Bringing service to life

serco

Stock Exchange Announcement

28 February 2012

Solid operational performance delivers strong financial result; global markets support confidence in future growth

Serco Group plc – 2011 results

12 months to 31 December	2011	2010	Change
Revenue	£4,646.4m	£4,326.7m	+7.4%
Adjusted operating profit	£290.1m	£258.7m	+12.1%
Operating profit	£266.2m	£241.3m	+10.3%
Adjusted profit before tax	£262.2m	£231.3m	+13.4%
Profit before tax	£238.3m	£213.9m	+11.4%
Adjusted earnings per share	39.59p	34.69p	+14.1%
Earnings per share	35.70p	31.88p	+12.0%
Dividend per share	8.40p	7.35p	+14.3%
Group free cash flow	£168.3m	£185.8m	(£17.5m)

Solid operational performance and contract awards across the portfolio

- Robust service delivery metrics and customer relationships
- New business models and service lines developed, including middle and back office support
- Continue to win 90% of rebids and extensions and one in two new bids
- £5.1bn of awards in 2011; £4.7bn signed contracts and £0.4bn preferred bidder appointments
- Order book of £17.9bn at 31 December 2011 (£16.6bn at 31 December 2010)
- 92% revenue visibility for 2012, 80% for 2013 and 70% for 2014

Strong financial result for 2011

- Strong total revenue growth of 7.4%; good organic growth of 3.5%
- Exceptional growth in AMEAA of 37% organic
- Highest ever international mix, with 44% of total Group revenue now generated outside the UK
- Adjusted operating profit growth of 12.1%, representing a margin increase to 6.2%
- Group free cash flow of £168.3m, representing the return to a more usual conversion rate of profits
- Total dividend up 14.3% to 8.40p, reflecting growth in adjusted earnings

Market developments and identified opportunities provide an extensive pipeline

- Ongoing demand for efficient, high quality and innovative service provision from public and private sector customers
- UK markets showing some signs of improvement; US federal outsourcing industry still faces uncertainties and short-term pressure; strongest growth opportunities in fast-developing AMEAA region and global BPO market
- £30bn pipeline of identified opportunities across the Group

Successful entry into global BPO market and organisational changes

- Creation of significant global capability in the fast growing, higher margin, Business Process Outsourcing (BPO) market via Intelenet, smaller acquisitions and recent contract wins
- Organisational changes to reflect customers seeking more integrated and end-to-end services, to increase efficiency and deliver better services
- Proactive contract and portfolio management to position the Group for the best future opportunities

Outlook supports continued resilience and encouraging future growth prospects

- Breadth of portfolio provides resilience and enhances overall growth potential
- For 2012, expect another year of strong total revenue growth, including further good organic growth, together with an Adjusted operating margin increase similar to 2011
- In the medium term, anticipate improvements in the rate of organic revenue growth, supporting the continued delivery of strong financial performance

Christopher Hyman, Chief Executive of Serco Group plc, said: "I am pleased with our solid operational performance and the number of contracts wins which have underpinned our strong financial result for 2011. Whilst challenges remain in the US and some UK markets, the breadth of our portfolio around the world and in the AMEAA region in particular, continues to present many new prospects. Our order book has grown, our pipeline of opportunities is large and we are now preparing for the next stage of growth which includes our entry into the global BPO market. This gives us confidence for the future."

Notes:

Adjusted operating profit, Adjusted profit before tax and Adjusted earnings per share are before amortisation of acquired intangibles and acquisition-related costs, as shown on the face of the Group's consolidated income statement and the accompanying notes.

Group free cash flow is free cash flow from subsidiaries and dividends received from joint ventures, and is reconciled to movements in cash and cash equivalents in Section 3 of the Finance Review.

Performance at constant currency has been calculated by translating non-Sterling revenue and earnings for the year to 31 December 2011 into Sterling at the average exchange rates for 2010.

The order book is the value of future revenues based on all existing signed contracts. It excludes contracts at the preferred bidder stage and excludes Indefinite Delivery, Indefinite Quantity (IDIQ) contract vehicles where we are one of a number of companies able to bid for specific task orders within the IDIQ.

The pipeline is the estimated value of all future potential opportunities that are clearly defined and identifiable.

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Presentation

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

Overview

2011 has been another successful year for Serco. We have seen a solid operational performance and contract awards across our portfolio. This has delivered a strong financial result despite some challenging conditions. Our markets continue to develop and we have an extensive pipeline of opportunities to capitalise on global demand. We have successfully entered the global BPO market, and are positioning the Group for the best opportunities and future needs of our customers. We are therefore confident in the outlook for strong future growth of the Group, achieved through the commitment of our employees to deliver efficient, high quality and innovative services that matter to millions of people around the world.

Solid operational performance and contract awards across the global portfolio

Serco has seen another year of robust service delivery and customer relationships. We have specific performance metrics in our contracts and the results of our continuous measurement against these have been very positive during 2011. Many of our operations, from custodial services through to transport operations, undergo formal inspections and independent reports, with these again showing pleasing outcomes. Further industry recognitions and awards have also acknowledged the delivery of excellence around the Group.

The year has seen the development of new service lines and business models. From 2012 our new Global Services division will bring many of these together – such as Intelenet as a leader in International BPO, The Listening Company with its UK contact centre expertise, and Excelior covering the Australian market. Wins such as Peterborough City Council and being selected to operate the Anglia Support Partnership NHS shared services reinforce our confidence in this new area of development. Growth in AMEAA has included new sectors such as health and new countries of operation in the Middle East. The success of new business models, such as joint ventures with customers including ACCESS in Glasgow, or introducing payment by results at Doncaster, have also been highlights of our continuous development.

Our focus on service excellence, building long-term mutually beneficial customer relationships and ongoing innovation during a contract underpins our 90% win rate for rebids and extensions. Our one in two win rate for new bids has also been maintained, with both of these measures driving our revenue growth.

In 2011, contract awards across our wide portfolio of markets and geographies totalled £5.1bn, with signed contracts valued at £4.7bn and preferred bidder appointments for a further £0.4bn. Our wins included smaller and medium-sized awards which are fundamental to our growth, as well as significant rebids, extensions, expansions and new contracts. The value of these wins does not include the Indefinite Delivery, Indefinite Quantity (IDIQ) contracts in the US we won in 2011 as a prime contractor, which have a combined ceiling value of approximately US$2bn among awardees. These new IDIQs enable us to compete for specific task orders issued under the IDIQ, with the value of the task orders recognised when won and then included within our order book.

Among the notable rebids, extensions and new contract awards during the year were:

- Prisoner Escort and Custody Services for London and the East of England, with a potential value to Serco of £420m over 10 years;
- HM Prison and Young Offenders Institution Doncaster, valued at around £250m over 15 years;
- Barclays Cycle Hire scheme expansion, valued at approximately £50m over four years;
- The Helios programme of capital projects and associated support equipment for the Defence Science and Technology Laboratory (Dstl), valued at around £80m over five years;
- UK Ministry of Defence prime contract for further deployment of innovative radar technology, with a contract value of £27m over two years;
- Peterborough City Council strategic partnership for shared services, with an initial value of £100m over ten years;
- A 15-year partnership for support services at two of Sport England's National Sport Centres, valued at over £100m to Serco;
- IT support services to a major European banking organisation, with a rebid valued at €20m over four years and a new win valued at €50m over eight years;
- US Army task orders valued at $169m under various HRsolutions IDIQs;
- US Air Force Space Command task orders valued at $115m under the C4I2TSR IDIQ;
- US Navy task orders valued at $33m under the C4ISR IDIQs;
- Fiona Stanley Hospital near Perth non-clinical integrated services, with a total value to Serco of A$1.3bn over ten years;
- Acacia Prison in Western Australia extended and expanded contract, valued at A$310m over five years;
- Court Security and Custodial Services in Western Australia, valued at A$210m over five years; and
- Anglia Support Partnership (ASP), chosen as single remaining bidder to provide middle and back office shared services to the NHS, with an estimated initial value of £120m over four years.

There has also been an encouraging level of contract awards following the end of the financial year.

More details of the above and other contract awards can be found in the Operating Review. We also signed numerous other smaller and medium-sized contracts during the year, some of which are described in the contract news updates available on our website, www.serco.com.

Visibility of earnings remains high due to the signed contracts that make up our order book, contracts we expect to extend and rebid, and contracts at the preferred bidder stage which we expect to sign. At 31 December 2011, our order book stood at £17.9bn, compared with £16.6bn at 31 December 2010. This leads to revenue visibility of 92% for 2012, 80% for 2013 and 70% for 2014.

Strong financial result for 2011

Serco has delivered growth in revenues including good organic growth, increased the operating margin, and maintained a strong cash generation profile and financing position.

Total revenue growth was 7.4% to £4,646.4m. Growth at constant currency was also 7.4%, with the adverse movement on the US dollar offset by the favourable movement on the Australian dollar. Organic growth excluding acquisitions and currency effects was 3.5%.

This growth demonstrated the resilience of our portfolio and our ability to develop capabilities in new sectors and geographies. This has been achieved at the same time as headwinds have been felt in some UK and US markets. Revenue growth was exceptionally strong in AMEAA, reflecting growth from both existing contracts and those recently won. In the UK, performance was varied: Civil Government grew, benefiting from previous contract wins and expanded operations; Defence, Science and Nuclear saw modest growth; while Local Government & Commercial saw strong growth in its strategic markets offset by sharper headwinds from specific austerity measures. The Americas saw constant currency growth achieved in the first half of the year move into a decline for the year overall as the very challenging conditions for US federal contractors took hold. Our divisional performance is described fully in the Operating Review.

Adjusted operating profit rose by £31.4m or 12.1% to £290.1m, with a 26 basis point increase in the Adjusted operating profit margin to 6.2%. Adjusted profit before tax grew by £30.9m or 13.4% to £262.2m and Adjusted earnings per share increased by 14.1% to 39.59p.

Group free cash flow was £168.3m compared with £185.8m in 2010, representing the return to a more usual conversion rate of profits. Net capital expenditure increased by £30m, reflecting a return towards a more normal underlying level of capital investment together with the anticipated investment in SAP systems in 2011.

Our policy is to increase the total dividend each year broadly in line with the increase in underlying earnings. Accordingly, the Board has proposed a final dividend of 5.90p per share, bringing the total dividend for the year to 8.40p, up 14.3% compared with the previous year. The final dividend will be paid, subject to shareholder approval, on 22 May 2012 to shareholders on the register on 9 March 2012.

Our earnings, cash flow, financing and related matters are described fully in the Finance Review.

Market developments and identified opportunities provide an extensive pipeline

Our pipeline of identified opportunities around the world has a total estimated value of some £30bn. We therefore see good prospects to continue driving future growth across the Group.

Ongoing demand is expected for efficient, high quality and innovative service provision from public and private sector customers around the world. Demand is driven by the need to achieve efficiencies and cost savings in services, investment to improve or create new services, and structural challenges including economic development, ageing and growing populations, unemployment, migration, security, congestion and climate change.

