and the Group will be able to operate within the level of available facilities and cash for the foreseeable future and accordingly believe that it is appropriate to prepare the financial statements on a going concern basis.

Financial Statements

Consolidated Income Statement

For the year ended 31 December		2013			2012 (restated)*		
		Before exceptional items	Exceptional items	Total	Before exceptional items	Exceptional items	Total
	Note	£m	£m	£m	£m	£m	£m
Continuing operations							
Adjusted revenue		**5,143.9**	**-**	**5,143.9**	4,913.0	-	4,913.0
Less: Share of revenue of joint ventures		**(855.8)**	**-**	**(855.8)**	(852.9)	-	(852.9)
Revenue		**4,288.1**	**-**	**4,288.1**	4,060.1	-	4,060.1
Cost of sales		**(3,788.9)**	**-**	**(3,788.9)**	(3,576.5)	-	(3,576.5)
Gross profit		**499.2**	**-**	**499.2**	483.6	-	483.6
Administrative expenses		**(287.1)**	**-**	**(287.1)**	(246.7)	-	(246.7)
Other expenses – amortisation of intangibles arising on acquisition		**(21.4)**	**-**	**(21.4)**	(24.1)	-	(24.1)
Other expenses – transaction-related costs		**(3.5)**	**-**	**(3.5)**	(3.7)	-	(3.7)
Share of profits in joint ventures, net of interest and tax	4	**47.1**	**-**	**47.1**	62.5	-	62.5
Exceptional net profit on disposal of subsidiaries and operations	7	**-**	**19.2**	**19.2**	-	5.6	5.6
Other exceptional operating items	7	**-**	**(109.7)**	**(109.7)**	-	(5.0)	(5.0)
Operating profit		**234.3**	**(90.5)**	**143.8**	271.6	0.6	272.2
Investment revenue	8	**5.2**	**-**	**5.2**	6.4	-	6.4
Exceptional other gain	7	**-**	**-**	**-**	-	51.1	51.1
Finance costs	9	**(42.4)**	**-**	**(42.4)**	(48.6)	-	(48.6)
Profit before tax		**197.1**	**(90.5)**	**106.6**	229.4	51.7	281.1
Tax		**(40.0)**	**28.8**	**(11.2)**	(46.6)	6.5	(40.1)
Profit for the year		**157.1**	**(61.7)**	**95.4**	182.8	58.2	241.0
Attributable to:							
Equity owners of the Company		**157.1**	**(61.7)**	**95.4**	182.2	58.2	240.4
Non-controlling interest		**-**	**-**	**-**	0.6	-	0.6
Earnings per share (EPS)							
Basic EPS	11	**32.13p**	**(12.62)p**	**19.51p**	37.09p	11.85p	48.94p
Diluted EPS	11	**31.38p**	**(12.32)p**	**19.06p**	36.23p	11.57p	47.80p

*Certain amounts shown here do not correspond to the 2012 financial statements and reflect adjustments made in respect of the retrospective application of new or revised standards and reallocation of costs. See note 2.

Consolidated Statement of Comprehensive Income

For the year ended 31 December

	Note	2013 £m	2012 (restated) £m
Profit for the year		**95.4**	241.0
Other comprehensive income for the year:			
Items that will not be reclassified subsequently to profit or loss:			
Net actuarial gain/(loss) on defined benefit pension schemes[1]	17	**30.3**	**(117.0)**
Actuarial (loss)/gain on reimbursable rights[1]	17	**(37.1)**	**34.3**
Tax relating to items not reclassified[1]		**3.0**	**23.0**
Share of other comprehensive income/(expense) in joint ventures		**3.9**	**(0.9)**
Items that may be reclassified subsequently to profit or loss:			
Net exchange loss on translation of foreign operations[2]		**(53.1)**	**(18.6)**
Fair value loss on cash flow hedges during the period[2]		**(4.8)**	**(4.1)**
Tax relating to items that may be reclassified[2]		**1.2**	**4.1**
Share of other comprehensive expense in joint ventures		**(1.8)**	**(0.4)**
Total comprehensive income for the year		**37.0**	**161.4**
Attributable to:			
Equity owners of the Company		**37.0**	160.8
Non-controlling interest		**-**	0.6

Notes:
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

	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	Non-controlling interest £m
At 1 January 2012	9.9	322.7	0.1	706.3	(92.0)	66.1	(48.2)	38.9	1,003.8	-
Changes in accounting policies	-	-	-	(2.8)	13.1	-	-	(10.3)	-	-
At 1 January 2012 (restated)	9.9	322.7	0.1	703.5	(78.9)	66.1	(48.2)	28.6	1,003.8	-
Total comprehensive income for the year	-	-	-	239.1	(59.7)	-	-	(18.6)	160.8	0.6
Shares transferred to option holders on exercise of share options	0.1	3.8	-	-	-	(3.6)	5.4	-	5.7	-
Dividends paid	-	-	-	(41.9)	-	-	-	-	(41.9)	(0.4)
Expense in relation to share-based payments	-	-	-	-	-	12.1	-	-	12.1	-
Tax charge in relation to share-based payments	-	-	-	-	-	3.1	-	-	3.1	-
Purchase of own shares for Employee Share Ownership Trust (ESOT)	-	-	-	-	-	-	(16.0)	-	(16.0)	-
Change in non-controlling interest	-	-	-	-	-	-	-	-	-	1.1
At 1 January 2013	**10.0**	**326.5**	**0.1**	**900.7**	**(138.6)**	**77.7**	**(58.8)**	**10.0**	**1,127.6**	**1.3**
Total comprehensive income for the year	**-**	**-**	**-**	**97.5**	**(3.8)**	**-**	**-**	**(56.7)**	**37.0**	**-**
Shares transferred to option holders on exercise of share options	**-**	**1.3**	**-**	**-**	**-**	**(4.5)**	**4.3**	**-**	**1.1**	**-**
Dividends paid	**-**	**-**	**-**	**(51.5)**	**-**	**-**	**-**	**-**	**(51.5)**	**(0.6)**
Expense in relation to share-based payments	**-**	**-**	**-**	**-**	**-**	**2.9**	**-**	**-**	**2.9**	**-**
Tax credit in relation to share-based payments	**-**	**-**	**-**	**-**	**-**	**(5.9)**	**-**	**-**	**(5.9)**	**-**
Purchase of own shares for ESOT	**-**	**-**	**-**	**-**	**-**	**-**	**(16.0)**	**-**	**(16.0)**	**-**
Change in non-controlling interest	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
At 31 December 2013	**10.0**	**327.8**	**0.1**	**946.7**	**(142.4)**	**70.2**	**(70.5)**	**(46.7)**	**1,095.2**	**0.7**