Public service reform continues to increase the potential for our markets. With only 10-15% of total spend typically currently opened up to competition in our major government markets around the world, we remain confident in the medium and long-term market opportunities and drivers of growth for Serco. Recognition is widely held of the benefits such as reducing cost and stimulating innovation when public service markets are competed. Of note was the UK Government's 2011 Parliamentary White Paper on Open Public Services, which we expect to deliver upon its stated aim of commissioning more services rather than the state continuing to provide these themselves.

In the UK, markets appear to have stabilised and are starting to show some signs of improvement; our financial performance was stronger in the second half of the year, and the amount of potential tender opportunities appears to be increasing together with further signs of markets opening up to support growth in future years. Some risk however still remains that further austerity measures may bring additional short-term pressures.

In the US, Congress' challenges in reaching agreement on a budget for 2011 created uncertainty for federal government agencies and the inability to fund new programmes. Economic and political challenges relating to the US debt ceiling and deficit reduction plan will likely result in continued short-term pressure for the US federal outsourcing market, with further delays and the risk of cancellations of bids and awards possible in 2012. Looking beyond, the opportunities in the federal government and wider US contracting industry remain substantial, with strong growth prospects in certain specific sectors.

The AMEAA region continues to exhibit the strongest growth opportunities. Whilst not without some political risk, in general these areas of economic and population expansion are leading to growth in various infrastructure management markets, as are government programmes specifically targeted to improve social infrastructure. We have demonstrated our ability to internationalise our skills and capabilities into this region, and across multiple markets such as the transportation, home affairs, health and defence sectors.

The global BPO market is also fast-developing and presents substantial opportunities for the Group.

Successful entry into global BPO market and organisational changes

2011 has seen Serco add significant global capability in the fast growing, higher margin, Business Process Outsourcing (BPO) market. The Intelenet acquisition is strategically important for Serco's development in this area. Firstly, it provides access to attractive markets: the international and domestic Indian BPO markets are large, forecast to grow around 15% per annum in the medium term, and have margins reflective of high value services. Secondly, it broadens our customer and geographic reach: in line with our strategy of building a balanced portfolio, Intelenet's diverse and international private sector customer base will further increase our spread across markets. Thirdly, it adds to our scale and depth of capabilities: together with our existing BPO-related operations we will have around 40,000 employees providing transactional, process and voice support, finance and accounting services, and business transformation consulting, making us strongly placed to provide our customers with a broad range of end-to-end business services. Other in-fill acquisitions such as The Listening Company in the UK and Excelior in Australia have added additional specific customer contact capabilities and geographic reach.

Serco's existing strength in these areas includes our IT-enabled BPO service delivery for local authorities. Recent contract wins here have added both experience and capability. Of particular note is Serco being chosen as the single remaining bidder for the Anglia Support Partnership (ASP), which would add a further strategic partnership – in this instance with the UK's National Health Service – to our growing health support services and BPO operations. This bid was an opportunity to use the Group's combined capabilities for an integrated offering to transform public services in this area.

To reflect developments in market needs and opportunities such as ASP, we are progressing with organisational changes that have already begun in 2012. A part of this is the creation of a new global BPO division, our first global business, bringing together all of Serco's middle and back office skills and capabilities. The new Serco Global Services division will both improve the services we provide to customers and enable us to better target opportunities around the world in both the public and private sectors.

Serco's customers around the world are increasingly looking for more end-to-end services that combine frontline capability with middle and back office operations, helping them to drive more efficiency and better quality services. Our Global Services division will therefore work alongside the regional divisions in order to deliver fully integrated services for their customers.

As Serco continues to grow we regularly review our opportunities, our structure and the way Serco delivers services for customers and how we target future growth. We are therefore creating a single UK & Europe division, to increase efficiency and support the delivery of better services. As part of achieving this, the Global Services division will operate a wider-reaching shared service centre for the Group itself. These changes are likely to lead to reductions in headcount of around 500 people in management and in our own back office support functions out of our 100,000 employees around the world, including 35,000 in the UK.

These changes will help us achieve greater economies of scope through closer working relationships, position us better for more integrated and larger service delivery, as well as achieve greater efficiencies and scale economies for our customers.

We also continue to proactively manage our portfolio of contracts, assessing our operations for appropriate levels of performance, returns and strategic fit. Our stated strategy is to reduce risk and increase opportunities by building a balanced business, spread across markets. Where appropriate, this includes disposals and acquisitions. This helps to manage our exposure to market fluctuations, enables us to select the best opportunities whichever market they are in, and allows us to transfer expertise from one market to another.

While we are primarily focused on organic growth, we will continue to acquire new skills and capabilities where they support expansion into new markets and sectors. In the BPO market, there may be opportunities for infill acquisitions of specific areas of expertise or geographic strength. While facing short-term challenges, the US market remains fundamentally attractive and may present opportunities in higher growth specialised areas. Strengthening our presence in vertical markets such as health, or entering new emerging economies such as South America may also yield acquisitions from which to further develop our operations organically.

Outlook supports continued resilience and encouraging future growth prospects

The breadth of our portfolio across different markets and economies continues to provide resilience while at the same time enhancing our growth potential.

For 2012, we are forecasting another year of strong total revenue growth; this includes the contribution from acquisitions completed to date, together with further good organic growth. At this early stage of the financial year, our forecasts reflect the balance of risks and opportunities; we expect challenging conditions to remain in the US, but anticipate some further improvement in UK markets and another strong performance in AMEAA. We are forecasting a further increase in our full-year Adjusted operating margin, similar to that achieved in 2011. Net finance costs are expected to increase to around £45m, driven principally by the incremental cost of funding the acquisitions made during 2011.

The phasing during 2012 is likely to see organic growth weighted to the second half and the contribution from completed acquisitions weighted to the first half. Organisational changes are expected to have a broadly neutral impact on the full-year margin, but due to the timing of the implementation costs, are likely to more than offset the underlying improvement in the first half.

Improving market conditions around the world, should they continue, would allow the Group to anticipate a modest improvement in the rate of organic revenue growth in 2013 and further improvement into the medium term. This would support the continued delivery of strong financial performance by Serco.

Market Opportunities and Drivers

This section on market opportunities and drivers reflects our new organisational structure:

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

UK & Europe

The UK represents our most developed market, accounts for the vast majority of our operations in Europe as a whole, and continues to show future growth potential with markets such as justice and healthcare already becoming increasingly active. As well as an increasing focus on economic growth, there remains a clear fiscal imperative for the UK's coalition government to reduce the country's budget deficit within their originally prescribed time line. This deficit reduction plan has led to spending cuts in public sector markets. However, competitive outsourcing remains a solution to funding pressures as well as a means of improving the standard of services, with numerous markets already presenting new opportunities or under active review.

Demonstrating continued political will in this direction, The Open Public Services White Paper represents ambitious plans to introduce greater competition and reform into more areas of public services. There is a particular emphasis on the promotion of more complex contract and delivery vehicles, greater involvement of the third sector and SMEs, partnering models and payment by outcomes. Serco is highly experienced in these areas and has a proven track record of efficient, high quality and innovative service provision. We therefore expect to continue making progress in our core market.

Home Affairs

Following an initial market-testing of existing public sector prisons in early 2011, a further nine prisons (eight in the public sector and one being run by a private sector operator) are currently being competed with the outcome expected in late 2012. This forms part of the UK Ministry of Justice programme of opening up and modernising the custodial sector, set out in its 'Competition Strategy for Offender Services' published in July 2011.

In the area of non-custodial sentencing, other opportunities include Community Payback schemes, the first of which to come to market is the London region, with Serco bidding in partnership with the London Probation Trust. We are also on a national framework to bid for further regions. In the growing market for court fines enforcement, Serco acquired in October 2011 Philips Collection Services Ltd, the UK's largest independent revenue recovery company.

Serco was recently selected by the UK Border Agency as preferred bidder to deliver the COMPASS project in two regions, providing accommodation, associated services and transport for asylum applicants. Expected to commence in late 2012, this contract would draw upon our skills in a number of related services, reinforces an already strong customer relationship and positions Serco for further similar opportunities in other markets.

The demand for police operational support is expected to grow as forces, such as West Midlands and Surrey, seek to concentrate on frontline delivery of service to the public, and look for private sector partners to manage their middle and back office functions.

Health

In health we are seeing the emergence of a global market for enabling services that combine facilities management, support services and patient administration to improve service quality and productivity. These services are enabled by high quality technology solutions and an engaged workforce. Our successes in the UK and recently in Western Australia position us well in this market.

In clinical services we continue to develop opportunities to operate both hospital and community-based services either on our own or in partnership with some of the world's best clinical operators.

In the UK the market is driven by the impact of fiscal pressure and the proposed structural reforms whilst in global markets we anticipate that investment in establishing healthcare systems will underpin both enabling and clinical service opportunities.

Transport, Welfare and Local Government

In transportation, our recent contract to expand the Barclays Cycle Hire scheme and the operation of the Docklands Light Railway through the Olympic period will support short-term growth. Serco now has excellent credentials in urban transport systems which position us well for future growth in the UK and elsewhere around the world. Our other UK rail franchises in Northern Rail and Merseyrail continue to deliver growth in passenger numbers and achieve strong operational metrics.

As a leading welfare to work provider, we continue to assess the market potential in what is a significant area of government expenditure both in the UK and internationally. Our two Work Programme contracts have started well and build upon our experience and success in the previous Flexible New Deal contracts. Our place on the Department for Work and Pensions' 'Framework for the Provision of Employment Related Services' enables us to bid for tenders in seven UK regions, including opportunities that attract European Social Fund support.

In local government frontline services, reductions in funding and increased service demands from citizens are driving more interest in strategic partnering, service sharing and personalisation of services. This is expected to support growth in environmental services and other opportunities in integrated facilities management.

Defence and Science

After recent reviews into the structure and management of the MOD and the UK's armed forces, new ways of working and more radical approaches are being sought for the delivery and support of frontline services. Serco is well placed to provide support for innovative models for change management, transition and the provision of other complex integrated services.

Additional opportunities are expected to emerge in the defence market for such services as infrastructure management and asset management, business process and whole enterprise outsourcing and technical and engineering services. In the energy field there is an emerging market for delivering energy management services to industry to help businesses reduce their energy bills and thereby reduce their carbon footprint and become more efficient.

Our involvement in managing and operating critical assets such as the Atomic Weapons Establishment (AWE) and leading Public Sector Research Establishments (PSREs) such as the National Nuclear Laboratory and National Physical Laboratory also present a number of related opportunities. This includes further whole enterprise outsourcing as well as delivering growth through existing customer relationships as we add additional responsibilities to drive further efficiencies.

Americas

The US federal government services industry faced dramatic challenges in 2011 given the federal budget pressures, growing national debt and uncertainty created by the inability of the government to reach agreement on budget priorities. This uncertainty resulted in delays in contract awards, cancellations to previously anticipated work, and the reduction in scope of existing task orders. The bidding environment in many segments has become increasingly competitive, reinforced by the government's greater emphasis on price. For the government fiscal year to September 2012, all federal budgets have been approved with relatively flat spending levels compared to the previous year; however, the industry is likely to face continued short-term attrition due to the ongoing uncertainty regarding budget levels beyond this. Given the upcoming Presidential election and gridlock in Congress on how to deal with the national debt, we do not expect much clarity or improvement in contracting conditions until 2013.

Despite these challenges, Serco continues to see attractive medium and longer-term growth opportunities in the Americas division. The US Federal government services market remains the largest in the world, with over $300bn spent annually on contracted services, out of which $125bn is addressable by Serco. Within this market, Serco focuses on six key areas, with an established track record in each: Communication & Information Systems; Logistics & Program Management; National Intelligence; Human Capital Management; Business Process Outsourcing; and Transportation & Asset Management.

As the federal government seeks to adjust to a tightening budget environment, we expect to see a broad range of opportunities to grow our business by helping customers to achieve more with limited resources. We are focusing our portfolio towards long-term higher growth markets that are less susceptible to margin pressures, so as to respond to the new fiscal realities and competitive landscape.

Within information technology-related services, Command, Control, Communications, Computer, Intelligence, Surveillance and Reconnaissance (C4ISR) support continues to be in strong demand, reflected by further task orders from the US Navy and US Air Force. Related opportunities with the federal civilian agencies are expected from government-mandated migration of data and applications to the cloud, enabling the government to eliminate redundant data centers and infrastructure, and lower operating costs. The Department of Defense is expected to increase its focus on areas such as Intelligence, Surveillance and Reconnaissance (ISR), unmanned assets, space and cybersecurity. Specifically for our Navy customers, we expect growth through modernisation work to extend the service life of the existing fleet.

Demand for human capital management services will be supported by future changes to the size and shape of the armed forces, as the military transitions returning combatants to domestic stations and civilian status, and looks to provide increased health and social services. Defense and federal civilian agencies are adopting new tools and technologies for recruiting and training, as well as other specialised human capital services to manage transformation programmes.

In Business Process Outsourcing, modernising legacy systems and delivering more cost-effective solutions are expected to result in considerable opportunities in areas such as records and application management. In another area, Serco has been providing economic cost analysis to help the military and other government agencies to achieve procurement cost savings. Incorporating these skills into our program management support services can provide additional opportunities with the Intelligence community and across the defense sector.

The transportation and infrastructure asset management markets are also expected to see good growth opportunities. The growth of global air travel and the move to space-based air traffic control sees Serco well placed as one of the world's largest private sector Air Navigation Services Providers (ANSP). In surface transportation, our growing reputation in traffic management systems, operations and back office processing may open up further prospects in state and local markets in the US and Canada.

While general market conditions are likely to remain challenging in 2012, the Company continues to pursue a strong pipeline of opportunities across the federal government including the US Army, US Navy, US Air Force, Department of Homeland Security, Federal Aviation Administration, Veterans Affairs, the intelligence community, Department of State, and various Canadian government bodies.

AMEAA

The AMEAA region is experiencing the fastest growth of our portfolio and still presents some of our strongest market opportunities and drivers for future growth. Having grown to represent around 17% of Group revenue, the region accounts for over a quarter of the Group's pipeline as at 31 December 2011. Our existing operations in Australasia, the Middle East and India each present strong prospects, with other territories in the Middle East and South East Asia offering possible further potential.

In Australia, while volume-related activity in contracts such as our work with Australia's immigration services may reduce, there remains a growing range of opportunities. In the justice sector we see a number of new-build and existing prisons being put to the market as governments deal with capacity and efficiency challenges. Serco is strongly placed through its excellent track record and recent wins in the custodial markets in Australia and New Zealand. Following recent contract awards there are related opportunities in the youth justice and court escorting markets, as well as other areas of justice support. Our defence strategy in Australia has a firm base of garrison support and navy support contracts to build from, with further potential from systems integration and back office function support as performed in some of our other geographic markets.

We continue to pursue the emerging health markets in Australia, Hong Kong and the Middle East, as governments encourage the private and voluntary sectors to develop models for the build, finance and operation of hospitals. The Fiona Stanley Hospital contract represents a significant development, building upon substantial experience and expertise from our operations within UK hospitals and our other healthcare services in Australia.

The Middle East continues to show strength and resilience to the economic downturn as governments progress with their social infrastructure improvement programmes while seeking value for money and whole life asset management. Growth in the region will be supported from expansion both in terms of new sectors and new territories. Significant opportunities are emerging in the healthcare market and other integrated facilities management areas including in the education and commercial sectors; in support of this, we made a small acquisition of JBI Property Services, which specialises in integrated facilities management in the region.

Building on our leadership in air traffic control and metro systems we continue to see a strong pipeline in aviation, urban transportation and related services. Countries such as Saudi Arabia, Qatar and Kuwait have taken significant steps to improve transparency and adopt international best practices for their procurement processes, and are starting to present new longer-term prospects for the Group.

In India, our frontline service capabilities offer opportunities in sectors such as transport (including rail, traffic management and aviation), as well as healthcare and education, with major infrastructure investment being made in each. For example, a number of light/metro rail and urban traffic projects are being developed. Our presence in the India domestic BPO market has been significantly enhanced to a leading position by the acquisition of Intelenet.

Global Services

As referenced in the Overview section on page 7, Serco is forming a new Global Services division. This new division will bring together a number of related operations and capabilities currently reported and managed in different Serco divisions. It will enhance our market position and bring together the common market opportunities and drivers in the provision of middle and back office services.

As companies and public sector organisations seek out new ways to improve their service and reduce costs, we expect the Business Process Outsourcing market to continue to show attractive growth and opportunities. Our acquisition of Intelenet has significantly enhanced Serco's positioning in this market, bringing highly valued capabilities and a strong customer base, which together with economies of scale and a presence across four continents mean we can access new opportunities and strengthen our existing propositions. Intelenet has a significant pipeline of opportunities across its five vertical markets of: Banking, Financial Services & Insurance; Travel, Hospitality & Transportation; Healthcare, Utility, Retail & Manufacturing; Telecom, Technology & Online Services; and Media, Education & Government. With the selection for the Anglia Support Partnership, the first revenue synergies arising from having Intelenet within Serco are already being developed. With new capabilities in middle and back office services, our integrated offering will present further such opportunities to transform public services.

Our work with local authorities to help them transform their services show a strong pipeline of opportunities. Serco's existing IT-enabled BPO service delivery and credentials are strong, as represented by existing operations at Hertfordshire County Council and Glasgow City Council, both of which have been expanding, and recent wins such as Peterborough City Council. There are numerous similar strategic partnerships in our pipeline, with local authorities increasingly looking for a customer-centric approach and private sector expertise.

The smaller acquisitions of The Listening Company in the UK and Excelior in Australia are also key components of our future proposition as their significant on-shore contact centre capabilities allow us to promote easier access to frontline services as well as encouraging the migration to the use of more effective and efficient customer contact channels. We expect this to enhance our capability to deliver both public sector transformation programmes and improve our market position to support the private sector.

Operating Review

The Operating Review is presented according to the five divisions into which we were organised in 2011:

- Civil Government,
- Defence, Science and Nuclear,
- Local Government and Commercial,
- Americas, and
- AMEAA (Africa, Middle East, Asia, and Australasia).

The section outlines contract wins which are significant because of their value or their strategic contribution to our business. We have also won numerous other smaller and medium-sized contracts, details of some of which can be found on our website at www.serco.com.

Civil Government

Civil Government includes our UK and European operations in transport, home affairs (custodial, immigration and field services, and border security and control), welfare to work and clinical healthcare.

Revenue on a reported basis grew 6% to £1,199m (2010: £1,127m) and represented 26% of Group revenue. Revenue on an organic basis also increased 6%. Adjusted operating profit, before corporate expenses, increased by 20%, with the margin increasing from 5.9% to 6.6%.

Revenue growth was supported by previous large contract awards that became operational or saw revenues build through the course of 2010 and 2011. These included the timing of revenues earned under the previous Flexible New Deal welfare to work contracts and passenger growth on the Docklands Light Railway. The expansion of the GSTS Pathology joint venture to include King's College Hospital NHS Foundation increased revenues but challenged the achievement of efficiency improvements. The overall margin improvement reflected the higher than average bid costs in 2010 and the strong performance in 2011.

Transport

Northern Rail continues to perform well, with 2011 punctuality metrics of 91.7%, just ahead of the industry average and maintaining the significant improvement achieved over our operation of the franchise. Northern Rail was named Public Transport Operator of the Year (Rail) at the 2011 National Transport Awards, awarded the top transport title from the Royal Society for the Prevention of Accidents for the third year running, as well as the 'Sustainable Business of the Year' for 2011 in the Environment and Energy Awards, supported by Sustainable Business. In May 2010, Northern Rail was awarded an extension to its franchise through to September 2013. We expect a further short extension through to April 2014, which would see the rebid process begin next year.

Merseyrail has also had a strong operational performance in the year, with the majority of its business indicators showing a stable and healthy performance, including punctuality at 95.1%, well above the industry average. This comes on top of being the UK's most punctual rail operation as well as the most highly rated in terms of customer satisfaction during 2010. Merseyrail has also achieved the Investors in Excellence Standard, an internationally recognised mark of quality for achieving continuous improvement as well as ongoing success and sustainability.

Docklands Light Railway saw customer satisfaction improve to 96.7% in December 2011, the best result for four years. Service reliability has also increased to an average throughout the year of 97.7% of trains running to schedule, and passenger growth has continued following the previous year's increase in capacity with the full roll-out of the three-carriage service. Docklands Light Railway was highly commended twice in the annual Light Rail Awards for the quality of its customer communication and community engagement. In August 2011, the Stratford International Extension opened, a key part of London 2012 Olympic and Paralympic transport network; it includes four new stations and connects five Games venues.

Serco's partnership of the Barclays Cycle Hire scheme continued to see growth in customer numbers which brought some operational challenges; Serco has implemented a number of changes to deliver improved service standards on this innovative scheme. Since the launch in August 2010, more than ten million journeys have been made. The success of the scheme has seen Serco awarded an expanded contract by Transport for London (TfL) to support growth to East London, adding new docking stations in West London and an increase in the number available in the existing area. The expansion will add over 200 new docking stations, approximately 4,500 new docking points and 2,300 new bikes into the scheme. On average 25,000 customers use Barclays Cycle Hire each day and the scheme now has over 140,000 registered customers. The contract expansion is in total valued at approximately £50m and will run until 2015, in line with the existing £140m six-year contract awarded to Serco in August 2009. Recognition for the scheme has included an 'Infrastructure Award' at the Institution of Civil Engineers Awards, 'Innovative Transport Project' at the London Transport Awards, and a 'Design of the Year' award at the Brit Insurance Design Awards for innovation from around the world.

Home Affairs

The UK Government's Ministry of Justice awarded Serco a contract to provide Prisoner Escort and Custody Services within the new National Offender Management Service (NOMS) region of London and the East of England, with a potential value to Serco of £420m over 10 years. This new contract replaces Serco's previous agreement to provide prisoner escorting services to the NOMS regions of London and the South East, which had reached the end of its seven-year term. Serco is working in partnership with Wincanton plc to provide the safe, timely and secure transportation of prisoners between Police stations, Courts and HM Prisons. Whilst at court, Serco staff manage custody suites and accompany prisoners in courtroom docks. The contract solution brings together experience and expertise to deliver an innovative approach, high quality services and considerable savings for the taxpayer.