Consolidated Balance Sheet

	Note	**At 31 December 2013 £m**	At 31 December 2012 (restated) £m	At 1 January 2012 (restated) £m
Non-current assets				
Goodwill		**1,270.8**	1,312.1	1,253.9
Other intangible assets		**185.7**	215.7	180.4
Property, plant and equipment		**176.8**	176.9	174.4
Interests in joint ventures		**8.1**	11.9	36.1
Trade and other receivables		**78.3**	49.2	78.9
Retirement benefit assets	17	**64.2**	69.7	122.3
Deferred tax assets		**57.9**	40.1	25.0
Derivative financial instruments	16	**-**	0.1	1.1
		1,841.8	1,875.7	1,872.1
Current assets				
Inventories		**49.4**	53.1	47.9
Trade and other receivables		**764.4**	778.1	701.0
Current tax assets		**19.5**	24.6	9.2
Cash and cash equivalents		**125.1**	142.8	194.6
Derivative financial instruments	16	**8.7**	2.7	6.2
		967.1	1,001.3	958.9
Total assets		**2,808.9**	2,877.0	2,831.0
Current liabilities				
Trade and other payables		**(644.1)**	(757.3)	(679.7)
Current tax liabilities		**(10.4)**	(9.6)	(6.4)
Obligations under finance leases		**(14.9)**	(10.7)	(9.8)
Provisions	13	**(26.2)**	(11.5)	(10.4)
Loans		**(52.2)**	(64.0)	(204.1)
Derivative financial instruments	16	**(20.2)**	(13.8)	(12.3)
		(768.0)	(866.9)	(922.7)
Non-current liabilities				
Trade and other payables		**(34.1)**	(42.3)	(61.0)
Obligations under finance leases		**(53.1)**	(39.5)	(35.1)
Loans		**(756.1)**	(661.8)	(630.8)
Derivative financial instruments	16	**(21.1)**	(24.5)	(26.3)
Retirement benefit obligations	17	**(11.3)**	(38.0)	(75.8)
Provisions	13	**(34.9)**	(44.7)	(53.6)
Deferred tax liabilities		**(34.4)**	(30.4)	(21.9)
		(945.0)	(881.2)	(904.5)
Total liabilities		**(1,713.0)**	(1,748.1)	(1,827.2)
Net assets		**1,095.9**	1,128.9	1,003.8
Equity				
Share capital		**10.0**	10.0	9.9
Share premium account		**327.8**	326.5	322.7
Capital redemption reserve		**0.1**	0.1	0.1
Retained earnings		**946.7**	900.7	703.5
Retirement benefit obligations reserve		**(142.4)**	(138.6)	(78.9)
Share-based payment reserve		**70.2**	77.7	66.1
Own shares reserve		**(70.5)**	(58.8)	(48.2)
Hedging and translation reserve		**(46.7)**	10.0	28.6
Equity attributable to owners of the Company		**1,095.2**	1,127.6	1,003.8
Non-controlling interest		**0.7**	1.3	-
Total equity		**1,095.9**	1,128.9	1,003.8

The financial statements were approved by the Board of Directors on 3 March 2014 and signed on its behalf by:

Ed Casey
Chief Executive

Andrew Jenner
Finance Director

Consolidated Cash Flow Statement

For the year ended 31 December	Note	2013 £m	2012 (restated) £m
Net cash inflow from operating activities before cash spend on special pension contribution and other exceptional items		**111.3**	225.9
Special contribution to defined benefit pension scheme		**(19.7)**	-
Other exceptional items		**(83.7)**	(5.0)
Net cash inflow from operating activities	14	**7.9**	220.9
Investing activities			
Interest received		**2.6**	2.5
Increase in security deposits		**(0.2)**	-
Dividends received from joint ventures	4	**51.5**	80.6
Proceeds from disposal of property, plant and equipment		**4.6**	20.9
Proceeds from disposal of intangible assets		**0.4**	0.1
Proceeds on disposal of subsidiaries and operations	6	**40.6**	131.0
Acquisition of subsidiaries, net of cash acquired (excluding transaction-related costs)	5	**(18.6)**	(141.8)
Purchase of other intangible assets		**(27.8)**	(49.9)
Purchase of property, plant and equipment		**(38.9)**	(47.4)
Net cash inflow/(outflow) from investing activities		**14.2**	(4.0)
Financing activities			
Interest paid		**(40.8)**	(47.1)
Dividends paid	10	**(51.5)**	(41.9)
Non-controlling interest dividends paid		**(0.6)**	(0.4)
Repayment of loans		**(77.5)**	(365.3)
Repayment of non recourse loans		**(10.2)**	(8.7)
New loan advances		**176.5**	216.3
Capital element of finance lease repayments		**(4.9)**	(2.4)
Purchase of own shares for Employee Share Ownership Trust (ESOT)		**(16.0)**	(16.0)
Proceeds from issue of share capital and exercise of share options		**1.1**	5.7
Net cash outflow from financing activities		**(23.9)**	(259.8)
Net decrease in cash and cash equivalents		**(1.8)**	(42.9)
Cash and cash equivalents at beginning of year		**142.8**	194.6
Net exchange loss		**(15.9)**	(8.9)
Cash and cash equivalents at end of year		**125.1**	142.8

Notes to the consolidated financial statements

1. General information, going concern and accounting policies

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

The financial information in this announcement does not constitute the Company's statutory accounts for the years ending 31 December 2013 or 2012, but is derived from these accounts.

Statutory accounts for 2012 have been delivered to the Registrar of Companies and those for 2013 will be delivered following the Company's Annual General Meeting. The auditors have reported on these accounts; their reports were unqualified and did not contain statements under S498 (2) or (3) or the Companies Act 2006 or equivalent preceding legislation.

The preliminary announcement has been prepared in accordance with International Financial Reporting Standards (IFRS) adopted for use in the European Union. Whilst the financial information included in this preliminary announcement has been computed in accordance with IFRS, this announcement does not itself contain sufficient information to comply with IFRS. The Company expects to publish full Group and parent company only financial statements that comply with IFRS and FRS101 respectively, in April 2014.

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

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Divisional Reviews. The Finance Review includes a summary of the Group's financial position, its cash flows and borrowing facilities.

The Group's revenues are largely derived from long-term contracts and our contract portfolio is of sufficient diversity that whilst the current economic environment continues to contain uncertainties, a downturn in any particular market, sector or geography has a diluted effect on the Group as a whole.

The Group's committed bank credit facilities total £730m. As at 31 December 2013, £175m had been drawn down on these combined bank facilities (2012: £178m). In addition to the bank facility, Serco has US private placements totalling £575m (31 December 2012: £461m) which will be repaid between 2014 and 2024 with £23m maturing in 2014. This includes $240m of new notes issued in May 2013. The headroom on the Group's total facilities as at 31 December 2013 was approximately £555m.

After making enquiries, the Directors have a reasonable expectation that the Company and the Group will be able to operate within the level of available facilities and cash for the foreseeable future and accordingly believe that it is appropriate to prepare the financial statements on a going concern basis.

2. Prior year restatement

Changes in accounting policies

IFRS 11 and the revisions to IAS 19 were adopted in 2013. IFRS 11 removes the option for proportional consolidation of joint ventures and instead requires equity accounting. The revisions to IAS 19 require the pension interest return to be calculated using the value of scheme assets multiplied by the discount rate rather than the expected rate of return. Both of these changes were applied retrospectively, with the date of initial application being 1 January 2012, in accordance with the transition provisions of the individual standards and *IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors*.

Reallocation of costs

In 2012 £114m of costs previously included in administrative expenses have been reallocated to cost of sales, as in the view of the Group, this classification better reflects the underlying nature of these items.

Acquisition adjustments

After a review of the provisional acquisition accounting for Vertex Public Services Limited and DMS Maritime Pty. Limited, recognised in the 2012 accounts, the comparative information in relation to these acquisitions has been adjusted retrospectively.

Impact of prior year restatement on summarised financial statements

Year ended 31 December 2012			**Changes in accounting policies**		
	As disclosed	**Acquisition adjustments**	**IFRS 11**	**IAS 19***	**Restated**
	£m	**£m**	**£m**	**£m**	**£m**
Income statement					
Revenue	4,913.0	-	(852.9)	-	4,060.1
Operating profit	**287.6**	**-**	**(12.9)**	**(2.5)**	**272.2**
Investment revenue	12.4	-	(2.7)	(3.3)	6.4
Exceptional other gain	51.1	-			51.1
Finance costs	(49.1)	-	0.5	-	(48.6)
Profit before tax	**302.0**	**-**	**(15.1)**	**(5.8)**	**281.1**
Tax	(56.1)	-	15.1	0.9	(40.1)
Profit for the year	**245.9**	**-**	**-**	**(4.9)**	**241.0**
* IAS 19 Revised adjustment after application of IFRS 11.					
Earnings per share	**49.94p**	**-**	**-**	**(1.00p)**	**48.94p**
Other comprehensive income for the year	(84.5)	-	-	4.9	**(79.6)**
Total comprehensive income for the year	**161.4**	**-**	**-**	**-**	**161.4**
Balance sheet					
Non-current assets	2,103.4	(0.7)	(227.0)	-	1,875.7
Current assets	1,143.7	-	(142.4)	-	1,001.3
Total assets	**3,247.1**	**(0.7)**	**(369.4)**	**-**	**2,877.0**
Current liabilities	(997.8)	-	130.9	-	(866.9)
Non-current liabilities	(1,120.4)	0.7	238.5	-	(881.2)
Total liabilities	**(2,118.2)**	**0.7**	**369.4**	**-**	**(1,748.1)**
Net assets	**1,128.9**	**-**	**-**	**-**	**1,128.9**
Equity	**1,128.9**	**-**	**-**	**-**	**1,128.9**
Cash flow					
Net cash inflow from operating activities	303.4	-	(82.5)	-	220.9
Investing activities	(89.2)	-	85.2	-	(4.0)
Financing activities	(261.4)	-	1.6	-	(259.8)
Net decrease in cash and cash equivalents	**(47.2)**	**-**	**4.3**	**-**	**(42.9)**
Net exchange loss	(9.0)	-	0.1	-	(8.9)

2. Prior year restatement (continued)

At 1 January 2012			Changes in accounting policies		
	As disclosed	Acquisition adjustments	IFRS 11	IAS 19	Restated
	£m	£m	£m	£m	£m
Balance sheet					
Non-current assets	2,053.1	-	(181.0)	-	1,872.1
Current assets	1,129.0	-	(170.1)	-	958.9
Total assets	**3,182.1**	**-**	**(351.1)**	**-**	**2,831.0**
Current liabilities	(1,061.6)	-	138.9	-	(922.7)
Non-current liabilities	(1,116.7)	-	212.2	-	(904.5)
Total liabilities	**(2,178.3)**	**-**	**351.1**	**-**	**(1,827.2)**
Net assets	**1,003.8**	**-**	**-**	**-**	**1,033.8**
Equity	**1,003.8**	**-**	**-**	**-**	**1,033.8**

3. Segmental information

Information reported to the Chief Operating Decision Maker for the purposes of resource allocation and assessment of segment performance focuses on the geographic spread of the business in order to gain advantage of local market and customer understanding. In addition, due to its strategic importance to the Group, the global Business Process Outsourcing (BPO) business is reviewed separately as a single unit. The Group's reportable operating segments under IFRS 8 *Operating Segments* are:

Reportable segments	**Operating segments**
UK & Europe	UK and Europe frontline services in areas including home affairs, defence, health, transportation and local government direct services
Americas	US defence, intelligence and federal civilian agencies operations, and Canadian operations
AMEAA	Frontline contracts in Australasia, Middle East, Asia (including Hong Kong and India) and Africa
Global Services	Global BPO middle and back office services

The reportable segments will change in 2014 to reflect the separation of the UK & Europe segment into two new segments, UK Central Government and UK Local and Regional Government, and the existing segment will no longer exist.

Geographic information

	Revenue 2013	**Non-current assets* 2013**	Revenue 2012 (restated)	Non-current assets* 2012 (restated)
	£m	**£m**	£m	£m
United Kingdom	**2,071.5**	**784.1**	2,008.7	781.2
United States	**706.5**	**423.7**	694.4	437.5
Australia	**869.2**	**167.0**	700.3	192.5
Other countries	**640.9**	**406.5**	656.7	421.7
Total	**4,288.1**	**1,781.3**	4,060.1	1,832.9

*Non-current assets exclude financial instruments, deferred tax assets and loans to joint ventures.

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

3. Segmental information (continued)

The following is an analysis of the Group's revenue, results, assets and liabilities by reportable segment:

Year ended 31 December 2013	UK & Europe £m	Americas £m	AMEAA £m	Global Services £m	Corporate £m	Total £m
Adjusted revenue	2,556.9	765.3	1,049.5	772.2	-	5,143.9
Less: Share of joint venture revenue	(770.8)	(0.7)	(84.3)	-	-	(855.8)
Revenue	1,786.1	764.6	965.2	772.2	-	4,288.1
Result						
Operating profit before exceptional items	133.4	47.5	77.8	25.5	(49.9)	234.3
Exceptional net profit on disposal of subsidiaries and operations	19.2	-	-	-	-	19.2
Other exceptional operating items	(92.3)	-	(10.1)	(6.0)	(1.3)	(109.7)
Operating profit	60.3	47.5	67.7	19.5	(51.2)	143.8
Investment revenue						5.2
Finance costs						(42.4)
Profit before tax						106.6
Tax						(11.2)
Profit for the year						95.4

Segment assets						
Interests in joint ventures	1.4	0.2	6.5	-	-	8.1
Other segment assets	636.5	558.3	418.7	846.7	126.0	2,586.2
Total segment assets	637.9	558.5	425.2	846.7	126.0	2,594.3
Unallocated assets						214.6
Consolidated total assets						2,808.9
Segment liabilities						
Segment liabilities	(229.2)	(70.3)	(147.7)	(180.5)	(61.3)	(689.0)
Unallocated liabilities						(1,024.0)
Consolidated total liabilities						(1,713.0)