Serco was awarded the contract to continue operating HM Prison and Young Offenders Institution Doncaster in the UK. The new contract commenced in October 2011 and is valued at around £250m over 15 years. As part of the contract, management and staff are working in partnership with social enterprise Turning Point and the leading charity Catch22 to pilot a rehabilitation programme, on a payment by results basis, to reduce reoffending. This is the first such pilot in the UK, and the Secretary of State for Justice has described its success as central to the Government's rehabilitation reform strategy.

The new prison at Belmarsh West in London, to be known as HMP Thameside, will become operational from 30 March 2012. The contract has a value to Serco of approximately £415m over 26½ years. Serco-operated HMP Lowdham Grange received the highest possible performance rating in the National Offender Management Service's annual survey and was described by the HM Chief Inspector of Prisons recent report as "among the most impressive category B training prisons in the system". HMP & YOI Ashfield was also described as "impressive" by the Chief Inspector, and HMP Dovegate, working with Staffordshire University, has helped to professionalise prison staff by developing the first Foundation Degree in Offender Management.

Our contract to manage Yarl's Wood Immigration Removal Centre (IRC) has been extended by two years. The contract has also been expanded to include provision for male residents, increasing the total value of the extension to approximately £25m.

Serco signed a new contract as prime contractor with the UK Border Agency to provide service management for the e-Borders system, valued at £29m over two years. Having successfully agreed the cessation of the previous arrangements as a subcontractor, the new contract means Serco continues to operate the e-Borders service and the National Border Targeting Centre (NBTC), which is the central hub of the multi-agency border security system. Together with our ongoing support to the UK Border Agency's CYCLAMEN programme, which provides radiological and nuclear scanning at ports, this means that Serco is making a significant contribution to national security and public safety.

Welfare to Work

On 30 June 2011 Serco began operating two new contracts to deliver the Work Programme in the West Midlands and South Yorkshire for the UK Department for Work and Pensions. Serco is working with a strong network of some 33 organisations, around half of which are from the voluntary sector, so jobseekers can benefit from a rich mix of experience and expertise. For the same start-up period, our Work Programme performance is ahead of that under the previous Flexible New Deal contracts. In initial performance data released by the Department for Work and Pensions, our contracts are ranked top out of all 40, thereby ranking Serco the top provider out of all 18.

Revenues received under our previous contracts Flexible New Deal contracts were greater than the previous year. This reflected the anticipated build-up of activity in the first half of the year and the successful cessation of the contracts in July 2011. These contracts have supported the entry of over 25,000 people into sustainable employment since October 2009.

Serco has been awarded two new contracts by the UK Ministry of Justice to help ex-offenders into work in the South East and East of England. The four-year contracts, valued in total at £15m, are the second phase of an initiative called 'Job Deal' which aims to support ex-offenders into work by improving their employment prospects and tackling barriers to employment. Serco already delivers the first phase of Job Deal in these two regions via a network of sub-contractors from the charitable, voluntary and private sectors. The contracts are co-financed by the European Social Fund and National Offender Management Service.

Health

To expand our clinical capabilities, Serco has acquired for £1.6m Braintree Clinical Services Limited, which manages and operates the Braintree Community Hospital in the UK on behalf of the Mid-Essex Primary Care Trust. The recently built hospital provides a comprehensive range of services to day-surgery patients under one roof. These include general surgery, plastic surgery, orthopaedics, ophthalmology and the diagnosis of ear, nose and throat (ENT) disorders. It also provides outpatients, diagnostic services and has 24 community in-patient beds. Serco's aim is to make the best use of the state-of-the-art facilities to improve local health care.

Serco has consolidated its position as one of the UK's leading providers of primary healthcare support with the signing of a renewed contract with NHS Cornwall and Isles of Scilly for GP out-of-hours care. Serco has provided this service to more than half a million people since April 2006, working closely with local acute healthcare providers and community services to manage unscheduled care in its entirety. The five-year contract has a total value of approximately £32m.

Our GSTS pathology joint venture has now obtained substantial scale having added King's College Hospital as a further partner. This increased 2011 revenues compared to the previous year. There remains significant management focus on delivering greater efficiency improvements in 2012.

Defence, Science and Nuclear

Defence, Science and Nuclear (DSN) brings together our businesses providing support to the armed forces in the UK and European defence markets, science-based businesses such as our contracts at the Atomic Weapons Establishment (AWE), the National Physical Laboratory and the National Nuclear Laboratory, our energy market operations and our nuclear safety and assurance business.

Revenue on a reported basis grew 3% to £939m (2010: £911m) and represented 20% of Group revenue. Revenue on an organic basis also increased 3%. Adjusted operating profit, before corporate expenses, increased by 3%, with the margin held at 8.5%.

Revenue progress in 2011 has reflected a number of short-term project awards, and was achieved in the face of strong competitive pressures and some delays to decision making and major contract awards as a result of customer budgetary reviews. Progress in other areas, including an exceptionally strong performance at AWE and a greater number of smaller value contract awards, has offset particular challenges in the level of higher margin discretionary project work and the timing of efficiency improvements in our marine services business.

In the UK defence market, Serco provides a range of operational support, engineering and training services, known as Multi-Activity Contracts (MAC) at various bases for the UK's armed forces, with these relationships continuing to strengthen. Our maintenance and support services at the Depth Maintenance Facility for the Royal Navy's Merlin helicopter fleet at Royal Naval Air Station (RNAS) Culdrose in Cornwall had its contract renewed with AgustaWestland, valued at £33m to Serco over five years, with our engineers also awarded a Commander-in-Chief Fleets Commendation for outstanding support to flying training. A new MAC was won for RAF Valley, supporting their crucial role in training fast jet pilots for both the RAF and the Royal Navy, valued at £20m over five years. After the year-end, there were further MACs successfully rebid, with a combined total potential value to Serco of over £100m.

As strategic partner appointed by the Defence Science and Technology Laboratory (Dstl) in 2006, Serco has now been awarded additional work to oversee and deliver part of Dstl's Helios programme, which was granted Ministerial approval to proceed in June 2011. The Helios Programme will see the relocation of all of Dstl's activities from its Fort Halstead site to, and the provision of new facilities at its Head Office at, Porton Down. The programme will enable Dstl to achieve its future strategic goals, to protect technical capability and to provide additional cost benefits. With the new buildings and facilities to be provided by 2016, the capital projects and associated support equipment has a total value to Serco of around £80m, and follows the successful completion of Project INSPIRE, which delivered award-winning, state-of-the-art science facilities at Dstl Porton Down.

Serco has been awarded a five-year extension to its contract to provide air traffic control, air traffic engineering, flight briefing and operations support services at Cranfield Airport, Bedfordshire in the UK. Serco has provided similar services at Cranfield Airport, which is owned and operated by Cranfield University, continuously since the 1950s. We have also secured an extension for the Woolwich Ferry, valued at approximately £14m.

Our joint venture with Lockheed Martin and Jacobs Engineering, which manages and operates the UK's Atomic Weapons Establishment (AWE), continues to achieve excellent results. The contract incentivises us to save money against the future programme and our results reflect the benefit of providing substantial savings whilst achieving excellent performance in the quality and timeliness of our delivery. Following the building of the largest plasma physics research facility in the UK in recent years, the technical schedule continues apace. In addition, an AWE-led consortium was selected as preferred bidder to deliver elements of the Strategic Weapons Systems (SWS) support at Royal Naval Armament Depot (RNAD) Coulport.

Operations of the National Physical Laboratory (NPL) continue to develop. We achieved a record number of peer-reviewed publications (240) and received international recognition for the world's most accurate atomic clock (precise to 1 second in 138 million years). We have tripled third party income since 2004 to represent around one third of overall income. The Shareholder Executive has extended our contract with Battelle and University of Manchester to manage the National Nuclear Laboratory (NNL). In 2011, NNL won work from the European Space Agency (ESA) that will utilise NNL's world-leading expertise and state of the art facilities to evaluate powering future European space missions.

In support of the UK Ministry of Defence's nuclear propulsion programme, Serco has been awarded a new three-year framework contract by Rolls Royce Marine for the provision of research and technology services, with a total value of £15m. In addition, Serco was also awarded a new contract by the MoD to build a series of five test rigs that will be used to study environmentally-assisted corrosion of materials. Other smaller wins in technical services include those for the Nuclear Decommissioning Authority Radioactive Waste Management Directorate (NDA RWMD).

In our European defence operations, we have seen significant growth in our German revenue. Key contract wins have included our multi-activity contract for MBDA, a world leader in missiles and missile systems, which was successfully rebid. Mainly comprising facilities management services at Schrobenhausen in Germany, the contract is worth €14m over two years. Serco is also providing installation and support of a new radar system for Germany's Ministry of Defence.

Local Government and Commercial

Local Government and Commercial (LG&C) comprises our UK and European IT-enabled BPO services, integrated and environmental services, leisure, education, consulting and commercial businesses.

Revenue on a reported basis grew 1% to £860m (2010: £854m) and represented 18% of Group revenue. Excluding the revenue contribution from the acquisition of The Listening Company, revenue on an organic basis declined by 7%. Adjusted operating profit, before corporate expenses, reduced by 6%, with the margin reducing from 6.5% to 6.1%.

The organic revenue decline was driven by the impact of government spending reductions in a number of areas and the return of education services to Bradford Council following our successful ten-year intervention contract. The majority of our regional Business Link services have closed and our businesslink.gov.uk contract significantly scaled back as a result of the funding cuts borne by Regional Development Agencies (RDAs) and central government departments. Following the 2010 Comprehensive Spending Review, we have continued to see some customers delay decisions on discretionary project work, which has also impacted margin. Strong performances in our strategic growth markets, including our citizen-centric partnership contracts with local authorities, has not been sufficient to offset the impact of these other areas of funding cuts. Although we expect some further impact of the current economic climate, this does not alter our belief in the significant market opportunities and the drivers of future growth in this sector.

IT-Enabled BPO Services

Serco won a significant new local authority strategic partnership with Peterborough City Council. Providing frontline and back office support services, the contract has an initial value of £100m over 10 years. The Council's in-house shared service centre has transferred to Serco, along with delivery of support services including customer services, procurement, revenues and benefits collection and payment, and property services. The partnership with Peterborough is expected to grow with further services being brought into scope as part of Serco's involvement in the Council's transformation.

Supplementary work has been added to our other local authority relationships. Our ground-breaking strategic partnership with Hertfordshire County Council commenced in April 2011, providing front and back office operations including information and communication technology (ICT) services, business processes such as finance, payroll and HR, and support services such as facilities management, customer contact centres and occupational health. The initial 350 staff increased to over 450 in 2011 with the addition of Hertforshire's customer services centre. Since the start of full operations, we have been awarded an extension to the scope of our core contract to transform the customer experience and deliver a much wider scope of services including adult social care and highways, which will take staff numbers to over 600 by April 2012. Serco's property and IT joint venture with Glasgow City Council, known as Access, has been extended to include ICT support for the authority's secondary schools. Since the joint venture begun in 2008, our contract value has grown by over 40%.

In March 2011, Serco acquired The Listening Company, a UK-based provider of outsourced customer contact services to both private and public sector organisations. It specialises in bespoke solutions for managing customer interaction ranging from customer acquisition to retention, renewal and growth, and it operates across multiple communication channels. The business therefore adds significant contact centre scale and expertise which strengthens our capability to deliver high volume call handling and frontline customer services. Wins at The Listening Company included becoming the new provider of West Sussex County Council's UK contact centre. During the year The Listening Company opened its ninth major UK contact centre to manage sales and customer service activity for a range of UK-based organisations, including Shop Direct Group, the UK's largest online and home shopping retailer.