Year ended 31 December 2012 (restated)	UK & Europe £m	Americas £m	AMEAA £m	Global Services £m	Corporate £m	Total £m
Adjusted revenue	2,561.1	753.4	883.0	715.5	-	4,913.0
Less: Share of joint venture revenue	(723.4)	(0.7)	(128.8)	-	-	(852.9)
Revenue	1,837.7	752.7	754.2	715.5	-	4,060.1
Result						
Operating profit before exceptional items	166.0	41.5	58.1	50.6	(44.6)	271.6
Exceptional net profit on disposal of subsidiaries and operations	31.0	-	-	(25.4)	-	5.6
Other exceptional operating items	-	-	-	-	(5.0)	(5.0)
Operating profit	197.0	41.5	58.1	25.2	(49.6)	272.2
Investment revenue						6.4
Exceptional other gain						51.1
Finance costs						(48.6)
Profit before tax						281.1
Tax						(40.1)
Profit for the year						241.0

3. Segmental information (continued)

Year ended 31 December 2012	UK & Europe £m	Americas £m	AMEAA £m	Global Services £m	Corporate £m	Total £m
Segment assets						
Interests in joint ventures	4.4	0.3	7.2	-	-	11.9
Other segment assets	674.2	604.3	453.7	844.9	74.2	2,651.3
Total segment assets	678.6	604.6	460.9	844.9	74.2	2,663.2
Unallocated assets						213.8
Consolidated total assets						2,877.0
Segment liabilities						
Segment liabilities	(313.1)	(93.7)	(146.3)	(256.1)	(28.4)	(837.6)
Unallocated liabilities						(910.5)
Consolidated total liabilities						(1,748.1)

4. Joint ventures

The Group has certain arrangements where control is shared equally with one or more parties. As each arrangement is a separate legal entity and legal ownership and control are equal with all other parties, there are no significant judgements required to be made.

Summarised financial information of the joint ventures which are material to the Group and an aggregation of the other joint ventures in which the Group has an interest is as follows:

31 December 2013

Summarised financial information	AWE Management Limited (100% of results) £m	Northern Rail Holdings Limited (100% of results) £m	Group portion of material joint ventures* £m	Group portion of other joint venture arrangements* £m	Total £m
Revenue	**1,023.6**	**650.4**	**666.4**	**189.4**	**855.8**
Operating profit	**77.7**	**33.6**	**42.7**	**16.2**	**58.9**
Net investment revenue/(finance costs)	**0.3**	**0.6**	**0.4**	**(0.8)**	**(0.4)**
Income tax expense	**(11.1)**	**(9.4)**	**(8.4)**	**(3.0)**	**(11.4)**
Profit from continuing operations	**66.9**	**24.8**	**34.7**	**12.4**	**47.1**
Other comprehensive income	**-**	**(2.6)**	**(1.3)**	**3.4**	**2.1**
Total comprehensive income	**66.9**	**22.2**	**33.4**	**15.8**	**49.2**
Dividends received from joint venture	**25.5**	**14.2**	**39.7**	**11.8**	**51.5**
Non-current assets	**454.2**	**12.0**	**157.4**	**20.1**	**177.5**
Current assets	**163.2**	**90.2**	**99.5**	**36.7**	**136.2**
Current liabilities	**(147.3)**	**(95.2)**	**(96.7)**	**(34.9)**	**(131.6)**
Non-current liabilities	**(453.6)**	**(9.2)**	**(155.8)**	**(18.2)**	**(174.0)**
Net assets	**16.5**	**(2.2)**	**4.4**	**3.7**	**8.1**
Proportion of group ownership	**33%**	**50%**	**-**	**-**	**-**
Carrying amount of investment	**5.5**	**(1.1)**	**4.4**	**3.7**	**8.1**

*Total results of the joint ventures multiplied by the respective proportion of Group ownership.

The financial statements of Northern Rail Holdings Limited are for a period which is different from that of the Group, being for the 52 week period ended 4 January 2014. The 52 week period reflects the joint venture's internal reporting structure and is sufficiently close so as to not require adjustment to match that of the Group.

5. Acquisitions

Prior year acquisitions

Deferred consideration payments in relation to prior year acquisitions were made in 2013 totalling £18.6m. This represented £11.9m in respect of Intelenet and £6.7m in relation to The Listening Company. During 2012, a cash payment of £6.6m was made in respect of deferred contingent consideration payable following the acquisition of The Listening Company Limited in 2011.

After a review of the provisional acquisition accounting for Vertex Public Services Limited as recognised in the 2012 accounts, the comparative information in relation to this acquisition has been adjusted retrospectively to increase the fair value of deferred tax assets by £2.3m offset by a decrease in goodwill of £2.3m. Following a review of the provisional acquisition accounting for DMS Maritime PTY Limited as reported in the 2012 accounts, the comparative information in relation to this acquisition has been adjusted retrospectively to reduce the fair value of intangible assets recognised by £7.9m, offset by an increase in goodwill of £7.2m and a decrease in the deferred tax liability of £0.7m. As a result of the failure to meet earn-out criteria, an adjustment was made to the deferred consideration arising on the Intelenet acquisition in 2011 of £10.3m.

A summary of the significant 2012 acquisitions, together with the other acquisitions in aggregate is as follows:

Fair value of net assets acquired:	Vertex Public Services Limited 2012 £m	DMS Maritime Pty Limited 2012 £m	Other acquisitions (in aggregate) 2012 £m	Total 2012 £m
Intangible assets	7.4	32.7	4.3	44.4
Property, plant and equipment	0.6	4.8	0.6	6.0
Inventories	-	5.5	-	5.5
Deferred tax asset	3.8	-	-	3.8
Trade and other receivables	27.8	10.0	2.1	39.9
Cash and cash equivalents	-	-	0.8	0.8
Trade and other payables	(23.3)	-	(1.2)	(24.5)
Tax liabilities	-	-	(0.1)	(0.1)
Deferred tax liability	-	(10.3)	-	(10.3)
Provisions	(4.9)	(0.4)	(0.7)	(6.0)
Loans	-	(14.8)	-	(14.8)
Bank overdraft	-	(0.4)	-	(0.4)
Retirement benefit obligations	(13.4)	-	-	(13.4)
Net (liabilities)/assets acquired	(2.0)	27.1	5.8	30.9
Gain on re-measurement to fair value	-	(51.1)	-	(51.1)
Goodwill	57.5	93.1	9.4	160.0
Total consideration	55.5	69.1	15.2	139.8
Satisfied by:				
Cash	55.5	69.1	11.4	136.0
Contingent consideration	-	-	3.8	3.8
Total consideration	55.5	69.1	15.2	139.8
Net cash outflow arising on acquisition:				
Purchase consideration	55.5	69.1	11.4	136.0
Cash and cash equivalents acquired	-	-	(0.8)	(0.8)
Net cash outflow arising on current year acquisitions	55.5	69.1	10.6	135.2
Consideration paid in respect of previous periods				6.6
Acquisition of subsidiaries, net of cash acquired				141.8

6. Disposals

On 27 November 2013, the Group disposed of its London streets maintenance and UK transport technology business. On 4 October 2013, the Group disposed of its occupational health business. Details of these transactions are given below:

The net assets at the date of disposal were:	Transport 2013 £m	Occupational Health 2013 £m	Other 2013 £m	Total 2013 £m	Total 2012 £m
Goodwill	14.0	1.7	-	15.7	86.8
Other intangible assets	-	0.5	-	0.5	4.6
Property, plant and equipment	0.4	0.2	0.1	0.7	19.0
Inventories	0.3	-	-	0.3	-
Deferred tax asset	-	-	-	-	5.2
Trade and other receivables	7.5	3.0	0.5	11.0	53.7
Loans receivable	-	-	-	-	25.9
Cash and cash equivalents	-	-	-	-	1.4
Trade and other payables	(3.5)	(0.7)	-	(4.2)	(15.6)
Finance lease obligations	-	-	-	-	(6.2)
Bank overdrafts	-	-	-	-	(1.3)
Provisions	(0.3)	-	-	(0.3)	(0.1)
Other loans	-	-	-	-	(0.1)
Retirement benefit obligations	-	-	-	-	(50.5)
Deferred tax liabilities	-	-	-	-	(5.2)
Net assets disposed	18.4	4.7	0.6	23.7	117.6
The profit/(loss) on disposal is calculated as follows:					
Cash consideration	44.9	3.5	0.8	49.2	141.6
Less:					
Net assets disposed	(18.4)	(4.7)	(0.6)	(23.7)	(117.6)
Disposal-related costs	(3.3)	(2.7)	(0.3)	(6.3)	(18.4)
Profit/(loss) on disposal	23.2	(3.9)	(0.1)	19.2	5.6
The net cash inflow/(outflow) arising on disposals is as follows:					
Consideration received	44.9	3.5	0.8	49.2	141.6
Less:					
Deferred consideration	(2.3)	-	-	(2.3)	-
Cash and cash equivalents disposed	-	-	-	-	(1.4)
Disposal-related costs paid during the period	(2.4)	(1.3)	(2.6)	(6.3)	(9.2)
Net cash inflow/(outflow) on disposal	40.2	2.2	(1.8)	40.6	131.0

During the year, £2.5m of disposal costs in relation to a prior year transaction were cash settled.

7. Exceptional items

Current year exceptional items

Exceptional items are non-recurring items of financial performance that are material to the results of the Group either by virtue of size or nature. We believe these items require separate disclosure on the face of the income statement to assist in the understanding of the underlying performance of the Group.

Net profit on disposal of subsidiaries and operations

Year ended 31 December	2013 £m
Gain on disposal of UK transport maintenance business	23.2
Loss on disposal of occupational health business	(3.9)
Loss on disposal of Ascot College	(0.1)
Net profit on disposal of subsidiaries and operations	**19.2**

In November 2013 the Group completed the sale of its London streets maintenance and UK transport technology business to Cubic Corporation which, after disposal-related costs, resulted in a profit on disposal of £23.2m. This was offset by a loss on the disposal of the occupational health business in October 2013 of £3.9m and Ascot College of £0.1m, which was sold in December 2013.

Other exceptional operating items

During the year an investigation was undertaken by the Ministry of Justice (MoJ) into the billing practices in respect of our Electronic Monitoring (EM) contract. Additionally, the Cabinet Office undertook a wider review across other Serco contracts with UK Central Government. 48% of 2013 contract revenues in the UK and Europe division were covered by reviews undertaken by Central Government and the MoJ. Serco has also agreed with the UK Government to undertake a process of corporate renewal, to strengthen governance and transparency which includes the separation of the UK & Europe division into two. The audits, reviews and corporate renewal processes all incurred one-off costs that are deemed to be exceptional items, which are set out in the table below together with other items identified for separate presentation.

Year ended 31 December	UK Government review related items 2013 £m	Other 2013 £m	Total 2013 £m
Settlement amounts relating to UK Government reviews	(66.3)	-	(66.3)
Costs associated with UK Government reviews	(11.6)	-	(11.6)
UK clinical health contract provisions	-	(17.6)	(17.6)
Restructuring	-	(14.9)	(14.9)
Asset impairment	-	(9.6)	(9.6)
Deferred consideration relating to prior year acquisition	-	10.3	10.3
Other exceptional operating items	**(77.9)**	**(31.8)**	**(109.7)**

7. Exceptional items (continued)

Settlement amounts relating to UK Government reviews
In December 2013, following a review of the billing arrangements on the EM contract by the MoJ, a settlement of £64.3m was reached in respect of contractual claims. The settlement was full and final in respect of contractual claims with the proviso that additional payments might be sought in limited circumstances, such as if criminality were to be established. In addition, a £2.0m settlement was reached on the Prisoner Escort and Custody Services (PECS) contract which was also subject to Government review to reflect repayment of past profit earned on this contract. The settlement was full and final in respect of contractual claims with the proviso that additional payments might be sought in limited circumstances, such as if criminality were to be established; Serco continues to cooperate fully with the ongoing investigations by the Serious Fraud Office.

Costs associated with UK Government reviews
Since July 2013 there have been external adviser and other directly-related incremental costs that amount to £11.6m.

UK clinical health contract provisions
During the year we completed a review of the clinical health operations in the UK. As a result, we will exit two contracts early. These contracts, together with a third loss-making contract, require contract provisions for estimated losses in future years and the impairment of operating assets which in total amounts to a non-cash exceptional charge of £17.6m.

Restructuring
As a result of a wider assessment of the Group's operations, a restructuring charge of £14.9m was taken, with £13.3m directly related to the corporate renewal process.

Asset impairment
As a result of a review of under-performing businesses and operations, an impairment charge of £9.6m was taken in relation to the carrying value of fixed assets in Great Southern Railway, a rail tourism business based in Australia, reflecting more challenging conditions in that market.

Adjustment to prior year acquisitions
On assessment against the earn-out criteria, an adjustment was made to the deferred consideration arising on the Intelenet acquisition in 2011 of £10.3m.

Tax impact of above items
The tax impact of these items was a tax credit of £28.8m.

Prior year exceptional items

Net profit on disposal of subsidiaries and operations

Year ended 31 December	2012 £m
Net profit on disposal of subsidiaries and operations	5.6

During the prior year the Group disposed of its Technical Services business which provided consulting and project solutions, resulting in a profit of £57.6m. In addition, the German Serco business was sold as well as the UK data hosting operations and education software businesses, resulting in losses of £27.7m, £11.5m and £12.8m respectively.

7. Exceptional items (continued)

Other exceptional operating items

Year ended 31 December	2012 £m
Exceptional donation to Serco Foundation	5.0

To mark Serco's 25th year as a publicly traded company dedicated to service excellence, we established the Serco Foundation as an independent charitable foundation. An exceptional payment of £5.0m was made in the prior year to establish the charitable foundation.

Exceptional other gain: Gain on step acquisition accounting of joint venture

Year ended 31 December	2012 £m
Gain on step acquisition accounting of joint venture	51.1

On 16 November 2012 Serco acquired the remaining 50% equity stake in DMS, taking its equity ownership to 100%. DMS was formerly accounted for as a joint venture and following the acquisition of further shares it became a wholly owned subsidiary. In accordance with IFRS 3 (Revised 2008) *Business Combinations*, before accounting for the purchase of the remaining equity stake, the value of the previously held 50% shareholding was restated to fair value on the acquisition date. This resulted in an exceptional gain of £51.1m being recognised in the income statement.

Tax impact of above items

The tax impact of these items was a credit in the income statement of £6.5m.