Serco has continued to strengthen its position as a leading provider of services to European institutions. A contract was successfully rebid to provide a wide range of IT operational and support services to a major European banking organisation, valued at €20m over four years. This was followed by a new win at the same organisation to provide IT development, security engineering and maintenance activities across the organisation's IT infrastructure and application services, worth an estimated €50m over eight years. A contract was renewed to provide specialist technical engineering support services at the European Organization for Nuclear Research (CERN) valued at €42m over seven years. Other smaller contracts were won at the European Organisation for the Exploitation of Meteorological Satellites (EUMETSAT), the European Space Operations Centre and the Italian Space Agency.

Reflecting the delivery of synergies with The Listening Company, Serco expanded its existing IT support services to a major European institution by winning a contract to provide a voice-based contact centre. This multilingual contact centre will maintain a base capability of at least nine languages but will also support all 25 EU languages whenever required.

Integrated and Environmental Services

Serco signed a 15-year partnership with Sport England to provide support services at two of Sport England's National Sports Centres, Bisham Abbey and Lilleshall. Under the contract, valued at over £100m, Serco will provide a number of services to these centres as well as playing a major part in the development of new accommodation and sporting facilities at both sites, and upgrading existing facilities and conference venues. This contract will focus upon delivering the best customer experience at each site. Supporting the National Governing Bodies of Sport and UK Sport based at these facilities, emphasis will be placed on youth development, community engagement and ensuring the facilities are managed to give home-grown athletes a competitive advantage as they prepare for the London 2012 Olympic and Paralympic Games.

Under challenges to meet government recycling targets and reduce costs such as landfill taxes, Serco has won a new contract for refuse and recycling services for Wandsworth Borough Council valued at £44m over eight years. Good progress has also been made in the first year of operating Serco's largest environmental contract, the Sandwell 25-year Waste Improvement Plan contract, valued at around £650m. The new waste transfer station is under development, an improved recycling service has been introduced with strong links forged with the local community through a series of successful community engagement initiatives to improve the local environment.

Education

Reflecting changes to UK government policy within the Education Bill 2011, Serco is partnering with councils where schools buy back for the provision of school improvement and related services, with wins in the second half including North East Lincolnshire Council, Warrington Borough Council and Halton Borough Council. The combined total value of these and other recent education-related contracts is estimated at approximately £50m over the next three to five years.

As previously announced, our ten-year contract with Bradford Council came to an end in September 2011 and we transferred the responsibility for all education services back to the Council. We are delighted with the significant improvements that have been made over the duration of the contract. In 2001, SATS Key Stage 2 pupils achieving Level 4 or higher was 66% for English and 59% for Maths, with this improving to 71% in each subject in 2011. In 2001, GCSE pupils achieving five A* - Cs was 34.3%, improving to 79% in 2011. Our contract in Walsall has been delivering similar successes, and its schools were confirmed as the eighth most improved at five A* - C GCSEs in 2011. The contract will end in 2013, reflecting the shift to direct funding to purchase services previously provided through government grants to local education authorities.

Americas

Our Americas segment 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, selected US state governments and municipal governments.

Revenue on a constant currency as well as on an organic basis declined by 6%. Revenue on a reported basis, given the weakening of the US dollar, fell by 9% to £868m (2010: £954m) and represented 19% of Group revenue. Adjusted operating profit, before corporate expenses, reduced by 6% on a reported currency basis, with the margin slightly increasing to 8.4% reflecting efficient cost management.

The funding of the US federal government functioned under a series of continuing resolutions for most of 2011 due to partisan gridlock and rising concerns about federal deficits. Having still grown constant currency revenues by 3% in the first half of the year, the impact was felt greatest in the second half of the year given a particularly strong performance in the equivalent period in 2010. The challenges facing the 2011 budget process included government agencies postponing contract award announcements, delaying work under existing contracts and cancelling or reducing the scope of many contracts and task orders. Within this context, Serco has been focusing on markets that we expect will continue to receive funding support and on assisting government customers to achieve greater efficiencies and higher productivity with constrained resources.

US government agencies are increasingly using multi-award contract vehicles to issue task orders on a rapid-cycle, competitive basis. Qualifying for and winning business under such Indefinite Delivery, Indefinite Quantity contract vehicles is a key contributor to Serco's growth.

During 2011, Serco was one of four awardees that won an important IDIQ vehicle, the US Navy's Space and Naval Warfare Systems Command (SPAWAR) Sea Enterprise Global contract with a ceiling value of $1.4bn over five years. Under this contract we support Command, Control, Communications, Computers, Intelligence, Surveillance and Reconnaissance (C4ISR) systems on US Navy surface ships and shore stations, and in 2011 we won task orders under this new contract valued at $13m. Further task orders valued at $18m had been won earlier in 2011 under the predecessor Sea Enterprise I IDIQ contract. A further IDIQ contract win to provide engineering, testing, and support services to SPAWAR has a ceiling value of $34m to Serco over five years.

Serco provides similar services to the US Air Force Space Command, with the customer electing to exercise an additional two-year option period on the Command, Control, Computer, Communications, Intelligence and Reconnaissance (C4IT2SR) IDIQ contract. Serco is the sole prime contractor under this $800m contract, under which we provide a range of mission-critical engineering and IT services, and we were awarded new task orders during 2011 with a total value of $115m. These services include engineering, systems integration, hardware procurement, software development, technical support, installation testing, operations and maintenance.

Under our HRsolutions IDIQ with the US Army we won a re-competed $33m task order to support the US Army's OneSource initiative, which was established to provide comprehensive community support and service delivery for soldiers and their families regardless of geographic location. Also under HRsolutions, we renewed a $52m, three-year contract to provide transition and employment assistance to soldiers and family members transitioning out of the military under the Army's Career and Alumni Program (ACAP) program. Serco has provided career counselling support to over 2.2 million service members, Army civilians and their families over the past two decades under this program. Additionally Serco won a new $10m, three-year task order to provide civilian workforce transition services and a new $9 million three-year task order to provide financial management services to the Army Defense Military Pay Office locations. During 2011, Serco won task orders with a total value of $169m under our three HRsolutions IDIQs.

We were one of seven large contractors to win an IDIQ contract to provide training services to the US Army's Maneuver Center of Excellence (MCoE) at Fort Benning, Georgia, with a ceiling value of $458m over five years. We also won an IDIQ contract to provide Manpower, Personnel, Training and Education (MPTE) planning support, policy and program analysis, financial program management, and training solutions for the US Navy with a ceiling value of $47m over three years.

During 2011, Serco was awarded a one-year extension and expansion to the VA for Vets contract with the Department of Veterans Affairs. Under this contract we are providing: program management; a knowledge management-based web portal with job hiring tools, e-Learning elements and simulations, videos and chat rooms; mobile web technologies; a call centre and career coaching. Serco also manages the MyArmyBenefits website, providing site architecture, IT development, programming, content management, benefits helpdesk and retirement and survivor planning. This contract was renewed with a three-year total value of US$10m.

Other defense-related contracts included: a renewed five-year, $12m contract with the US Navy for Training and Operational Readiness Information Services (TORIS) to provide web-based training support and capture readiness data for all US Navy surface ships; a renewed a three-year, $13.5m contract with the US Air Force Special Operations Forces for engineering, financial and logistics management; and a $15m contract extension for personnel management support services at the Walter Reed National Military Medical Center.

Growth in the intelligence arena came from an expansion of programme management work and from success in growing our footprint with a new intelligence customer. Serco also re-competed and was awarded a contract with an intelligence agency. The contract is valued at $15m over five years to provide pre-employment processing for potential employees for the agency.

Other contract awards included a $25m, five-year rebid contract to provide fleet management and maintenance services to Louisville Gas & Electric, a utility company based in Kentucky.

Serco was selected by the Boeing Company as its "Supplier of the Year" in the technology category. This is a tremendous honour, especially when considering that Boeing gave awards to only 16 out of its more than 17,500 suppliers worldwide. This award recognises Serco for its enterprise architecture work. This is the second time Serco's enterprise architecture team has received Boeing's Supplier of the Year award. Vetrepreneur Magazine cited Serco as one of the "10 Best Corporations for Veteran-Owned Businesses to work with in 2011". This achievement emphasises Serco's continued dedication to working with the Veteran community.

AMEAA

Our AMEAA segment consists of Africa, Middle East, Asia and Australasia, in which we provide a range of services including transport, justice, immigration, health, defence, BPO and facilities management.

Revenue on a reported basis grew 62% to £780m (2010: £481m) and represented 17% of Group revenue, up from 11% in 2011. Revenue on a constant currency basis, which excludes the impact of the strong Australian dollar, grew by 56%. Excluding the revenue contribution from acquisitions, principally Intelenet, revenue on an organic basis grew 37%. Adjusted operating profit, before corporate expenses, increased by 70% on a reported basis, with the margin increasing from 6.8% to 7.1% which includes the contribution of the higher margin Intelenet operations which more than offset higher than average bid and related costs for major contracts won in the year.

The exceptionally high organic revenue growth reflects new contracts that became operational in late 2010 and during 2011 as well as the expansion of existing contracts.

Our home affairs business in Australia works with the Australian Department of Immigration and Citizenship (DIAC) to transform its immigration services. Serco is committed to continuous improvement in the delivery of a dignified service for the people in our care. The average number of people in immigration detention in 2011 was higher than 2010. The increases in the contract values, since the contracts were originally signed, reflects the significant expansion of the detention network; as a result of this volume-related growth, the operations are currently now one of the largest of the Group. Over the life of the contract, Serco has been recognised by our customer for the transformation we have achieved, our humane approach and success in dealing with the challenges of substantially higher volumes than originally anticipated. The number of people in immigration detention reduced throughout the second half of 2011, reflecting government policy initiatives and improvements in visa processing times. We are working closely with DIAC to respond effectively to their changing needs.

Serco signed a new contract with the Western Australian Department of Corrective Services to provide Court Security and Custodial Services (CSCS) including key services such as inter-prison transfers, court security services, and the operation of court custody centres. The contract, which commenced on 31 July 2011, has a value to Serco of around A$210m (approximately £140m) over five years, with two options to extend to a maximum ten year term. This contract builds on our achievements and record at Acacia Prison in Western Australia, as well as our expertise in providing this vital part of the criminal justice system in the UK.

Our contract for Acacia Prison in Western Australia was renewed in May 2011. The previous five-year contract awarded to Serco in 2006 had a total value of A$155m, while the new five-year contract is valued at approximately A$310m and has the potential for extension. Under the new operating contract, Serco will deliver all prison services working alongside the Department of Corrective Services which is managing the development of new living units and supporting infrastructure to accommodate a further 387 prisoners, bringing the total capacity to 1,387. Revenues will increase through the lifespan of the contract as the prison capacity increases.

Serco's commendable performance at Acacia Prison was validated by the independent report by the Western Australian Office of the Inspector of Custodial Services, released in May. This stated that Acacia is "without doubt one of the best performing prisons in Western Australia, if not the best and it is also providing a financial saving to the State."

For the same customer, Serco is preferred bidder to operate and maintain a new Young Adults Facility in Western Australia. The facility is the first of its kind in Western Australia and marks Serco's entry into the youth justice sector in this region. The contract is valued at around A$50m for five years with two extension options of five years. The contract is expected to commence shortly with the facility accommodating up to 80 male offenders aged 18-24 years. Serco will provide: rehabilitation and reintegration services; care and wellbeing services; custody and containment services; and facilities management. Our bid emphasised the importance of seamless case management, coupled with a through-care approach, specifically focused on individual rehabilitation and reintegration into the community.

A new five-year contract has been signed with Queensland Corrective Services to manage and operate the new 300 bed high-security South Queensland Correctional Centre (SQCC) in Gatton, transferring operations from Borallon Correctional Centre near Brisbane. The contract, which commenced on 1 January 2012, is valued at around A$100m over five years, with an option to extend to ten years. This replaced and extended a similarly valued five-year contract, due to end in January 2013, to manage the Borallon Correctional Centre which is one of the oldest facilities in Queensland and is being temporarily decommissioned as part of a wider reorganisation of the State's prisons.

Serco signed and commenced its contract at Mount Eden Corrections Facility in Auckland for the New Zealand Department of Corrections. The six-year contract, to provide rehabilitation and reintegration programmes for prisoners as well as logistics and infrastructure management, has an option for extension for a further four years, and is valued at around NZ$300m over the full ten years. Responsibility for managing the prison facility began in May, with the transition completed in August 2011.

In defence, DMS Maritime (our 50:50 joint venture with P&O Maritime Services) which provides harbour and offshore services to the Royal Australian Navy, had its contract renewed in 2010. In 2011, a new contract was signed for the support of patrol boats under the Australian Department of Defence Pacific Patrol Boats Programme. This provides participating Pacific Island Countries with patrol boats to police their Exclusive Economic Zones. DMS will provide technical, engineering and logistic support services for the 19 patrol boats in 11 countries and refits for eight of those vessels, for a period of five years, with options to extend for a further 12 years. The contract is worth around A$50m to Serco over the entire contract life of 17 years.

Serco signed a new contract with the Australian Defence Force (ADF) to provide logistics and base support services in the Middle East. The two-year contract is valued at around A$50m and has two one-year extension options. Under the contract, Serco will deliver fully integrated support services in the Middle East, ensuring the provision of high-quality services in areas such as healthcare, maintenance, ground re-fuelling, accommodation and catering services. Drawing on our 15-year experience of working with the Australian military as a trusted provider of complex, integrated services, together with our well-established capabilities in the Middle East, we are ideally placed to provide these vital services for the ADF.

In 2010 we expanded into a new market with the appointment by the Western Australian Department of Health as preferred bidder to provide vital non-clinical support services at the new Fiona Stanley Hospital near Perth. The 10-year contract was signed in July 2011 at a total value to Serco of A$1.3bn (approximately £850m) and also has two five-year extension options. During the current pre-operational phase annual revenues will be approximately A$30-50m. From the opening of the hospital in 2014, annual revenues will be approximately A$160m.

The 783-bed hospital will be one of the leading hospitals in Australia and the major tertiary hospital serving communities south of Perth and across Western Australia. Under the Facilities Management Services contract, Serco will integrate non-clinical services through state-of-the-art technology to ensure the smooth running of the whole hospital. We will be responsible for 30 service lines, including: procurement for the fit-out of the hospital; management and maintenance of hospital assets including medical equipment; information and communication technology (ICT) services; estate and property management; recruitment and HR processes for all clinical staff; safety and incident management; design and provision of integrated bedside information and patient entertainment systems; the management of patient electronic medical records and a wide range of other support services.

Great Southern Rail's revenue has been broadly stable in 2011 despite the adverse market conditions from the strong Australian dollar and weak consumer spending impacting the Australian tourism market. For the second year running, The Ghan was awarded 'best luxury rail journey' in Luxury Travel Magazine's esteemed Gold List Awards, winning over competition from various famous international rail journeys. A new marketing campaign, new travel schedules, the expansion of the Platinum Service on the Indian Pacific and a second successful season of our newest train Southern Spirit, have contributed to this result.

In the Middle East, the Dubai Metro has sustained its high level of service, with availability and punctuality continuing to exceed 99%. Ridership has more than tripled from 60,000 per weekday on opening in September 2009 to 206,000 per weekday in January 2012; in November 2011, the total number of customer journeys reached 100 million. The Dubai Metro won the Best Rail Operator Award in the Middle East in 2011 for outstanding performance, while the Palm Jumeirah Monorail which we also operate was shortlisted among other finalists. The Green Line of the Dubai Metro commenced service in September 2011, adding a further 24 kilometres of track, 18 additional stations, 17 more trains and a third depot.

In the Kingdom of Saudi Arabia, the contract to deliver operations and maintenance consultancy services to the Al Mashaaer Al Mugaddassah Metro Southern Line in Makkah has been extended by one year, with an annual value of around £5.2m. This extension strengthens Serco's position as a leader in the global light rail market.

Serco has successfully secured an extension for air traffic control and aeronautical engineering services to the General Civil Aviation Authority of the UAE, valued at approximately £30m over three years. This complements the successful rebid earlier in 2011 of air navigation services at Abu Dhabi International Airport, Al Ain International Airport and Bateen International Airport valued at £22m over two years, and reaffirms Serco's position as a leading aviation services provider in the Middle East region. During 2011 Serco has also completed the full transfer of air traffic control services for lower airspace in Iraq.

In July 2011 Serco acquired Intelenet, a leading provider of Business Process Outsourcing (BPO) services to the private sector around the world and in the domestic Indian market, for up to £386m. The revenues and Adjusted operating profit consolidated by Serco since July were £84m and £10.7m respectively, reflecting the delivery of organic growth and maintained margins during this period. The integration of Intelenet into Serco is largely complete and Serco's existing India BPO operations have been incorporated into Intelenet to the full satisfaction of customers and with all operational performance measures maintained or improved.

Intelenet's order book is now approximately £600m. Since acquisition, contracts with a combined total value of over £50m have been awarded, including good traction with existing clients in both the international BPO and the Indian domestic markets. The opening of new delivery centres has also supported this and future growth, with openings in Lucknow in India and in Dubai to support new contract wins in the Middle East. Also of significance is Intelenet's involvement in the selection as single remaining bidder to operate the Anglia Support Partnership (ASP), Serco's first shared services proposition in the emerging market for middle and back office support to the UK health sector; ASP was not included in the value of 2011 awards. Further revenue synergies such as this, where the Group's combined capabilities and breadth of integrated offering are able transform public services, are expected to continue to emerge in the future.

Finance Review

Overview

Our business delivered a strong financial performance in 2011, with revenue growing 7.4% and Adjusted operating profit increasing by 12.1% to £290.1m. Excluding currency effects, revenue growth was 7.4% (3.5% organic) and Adjusted operating profit growth was 12.4%. Our Adjusted operating margin increased by 26 basis points. Adjusted profit before tax grew by 13.4%. Group free cash flow decreased by £17.5m to £168.3m, principally as a result of an increase in net capital expenditure.

1. Income statement

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

Figure 1: Income statement

Year ended 31 December	**2011 £m**	2010 £m	Increase
Revenue	**4,646.4**	4,326.7	7.4%
Gross profit	**700.4**	644.3	8.7%
Administrative expenses	**(410.3)**	(385.6)	6.4%
Adjusted operating profit	**290.1**	258.7	12.1%
Investment revenue and finance costs	**(27.9)**	(27.4)	
Adjusted profit before tax	**262.2**	231.3	13.4%
Amortisation of acquired intangibles	**(20.0)**	(17.4)	14.9%
Acquisition-related costs	**(3.9)**	-	
Profit before tax	**238.3**	213.9	11.4%
Tax	**(63.1)**	(57.1)	10.5%
Profit for the year	**175.2**	156.8	11.7%
Effective tax rate	**26.5%**	26.7%	
Adjusted earnings per share	**39.59p**	34.69p	14.1%
Earnings per share	**35.70p**	31.88p	12.0%
Dividend per share	**8.40p**	7.35p	14.3%

1.1 Revenue

Revenue grew by 7.4% to £4,646.4m (7.4% excluding currency effects). Organic revenue growth, excluding currency effects and acquisitions, was 3.5% reflecting the growth of existing contracts and the contribution of new contracts started in 2010 and 2011.

1.2 Adjusted operating profit

Following the significant acquisitions announced in the period, the calculations of Adjusted operating profit, Adjusted profit before tax and Adjusted EPS are now shown before acquisition-related costs as well as amortisation of acquired intangibles. There is no impact on the comparative results. Adjusted operating profit increased by 12.1% to £290.1m representing an Adjusted operating profit margin of 6.2%. Adjusted operating profit margin increased by 26 basis points (28 basis points excluding currency effects).

1.3 Investment revenue and finance costs

Investment revenue and finance costs totalled a net cost of £27.9m (2010: £27.4m), an increase of £0.5m. The increase excluding currency effects was £0.9m. The principal reason for this increase was additional loans raised to finance acquisition activity, offset by greater interest receivable on retirement benefit obligations compared to the previous period.

1.4 Adjusted profit before tax

Adjusted profit before tax was £262.2m, an increase of 13.4%.

1.5 Acquisition-related costs

These represent incremental costs arising from acquisition activity during the year. £3.1m of the costs incurred related to the acquisition of Intelenet.

1.6 Tax

The tax charge of £63.1m (2010: £57.1m) represents an effective rate of 26.5% (2010: 26.7%).

1.7 Earnings per share (EPS)

Adjusted EPS rose by 14.1% to 39.59p. EPS grew by 12.0% to 35.70p. EPS and Adjusted EPS are calculated on an average share base of 490.5m during the year (2010: 491.5m). The decrease in the average share base resulted principally from the full weighting in 2011 of own shares purchased in 2010 to satisfy options granted under the Group’s employee share option schemes.

2. Dividend

Serco’s policy is to increase the total dividend each year broadly in line with the increase in underlying earnings. The Board has proposed a final dividend of 5.90p per share, representing an increase on the 2010 final dividend of 14.6%, and bringing the total dividend for the year to 8.40p, a growth of 14.3%. The final dividend will be paid, subject to shareholder approval, on 22 May 2012 to shareholders on the register as at 9 March 2012.

3. Cash flow

The Group generated a free cash inflow of £168.3m (2010: £185.8m), with the reduction arising principally as a result of an increase in net capital expenditure.

Figure 2 analyses the cash flow. As in previous years, we have designed the analysis to show the underlying cash performance of the Group – the cash flows generated by subsidiaries plus the dividends received from joint ventures. It therefore differs from the consolidated cash flow on page 41, which proportionately consolidates the cash flows of joint ventures. The adjustment line in Figure 2 reconciles the movement in Group cash to the consolidated cash flow.