8. Investment revenue

Year ended 31 December	2013 £m	2012 (restated) £m
Interest receivable on other loans and deposits	**2.4**	2.5
Net interest receivable on retirement benefit obligations	**2.3**	3.9
Movement in discount on other debtors	**0.5**	-
	5.2	6.4

9. Finance costs

Year ended 31 December	2013 £m	2012 (restated) £m
Interest payable on non recourse loans	**0.8**	0.9
Interest payable on obligations under finance leases	**2.5**	2.8
Interest payable on other loans	**31.5**	30.8
Facility fees and other charges	**6.1**	12.2
Movement in discount rate on provisions and deferred consideration	**1.5**	1.9
	42.4	48.6

10. Dividends

	2013 £m	2012 £m
Amounts recognised as distributions to equity holders in the year:		
Final dividend for the year ended 31 December 2012 of 7.45p per share on 488.3 million ordinary shares (2012: Final dividend for the year ended 31 December 2011 of 5.9p per share on 490.2 million ordinary shares)	**36.4**	28.9
Interim dividend for the year ended 31 December 2013 of 3.10p per share on 486.9 million ordinary shares (2012: Interim dividend for the year ended 31 December 2012 of 2.65p per share on 488.2 million ordinary shares)	**15.1**	13.0
	51.5	41.9
Proposed final dividend for the year ended 31 December 2013 of 7.45p per share on 487.4 million ordinary shares (2012: 7.45p on 488.3 million ordinary shares)	**36.3**	36.4

The proposed final dividend for 2013 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.

11. Earnings per share

Basic and diluted earnings per ordinary share (EPS) have been calculated in accordance with *IAS 33 Earnings per Share*.

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

Number of shares

	2013 Millions	2012 Millions
Weighted average number of ordinary shares for the purpose of basic EPS	**489.0**	491.2
Effect of dilutive potential ordinary shares: share options	**11.6**	11.7
Weighted average number of ordinary shares for the purpose of diluted EPS	**500.6**	502.9

Earnings per share	**Earnings 2013 £m**	**Per share amount 2013 Pence**	Earnings 2012 (restated) £m	Per share amount 2012 (restated) Pence
Earnings before exceptional items	**157.1**	**32.13**	182.8	37.09
Exceptional items	**(61.7)**	**(12.62)**	58.2	11.85
Earnings for the purpose of basic EPS	**95.4**	**19.51**	241.0	48.94
Effect of dilutive potential ordinary shares	**-**	**(0.45)**	-	(1.14)
Diluted EPS	**95.4**	**19.06**	241.0	47.80

At 31 December 2013 options over nil (2012: nil) shares were excluded from the weighted average number of shares used for calculating diluted earnings per share because their exercise price was above the average share price for the year and they were, therefore, anti-dilutive.

12. Goodwill

	£m
At 1 January 2012	1,259.0
Changes in accounting policies	(5.1)
At 1 January 2012 (restated)	1,253.9
Additions	167.5
Disposals	(86.8)
Exchange differences	(22.5)
At 1 January 2013 (restated)	**1,312.1**
Disposals	**(15.7)**
Exchange differences	**(25.6)**
At 31 December 2013	**1,270.8**

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.
The Group tests goodwill annually for impairment or more frequently if there are indications that goodwill might be impaired. The annual impairment test is performed immediately prior to the year end based on financial plans approved by senior management covering a five-year period. The recoverable amount of each CGU is based on value in use calculations derived from these plans. The plans include a terminal value based on the projections for the final year of that plan, with a growth rate assumption applied to subsequent periods. The results of the impairment test are further reviewed after the year end in light of any significant changes in the environment.

Key assumptions

The key assumptions affecting the CGUs within each operating segment are discussed below. The table shows the key assumptions applied in the impairment review across the CGUs. These assumptions are revised year on year in light of changes to the current economic environment.

	Discount rate 2013 %	Discount rate 2012 %	**Terminal growth rates 2013 %**	Terminal growth rates 2012 %	**Goodwill 2013 £m**	Goodwill 2012 (restated) £m
UK & Europe						
Health	**9.1**	8.4	**2.2**	2.5	**79.5**	81.2
Transport & Local Direct Services	**9.1**	8.4	**2.2**	2.5	**116.9**	130.9
Home Affairs	**9.1**	8.4	**2.2**	2.5	**46.0**	46.0
Germany	**8.6**	8.0	**2.0**	2.2	**17.6**	17.1
Global Services	**12.5**	10.5	**4.0**	5.0	**513.3**	513.5
Americas	**10.5**	9.5	**2.4**	2.7	**385.9**	393.2
AMEAA						
ASPAC	**10.4**	9.5	**3.0**	3.0	**103.3**	121.8
Middle East	**8.6**	7.3	**3.0**	3.5	**8.3**	8.4
At 31 December					**1,270.8**	1,312.1

12. Goodwill (continued)

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. 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. Where possible these have been derived with reference to external sources.

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

Discount rate
Pre-tax discount rates, derived from the Group's post-tax weighted average cost of capital have been used in discounting the projected cash flows. These rates are adjusted for risks specific to the market in which the CGU operates, including but not limited to: geographic and economic risks; contract length; and customer type.

Sensitivity analysis
Sensitivity analysis has been performed for each key assumption and, except as noted below, the Directors have not identified any reasonably possible change in a key assumption that would cause the carrying value of net assets, including goodwill, to exceed the recoverable amount.

Sensitivity analysis shows that a 1% increase in the discount rate would result in an impairment of the Americas CGU of £40m, the Health CGU of £3m and the Global Services CGU of £58m. A 1% increase in the discount rate would not cause the operating assets, including goodwill, to exceed their recoverable amount on any other CGU.

Sensitivity analysis shows that a 1% decrease in the terminal growth rate would result in an impairment of the Americas CGU of £14m, the Health CGU of £1m and the Global Services CGU of £41m. A 1% decrease in the terminal growth rate would not cause the operating assets, including goodwill, to exceed their recoverable amount on any other CGU.

If the short term growth rate were to equal the terminal growth rate applied to the Health CGU forecast this would result in an impairment of £20m.

13. Provisions

	Employee related £m	Property £m	Contract £m	Other £m	Total £m
At 1 January 2012 (restated)	12.5	8.8	26.1	16.6	64.0
Arising from acquisitions	1.0	1.6	6.4	0.1	9.1
Derecognised on disposal of subsidiary	(0.1)	-	-	-	(0.1)
Charged to income statement	1.4	0.1	-	8.9	10.4
Released to income statement	(0.4)	(0.7)	(5.7)	-	(6.8)
Utilised during the year	(0.6)	(1.7)	(11.3)	(4.7)	(18.3)
Unwinding of discount	-	0.2	0.3	-	0.5
Exchange differences	(0.5)	(0.4)	(0.9)	(0.8)	(2.6)
At 1 January 2013 (restated)	13.3	7.9	14.9	20.1	56.2
Derecognised on disposal of subsidiary	-	(0.3)	-	-	(0.3)
Charged to income statement	5.8	0.2	21.7	7.8	35.5
Released to income statement	-	(0.1)	(4.6)	(7.4)	(12.1)
Utilised during the year	(2.7)	(2.5)	(5.9)	(6.0)	(17.1)
Unwinding of discount	-	0.2	0.2	-	0.4
Exchange differences	(0.7)	(0.1)	(0.4)	(0.3)	(1.5)
At 31 December 2013	**15.7**	**5.3**	**25.9**	**14.2**	**61.1**
Analysed as:					
Current	**-**	**1.1**	**16.8**	**8.3**	**26.2**
Non-current	**15.7**	**4.2**	**9.1**	**5.9**	**34.9**

Employee related provisions are for 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 underutilised or vacant and where the unavoidable costs associated with the lease exceed the economic benefits expected to be required. Management has calculated the provision based on the discounted cash outflows required to settle the lease obligations as they fall due over the next ten years.

Contract provisions relate to provisions for loss making onerous contracts. Management has used the present value of the estimated future cash outflows required to settle the contract obligations as they fall due over the respective contracts 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.

14. Notes to the consolidated cash flow statement

Reconciliation of operating profit to net cash inflow from operating activities

Year ended 31 December	2013 £m	2012 (restated) £m
Operating profit for the year	**143.8**	272.2
Adjustments for:		
Share of profits in joint ventures	**(47.1)**	(62.5)
Share-based payment expense	**2.9**	12.1
Exceptional impairment of Intangible assets and property, plant and equipment	**9.6**	-
Depreciation and impairment of property, plant and equipment - other	**47.7**	46.1
Amortisation of intangible assets	**46.1**	45.0
Exceptional profit on disposal of subsidiaries and operations	**(19.2)**	(5.6)
Loss on disposal of intangible assets	**1.0**	-
Profit on disposal of property, plant and equipment	**-**	(0.9)
Increase/(decrease) in provisions	**7.4**	(19.4)
Release of deferred consideration in relation to prior year acquisition - exceptional	**(10.3)**	-
Other non-cash movements	**(6.2)**	(2.8)
Operating cash inflow before movements in working capital	**175.7**	284.2
Decrease/(increase) in inventories	**7.2**	(2.2)
Increase in receivables	**(66.0)**	(61.1)
(Decrease)/increase in payables	**(90.2)**	33.6
Cash generated by operations	**26.7**	254.5
Tax paid	**(18.8)**	(33.6)
Net cash inflow from operating activities	**7.9**	220.9

15. Analysis of net debt

	At 1 January 2013 (restated) £m	**Cash flow £m**	**Acquisitions* £m**	**Disposals £m**	**Exchange differences £m**	**Non cash movements £m**	**At 31 December 2013 £m**
Cash and cash equivalents	**142.8**	**(1.8)**	**-**	**-**	**(15.9)**	**-**	**125.1**
Non recourse loans	**(25.1)**	**4.9**	**-**	**-**	**(0.1)**	**-**	**(20.3)**
Other loans	**(699.5)**	**(99.0)**	**-**	**-**	**16.3**	**-**	**(782.2)**
Obligations under finance leases	**(50.2)**	**4.9**	**-**	**-**	**0.3**	**(23.0)**	**(68.0)**
	(632.0)	**(91.0)**	**-**	**-**	**0.6**	**(23.0)**	**(745.4)**

	At 1 January 2012 (restated) £m	Cash flow £m	Acquisitions* £m	Disposals £m	Exchange differences £m	Non cash movements £m	At 31 December 2012 (restated) £m
Cash and cash equivalents	194.6	(43.3)	0.8	(0.4)	(8.9)		142.8
Non recourse loans	(15.5)	(9.7)	-	-	0.1	-	(25.1)
Other loans	(819.4)	149.0	(30.4)	(24.4)	25.7	-	(699.5)
Obligations under finance leases	(44.9)	2.4	-	6.2	0.3	(14.2)	(50.2)
	(685.2)	98.4	(29.6)	(18.6)	17.2	(14.2)	(632.0)

*Acquisitions represent the net cash/(debt) acquired on acquisition

16. Financial risk management

Fair value of financial instruments

i) Hierarchy of fair value

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 held by the Group at 31 December 2013, are all considered to fall into Level 2. There have been no transfers between levels in the year.

The Group held the following financial instruments which fall within the scope of IAS 39 Financial Instruments: Recognition and Measurement at 31 December:

	Carrying amount (measurement basis)		**Comparison fair value**	Carrying amount (measurement basis)		Comparison fair value
	Amortised cost	**Fair value - Level 2**	**Level 2**	Amortised cost	Fair value - Level 2	Level 2
	2013	**2013**	**2013**	2012 (restated)	2012 (restated)	2012 (restated)
	£m	**£m**	**£m**	£m	£m	£m
Financial assets						
Financial assets - current						
Cash and bank balances	**125.1**	**-**	**125.1**	142.8	-	142.8
Derivatives designated as FVTPL	**-**	**8.6**	**-**	-	2.7	-
Forward foreign exchange contracts						
Derivative instruments in designated hedge accounting relationships						
Forward foreign exchange contracts	**-**	**0.1**	**-**	-	-	-
Loans and receivables						
Trade receivables	**210.7**	**-**	**210.7**	275.0	-	275.0
Loan receivables	**2.5**	**-**	**2.5**	1.1	-	1.1
Financial assets – non-current						
Derivative instruments in designated hedge accounting relationships						
Forward foreign exchange contracts	**-**	**-**	**-**	-	0.1	-
Loans and receivables						
Loan receivables	**3.3**		**3.3**	0.1		0.1
Financial liabilities - current						
Derivatives designated as FVTPL						
Forward foreign exchange contracts	**-**	**(6.8)**	**-**	-	(2.8)	-
Derivative instruments in designated hedge accounting relationships						
Cross Currency Swaps	**-**	**(0.3)**	**-**	-	-	-
Forward foreign exchange contracts	**-**	**(13.1)**	**-**	-	(11.0)	-
Financial liabilities at amortised cost						
Trade payables	**(169.9)**	**-**	**(169.9)**	(147.9)	-	(147.9)
Loans	**(52.2)**	**-**	**(59.3)**	(64.0)	-	(68.7)
Obligations under finance leases	**(14.9)**	**-**	**(14.9)**	(10.7)	-	(10.7)
Financial liabilities – non-current						
Derivatives designated as FVTPL						
Interest rate swaps	**-**	**(0.1)**	**-**	-	(0.1)	-
Derivative instruments in designated hedge accounting relationships						
Cross Currency Swaps	**-**	**(0.3)**	**-**	-	(0.6)	-
Forward foreign exchange contracts	**-**	**(20.7)**	**-**	-	(23.8)	-
Financial liabilities at amortised cost						
Loans	**(756.1)**	**-**	**(736.8)**	(661.8)	-	(678.7)
Obligations under finance leases	**(53.1)**	**-**	**(53.1)**	(39.5)	-	(39.5)

16. Financial risk management (continued)

The Directors estimate that the carrying amounts of cash, trade receivables and trade payables approximate to their fair value due to the short-term maturity of these instruments.

The fair values of loans and finance lease obligations are based on cash flows discounted using a rate based on the borrowing rate associated with the liability.