Figure 2: Cash flow

Year ended 31 December	**2011 £m**	2010 £m
Adjusted operating profit excluding joint ventures	**208.5**	194.1
Non cash items	**64.2**	61.8
Adjusted EBITDA excluding joint ventures	**272.7**	255.9
Working capital movement	**(32.3)**	(30.6)
Operating cash flow excluding joint ventures	**240.4**	225.3
Interest	**(32.7)**	(25.2)
Tax	**(32.2)**	(24.0)
Net expenditure on tangible and intangible assets	**(71.5)**	(41.8)
Dividends from joint ventures	**64.3**	51.5
Group free cash flow	**168.3**	185.8
Acquisition of subsidiaries	**(325.3)**	(2.3)
Acquisition-related costs	**(3.7)**	-
Purchase of own shares and issue proceeds of share capital	**(6.7)**	(14.7)
Financing	**236.0**	(173.4)
Special pension contribution	**(40.0)**	(20.0)
Dividends paid	**(37.3)**	(32.3)
Group net decrease in cash and cash equivalents	**(8.7)**	(56.9)
Adjustment to include joint venture cash impacts	**(15.1)**	8.7
Net decrease in cash and cash equivalents before exchange gains	**(23.8)**	(48.2)
Exchange (loss)/gain	**(0.7)**	8.1
Net decrease in cash and cash equivalents	**(24.5)**	(40.1)

Note: Adjusted EBITDA excluding joint ventures is earnings from subsidiaries before interest, tax, depreciation, intangible amortisation and other non cash items. Group free cash flow also excludes the cash impact of acquisition-related costs.

3.1 Operating cash flow excluding joint ventures

Operating cash flow excluding joint ventures of £240.4m (2010: £225.3m) reflects a conversion of Adjusted EBITDA into cash of 88% (2010: 88%). The working capital movement of £32.3m (2010: £30.6m) reflects the requirements of a growing business.

3.2 Interest

Net interest paid increased to £32.7m (2010: £25.2m), principally reflecting higher Group recourse net debt following acquisitions in the period.

3.3 Tax

Tax paid was £32.2m (2010: £24.0m). The increase in cash tax is principally as a result of higher overseas taxable profits arising in the period. 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.

3.4 Net expenditure on tangible and intangible assets

Net expenditure on tangible and intangible assets increased significantly to £71.5m (2010: £41.8m). This resulted from the planned additional investment in SAP systems in 2011 and a return to a more normal underlying level of contract capital investment compared to last year. This represents 1.9% of Group revenue excluding joint ventures (2010: 1.2%).

3.5 Dividends from joint ventures

Dividends received from joint ventures totalled £64.3m (2010: £51.5m), reflecting a higher than normal conversion rate of joint ventures' profit after tax into dividends of 100%.

3.6 Purchase of own shares and issue proceeds of share capital

This represents a £24.0m (2010: £23.0m) purchase of own shares for the employee benefit trust in order to satisfy options granted under the Group's share option schemes net of cash inflows of £17.3m (2010: £8.3m) relating to proceeds from the issue of share capital and exercise of share options.

3.7 Financing

The movement in financing is primarily due to acquisition funding.

3.8 Special pension contribution

This £40.0m payment represents the second instalment of a special pension contribution into the Group's main defined benefit pension scheme which was agreed following the triennial actuarial valuation in 2009. The first payment of £20.0m was made in December 2010.

4. Acquisitions

On 14 March 2011, the Group acquired The Listening Company Limited ('The Listening Company') a leading UK provider of outsourced contact centre services. The initial cash cost of the acquisition was £40.9m, comprising cash to the existing shareholders of £25.0m, plus the repayment of £15.9m of debt immediately after acquisition. In addition, deferred consideration with a fair value of £12.5m is payable, contingent on the financial performance in the two-year period from 1 March 2011 to the end of February 2013. The acquisition gave rise to goodwill of £39.4m. Intangible assets arising on the acquisition have been recognised at £6.6m and will be amortised on a straight-line basis over their expected lives.

On 7 July 2011, the Group acquired 87% of the share capital of SKR BPO Services Private Limited and its subsidiary companies (together 'Intelenet') for an initial cash consideration of £249.3m. A further £35.7m was paid on 19 October 2011 for the remaining 13% of share capital. Net debt acquired was £51.1m comprising £55.5m of acquired loans and £4.4m of acquired cash balances. There are contingent deferred consideration cash payments of up to £49.8m through to December 2013. The contingent cash payments are dependent principally on the delivery of revenue targets. The fair value of this contingent deferred consideration is £23.7m. Intangible assets arising on the acquisition have been recognised at £44.2m and will be amortised on a straight-line basis over their expected lives. The acquisition gave rise to £289.2m of goodwill. Intelenet is a leading provider of business process outsourcing (BPO) services to the private sector around the world and in the domestic Indian market. It operates from 34 global delivery centres across seven countries, providing a broad range of middle and back office services and has a strong customer base of international organisations, predominantly across the financial services, travel, healthcare and telecom sectors.

During the year, the Group also made a number of smaller acquisitions. Between March 2011 and December 2011, the Group acquired Braintree Clinical Services Limited, a UK-based company providing clinical and hospital services to Strategic Health Authorities; Philips Collection Services Limited, a UK-based company engaged in the provision of debt collection and fine management services; Excelior Pty Limited, an Australian registered company providing contact centre services; and JBI Properties Services Company LLC, a UAE-based company engaged in the provision of facilities management services. The total consideration for these acquisitions amounted to £31.5m, of which £7.8m is deferred. These acquisitions in aggregate gave rise to goodwill of £29.2m.

£3.9m of acquisition-related costs incurred on the above acquisitions have been expensed to the income statement. The cash flow impact of these acquisition-related costs included in the cash flow statement was £3.7m.

5. Net debt

Figure 3: Net debt

At 31 December	2011 £m	2010 £m
Group – cash and cash equivalents	**194.6**	204.0
Group – loans	**(819.4)**	(482.6)
Group – obligations under finance leases	**(45.0)**	(25.0)
Group recourse net debt	**(669.8)**	(303.6)
Joint venture – cash and cash equivalents	**60.2**	75.3
Joint venture – loans	**(7.9)**	(7.8)
Joint venture – obligations under finance leases	**(0.9)**	(1.4)
Total recourse net debt	**(618.4)**	(237.5)
Group non recourse debt	**(15.5)**	(23.7)
Total net debt	**(633.9)**	(261.2)

5.1 Group recourse net debt

Group recourse net debt increased by £366.2m to £669.8m. The increase was principally a result of acquisition activity. Sources of funding are described in section 7 below.

Cash and cash equivalents includes encumbered cash of £5.5m (2010: £10.9m). This is cash relating to customer advance payments.

5.2 Group non recourse debt

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

Group non recourse debt reduced by £8.2m to £15.5m, as a result of £7.9m payments made in line with the debt repayment schedule on debt relating to our Driver Examination Services contract in Canada and £0.3m decrease in non recourse debt due to exchange movements.

6. Pensions

The Group is a sponsor of a number of defined benefit schemes and defined contribution schemes. At 31 December 2011, the net retirement benefit asset included in the balance sheet arising from our defined benefit pension scheme obligations was £16.8m (2010: net liability £83.0m), on a pension scheme asset base of £1.7bn.

Figure 4: Defined benefit pension schemes

At 31 December	**2011 £m**	2010 £m
Group schemes – non contract specific	**58.8**	(76.1)
Contract specific schemes:		
– reimbursable	**(188.7)**	(123.4)
– not certain to be reimbursable	**(26.5)**	(26.7)
Net retirement benefit liabilities	**(156.4)**	(226.2)
Intangible assets arising from rights to operate franchises and contracts	**6.3**	8.9
Reimbursable rights debtor	**188.7**	123.4
Deferred tax (liabilities)/assets	**(21.8)**	10.9
Net balance sheet assets/(liabilities)	**16.8**	(83.0)

The total pension charge included in operating profit for the year ended 31 December 2011, including the proportionate share of joint ventures, increased to £112.3m (2010: £106.5m). Within this charge, the Group's contributions to UK and other defined contribution pension schemes increased to £80.4m (2010: £76.0m). The service charge relating to the Group's defined benefit schemes increased to £31.9m (2010: £30.5m) principally as a result of changes to the discount rate and inflation assumptions as at the end of 2010 and increases in payroll costs.

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

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

Serco has limited commercial risk in relation to the contract specific schemes, due either to the right of cost reimbursement or because the deficit will, in general, pass back to the customer or on to the next contractor at the end of the contract. Among our non contract specific schemes, the largest is the Serco Pension and Life Assurance Scheme (SPLAS). At 31 December 2011, SPLAS had a surplus of £122.3m (2010: deficit of £16.4m). This is calculated under IAS 19 using market-derived rates at 31 December 2011. It therefore reflects the effect of the market conditions on investment returns in the year and the net impact of a decrease in inflation assumptions offset by a decrease in the applicable discount rate.

The estimated actuarial deficit of SPLAS as at 31 December 2011 was approximately £27.3m. The value calculated in the latest triennial review was a deficit of £141m at 6 April 2009. Following the 2009 review, the Group agreed with the Trustees to make a cash contribution of £60m to the scheme, of which £20m was paid in December 2010 and £40m in January 2011. 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.

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

Figure 5: Pension assumption sensitivities

	Assumption	Change in assumption	Change in liability
Discount rate	4.7%	+0.5% (0.5)%	(9)% +10%
Price inflation	2.9% (RPI) and 2.10% (CPI)	+0.5% (0.5)%	+9% (8)%
Salary	3.30%	+0.5% (0.5)%	+2% (2)%
Longevity	20.9 – 24.6 *	Increase by one year	+3%

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

7. Treasury

The Group's committed bank credit facilities total £726.7m (2010: £698.9m). As at 31 December 2011, £241.3m had been drawn down on these combined bank facilities (2010: £329.8m). The facilities comprised:

- a £400.0m syndicated revolving credit facility, maturing in September 2013;
- a syndicated amortising term loan of £75.0 repayable over three years to June 2014;
- a syndicated amortising term loan for US Dollar 258.4m (£166.3m) repayable in September 2012 and September 2013. The next scheduled repayment of US Dollar 138.0m is due in September 2012; and
- bilateral credit facilities for £85.4m, of which £75.0m matures in September 2013 and Euro 12.5m (£10.4m) matures in April 2012.

In addition to the bank credit facilities, Serco has US private placements totalling £502.8m which will be repaid between 2012 and 2023. This includes £408.6m of US private placement notes issued in 2011. All of the Group's credit facilities detailed above are unsecured.

8. Going concern

The directors have acknowledged the guidance 'Going Concern and Liquidity Risk: Guidance for Directors of UK Companies 2009' and 'An update for Directors of Listed Companies: Responding to increased country and currency risk in financial reports', published by the Financial Reporting Council in October 2009 and January 2012 respectively. Whilst the current economic environment remains uncertain, the broad base of our contract portfolio and with over 90% of our customers being government bodies, the Group is well placed to manage its business risks successfully and has adequate resources to continue in operational existence for the foreseeable future.

The Group's revenues are largely derived from long-term contracts with governments. Historically, these contracts have been relatively resilient to changes in the general economy. The contract portfolio is diverse and a downturn in any particular market, sector or geography has a more limited effect on the Group as a whole. In addition, with an order book of £17.9bn and high visibility of future revenue streams (92% in 2012; 80% in 2013 and 70% in 2014), the Group is well placed to manage its business risks despite the current uncertain economic climate.