The fair value of derivatives is calculated using a discounted cash flow approach applying discount factors derived from observable market data to actual and estimated future cash flows. Credit risk is considered in the calculation of these fair values.

ii) Fair value of derivative financial instruments

The fair valuation of derivative financial instruments results in a net liability of £32.6m (2012: £35.5m) comprising non-current assets of £nil (2012: £0.1m), current assets of £8.7m (2012: £2.7m), current liabilities of £20.2m (2012: £13.8m) and non-current liabilities of £21.1m (2012: £24.5m).

	1 January 2013 £m	**Movement in fair value of derivatives designated in hedge accounting relationships £m**	**Movement in fair value of derivatives not designated in hedge accounting relationships £m**	**31 December 2013 £m**
Currency swaps	**(0.6)**	**-**	**-**	**(0.6)**
Forward foreign exchange contracts	**(34.8)**	**1.0**	**1.9**	**(31.9)**
Interest rate swaps	**(0.1)**	**-**	**-**	**(0.1)**
	(35.5)	**1.0**	**1.9**	**(32.6)**

	1 January 2012 £m	Movement in fair value of derivatives designated in hedge accounting relationships £m	Movement in fair value of derivatives not designated in hedge accounting relationships £m	31 December 2012 £m
Currency swaps	0.8	(1.4)	-	(0.6)
Forward foreign exchange contracts	(31.5)	(0.3)	(3.0)	(34.8)
Interest rate swaps	(0.6)	0.6	(0.1)	(0.1)
	(31.3)	(1.1)	(3.1)	(35.5)

The fair value of financial liabilities at fair value through profit and loss is £6.8m (2012: £2.9m), and relates to derivatives that are not designated in hedge accounting relationships. The fair value of the derivatives and their credit risk adjusted fair value are not materially different, and are approximately equal to the amount contractually payable at maturity due to the short tenor of the instruments.

17. Retirement benefit schemes

The Group operates defined benefit schemes for qualifying employees of its subsidiaries in the UK and Europe.

The assets of the funded schemes are held independently of the Group's assets in separate trustee administered funds. The trustees of the pension fund are required by law to act in the interest of the fund and of all relevant stakeholders in the scheme. The trustees of the pension fund are responsible for the investment policy with regard to the assets of the fund. The Group's major schemes are valued by independent actuaries annually using the projected unit credit actuarial cost 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 scheme 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 scheme 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 scheme to settle obligations in the other scheme and intends to exercise this right.

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

	Contract specific 2013 £m	**Non contract specific 2013 £m**	**Total 2013 £m**
Fair value of scheme assets	**227.2**	**1,145.9**	**1,373.1**
Present value of scheme liabilities	**(267.8)**	**(1,091.2)**	**(1,359.0)**
Net amount recognised	**(40.6)**	**54.7**	**14.1**
Members' share of deficit	**-**	**3.7**	**3.7**
Franchise adjustment*	**35.1**	**-**	**35.1**
	(5.5)	**58.4**	**52.9**
Analysed as:			
Net pension liability	**(5.5)**	**(5.8)**	**(11.3)**
Net pension asset	**-**	**64.2**	**64.2**
Related assets			
Intangible assets	**1.0**	**-**	**1.0**

* The franchise adjustment represents the amount of scheme deficit that is expected to be funded outside the contract period.

	Contract specific 2012 (restated) £m	Non contract specific 2012 (restated) £m	Total 2012 (restated) £m
Fair value of scheme assets	198.3	1,155.8	1,354.1
Present value of scheme liabilities	(280.4)	(1,115.3)	(1,395.7)
Net amount recognised	(82.1)	40.5	(41.6)
Members' share of deficit	-	4.1	4.1
Franchise adjustment*	68.3	-	68.3
Effect of IFRIC 14	-	0.9	0.9
	(13.8)	45.5	31.7
Analysed as:			
Net pension liability	(13.8)	(24.2)	(38.0)
Net pension asset	-	69.7	69.7
Related assets			
Intangible assets	3.2	-	3.2

* The franchise adjustment represents the amount of scheme deficit that is expected to be funded outside the contract period.

Employer contributions for non contract specific schemes in 2013 include a £19.7m (2012: £nil) special contribution. The special pension contributions of £19.7m relate to a £16.8m payment to fund the deficit on the Vertex pension fund prior to its transfer into the Group's largest defined benefit scheme, Serco Pension and Life Assurance Scheme (SPLAS), and £2.9m in relation to deficit recovery funding of the Walsall defined benefit pension scheme. The Vertex payment enables their separate defined benefit scheme to be closed and thereby reduces ongoing administration costs.

Management considers the significant actuarial assumptions with regards to the determination of the defined benefit obligation to be the discount rate, inflation, the rate of salary increases and mortality.

	2013 %	2012 %
Main assumptions:		
Rate of salary increases	**3.20**	3.40
Rate of increase in pensions in payment	**2.50 (CPI) and 3.30 (RPI)**	2.20 (CPI) and 3.00 (RPI)
Rate of increase in deferred pensions	**2.60 (CPI) and 3.40 (RPI)**	2.20 (CPI) and 3.00 (RPI)
Inflation assumption	**2.60 (CPI) and 3.40 (RPI)**	2.20 (CPI) and 3.00 (RPI)
Discount rate	**4.60**	4.30

	2013 Years	2012 Years
Post-retirement mortality:		
Current pensioners at 65 – male	**22.5**	21.0
Current pensioners at 65 – female	**24.9**	23.5
Future pensioners at 65 – male	**24.2**	22.5
Future pensioners at 65 – female	**26.9**	24.6

18. Share-based payment expense

In accordance with IFRS2, a charge of £2.9m (2012: £12.1m) relating to the fair value of share-based schemes has been charged to the consolidated income statement.

19. 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.

Trading transactions

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

	2013 £m	2012 £m
Royalties and management fees receivable	**2.1**	2.3
Dividends receivable	**51.5**	80.6
	53.6	82.9

The following receivable balances were held relating to joint ventures:

	2013 £m	2012 £m
Current:		
Loans and other receivables	**0.4**	1.4

	2013 £m	2012 £m
Non-current:		
Loans and other receivables	**9.5**	9.2

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 guarantee has been given or received. No provisions are required for doubtful debts in respect of the amounts owed by the joint ventures.

20. Contingent liabilities

The Company has guaranteed overdrafts, finance leases, and bonding facilities of its joint ventures up to a maximum value of £26.0m (2012: £27.2m). The actual commitment outstanding at 31 December 2013 was £22.6m (2012: £23.2m).

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.

The Group is aware of certain claims in respect of employee, insurance and pension related matters with a potential value of up to £40m. However, no provisions have been made in respect of these items as management's assessment is that the likelihood of such claims being successful is remote.

The Group is aware of other claims and potential claims which involve or may involve legal proceedings against the Group. The Directors are of the opinion, having regard to legal advice received and the Group's insurance arrangements, that it is unlikely that these matters will, in aggregate, have a material effect on the Group's financial position.

As discussed in note 7, the EM contract was referred by the Cabinet office to the Serious Fraud Office for investigation. At this stage, the Group has not been informed of the outcome of this investigation.