As at 31 December 2011, the Group's principal financing is through revolving credit facilities, term facilities and US private placements. The Group has approximately £1,230m of committed credit facilities. The headroom on the facilities was approximately £485m as at 31 December 2011. Scheduled repayments in 2012 in respect of amortising term loans are for £25m in June against the £75m term loan and US Dollar 138m (£89m) in September against the US Dollar 258m term loan. The Group fully expects to meet these repayments through operational cash flows. Based on the information set out above, the Directors believe that it is appropriate to prepare the financial statements on a going concern basis.

Consolidated Income Statement

For the year ended 31 December

	Note	2011 £m	2010 £m
Continuing operations			
Revenue	2	**4,646.4**	4,326.7
Cost of sales		**(3,946.0)**	(3,682.4)
Gross profit		**700.4**	644.3
Administrative expenses		**(410.3)**	(385.6)
Adjusted operating profit – before amortisation of intangibles arising on acquisition and acquisition-related costs		**290.1**	258.7
Other expenses – amortisation of intangibles arising on acquisition		**(20.0)**	(17.4)
Acquisition-related costs		**(3.9)**	-
Operating profit	2	**266.2**	241.3
Investment revenue	3	**12.2**	3.9
Finance costs	3	**(40.1)**	(31.3)
Profit before tax		**238.3**	213.9
Tax		**(63.1)**	(57.1)
Profit for the year		**175.2**	156.8
Attributable to:			
Equity holders of the parent		**175.1**	156.7
Non-controlling interest		**0.1**	0.1
Earnings per share (EPS)			
Basic EPS	5	**35.70p**	31.88p
Diluted EPS	5	**35.08p**	31.35p

Consolidated Statement of Comprehensive Income

For the year ended 31 December

	2011 £m	2010 £m
Profit for the year	**175.2**	156.8
Other comprehensive income for the year:		
Net actuarial (loss)/gain on defined benefit pension schemes[1]	**(51.0)**	49.9
Actuarial gain/(loss) on reimbursable rights[1]	**116.5**	(38.4)
Net exchange (loss)/gain on translation of foreign operations[2]	**(2.2)**	19.0
Fair value (loss)/gain on cash flow hedges during the year[2]	**(35.7)**	1.7
Tax relating to components of other comprehensive income[3]	**(5.9)**	(4.9)
Recycling of cumulative net hedging reserve[2]	**0.3**	0.3
Total comprehensive income for the year	**197.2**	184.4
Attributable to:		
Equity holders of the parent	**197.1**	184.3
Non-controlling interest	**0.1**	0.1

1 Recorded in retirement benefit obligations reserve in the consolidated statement of changes in equity.
2 Recorded in hedging and translation reserve in the consolidated statement of changes in equity.
3 Of the tax charge a debit of £14.7m (2010: debit of £4.3m) was recorded in the retirement benefit obligations reserve and a credit of £8.8m (2010: debit of £0.6m) was recorded in the hedging and translation reserve.

Consolidated Statement of Changes in Equity

For the year ended 31 December	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 2010	9.8	304.1	0.1	444.1	(150.0)	49.6	(13.0)	47.3	692.0	0.1
Total comprehensive income for the year	-	-	-	156.7	7.2	-	-	20.4	184.3	0.1
Shares transferred to option holders on exercise of share options	0.1	2.6	-	-	-	(2.9)	8.5	-	8.3	-
Dividends paid	-	-	-	(32.3)	-	-	-	-	(32.3)	(0.2)
Expense in relation to share-based payment	-	-	-	-	-	8.8	-	-	8.8	-
Tax credit in relation to share based payments	-	-	-	-	-	3.2	-	-	3.2	-
Purchase of own shares for employee benefit trust (ESOP)	-	-	-	-	-	-	(23.0)	-	(23.0)	-
At 1 January 2011	**9.9**	**306.7**	**0.1**	**568.5**	**(142.8)**	**58.7**	**(27.5)**	**67.7**	**841.3**	**-**
Total comprehensive income for the year	**-**	**-**	**-**	**175.1**	**50.8**	**-**	**-**	**(28.8)**	**197.1**	**0.1**
Shares transferred to option holders on exercise of share options	**-**	**16.0**	**-**	**-**	**-**	**(2.0)**	**3.3**	**-**	**17.3**	**-**
Dividends paid	**-**	**-**	**-**	**(37.3)**	**-**	**-**	**-**	**-**	**(37.3)**	**(0.1)**
Expense in relation to share-based payment	**-**	**-**	**-**	**-**	**-**	**11.2**	**-**	**-**	**11.2**	**-**
Tax charge in relation to share based payments	**-**	**-**	**-**	**-**	**-**	**(1.8)**	**-**	**-**	**(1.8)**	**-**
Purchase of own shares for employee benefit trust (ESOP)	**-**	**-**	**-**	**-**	**-**	**-**	**(24.0)**	**-**	**(24.0)**	**-**
At 31 December 2011	**9.9**	**322.7**	**0.1**	**706.3**	**(92.0)**	**66.1**	**(48.2)**	**38.9**	**1,003.8**	**-**

Consolidated Balance Sheet

At 31 December	Note	2011 £m	2010 £m
Non-current assets			
Goodwill		**1,259.0**	899.5
Other intangible assets		**184.9**	145.0
Property, plant and equipment		**194.8**	135.4
Trade and other receivables		**261.9**	156.7
Retirement benefit assets	13	**122.3**	-
Deferred tax assets		**28.2**	38.1
Derivative financial instruments		**2.0**	3.5
		2,053.1	1,378.2
Current assets			
Inventories		**58.8**	65.4
Trade and other receivables		**798.6**	786.2
Current tax assets		**9.2**	4.0
Cash and cash equivalents		**254.8**	279.3
Derivative financial instruments		**7.6**	3.9
		1,129.0	1,138.8
Total assets		**3,182.1**	2,517.0
Current liabilities			
Trade and other payables		**(804.2)**	(805.5)
Current tax liabilities		**(17.8)**	(19.5)
Obligations under finance leases		**(10.3)**	(7.1)
Provisions	9	**(10.4)**	-
Loans		**(206.6)**	(159.5)
Derivative financial instruments		**(12.3)**	(2.4)
		(1,061.6)	(994.0)
Non-current liabilities			
Trade and other payables		**(61.4)**	(22.2)
Obligations under finance leases		**(35.6)**	(19.3)
Loans		**(636.2)**	(354.6)
Derivative financial instruments		**(26.3)**	(5.2)
Retirement benefit obligations	13	**(278.7)**	(226.2)
Provisions	9	**(56.2)**	(39.6)
Deferred tax liabilities		**(22.3)**	(14.6)
		(1,116.7)	(681.7)
Total liabilities		**(2,178.3)**	(1,675.7)
Net assets		**1,003.8**	841.3
Equity			
Share capital		**9.9**	9.9
Share premium account		**322.7**	306.7
Capital redemption reserve		**0.1**	0.1
Retained earnings		**706.3**	568.5
Retirement benefit obligations reserve		**(92.0)**	(142.8)
Share-based payment reserve		**66.1**	58.7
Own shares reserve		**(48.2)**	(27.5)
Hedging and translation reserve		**38.9**	67.7
Equity attributable to equity holders of the parent		**1,003.8**	841.3
Non-controlling interest		**-**	-
Total equity		**1,003.8**	841.3

The financial statements were approved by the Board of Directors on 27 February 2012 and signed on its behalf by:

Christopher Hyman
Chief Executive

Andrew Jenner
Finance Director

Consolidated Cash Flow Statement

For the year ended 31 December

	Note	2011 £m	2010 £m
Net cash inflow from operating activities before special pension contribution		**257.0**	261.0
Special contribution to defined benefit pension schemes		**(40.0)**	(20.0)
Net cash inflow from operating activities	7	**217.0**	241.0
Investing activities			
Interest received		**3.4**	3.3
Increase in security deposits		**(8.2)**	-
Proceeds from disposal of property, plant and equipment		**9.2**	6.1
Proceeds from disposal of intangible assets		**-**	7.3
Acquisition of subsidiaries, net of cash acquired (excluding acquisition-related costs)	6	**(325.3)**	(2.1)
Purchase of other intangible assets		**(35.2)**	(20.9)
Purchase of property, plant and equipment		**(49.7)**	(35.4)
Net cash outflow from investing activities		**(405.8)**	(41.7)
Financing activities			
Interest paid		**(35.8)**	(27.9)
Dividends paid		**(37.3)**	(32.3)
Non-controlling interest dividends paid		**(0.1)**	(0.2)
Cash inflow from matured derivative financial instruments		**4.9**	1.6
Repayment of loans		**(559.8)**	(167.8)
Repayment of non recourse loans		**(7.9)**	(7.6)
New loan advances		**818.4**	10.1
Capital element of finance lease repayments		**(10.7)**	(8.7)
Purchase of own shares for employee benefit trust (ESOP)		**(24.0)**	(23.0)
Proceeds from issue of share capital and exercise of share options		**17.3**	8.3
Net cash inflow/(outflow) from financing activities		**165.0**	(247.5)
Net decrease in cash and cash equivalents		**(23.8)**	(48.2)
Cash and cash equivalents at beginning of year		**279.3**	319.4
Net exchange (loss)/gain		**(0.7)**	8.1
Cash and cash equivalents at end of year		**254.8**	279.3

Notes to the Full Year Announcement

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 2011 or 2010, but is derived from these accounts.

Statutory accounts for 2010 have been delivered to the Registrar of Companies and those for 2011 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 (IFRSs) adopted for use in the European Union. Whilst the financial information included in this preliminary announcement has been computed in accordance with IFRSs, this announcement does not itself contain sufficient information to comply with IFRSs. The Company expects to publish full Group and parent company only financial statements that comply with IFRSs and UK Accounting Standards respectively, in April 2012.

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 Operating Review on pages 15 to 28. 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 with governments. Historically, these contracts have been relatively resilient to changes in the general economy. The contract portfolio is diverse and a downturn in any particular market, sector or geography has a more limited effect on the Group as a whole. In addition, with an order book of £17.9bn and high visibility of future revenue streams, the Group is well placed to manage its business risks despite the current economic climate.

The Group's committed bank credit facilities total £726.7m. As at 31 December 2011, £241.3m had been drawn down on these combined bank facilities (2010: £329.8m). In addition to the bank credit facilities, Serco has US private placements totalling £502.8m which will be repaid between 2011 and 2023. The headroom on the Group's total facilities as at 31 December 2011 was approximately £485m.

After making enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the condensed set of financial statements.

The information previously presented in the consolidated statement of comprehensive income (SOCI) and the consolidated statement of changes in equity (SOCIE) for the year ended 31 December 2010 has been re-presented. The tax credit on the expense in relation to share based payments previously reported within the SOCI and has now been separately disclosed within the SOCIE.

2. Segmental information

Information reported to the Chief Operating Decision Maker for the purposes of resource allocation and assessment of segment performance focuses on the categories of customer identified using their respective markets. Details of the different products and services provided to each operating segment are included in the Operating Review section of this report. The Group's reportable operating segments under IFRS 8 are:

Reportable Segments	Operating Segments
Civil Government	UK and Europe civil government and transport;
Defence, Science and Nuclear	UK and Europe defence and science-based businesses;
Local Government and Commercial	UK and Europe IT and BPO, integrated services, education and commercial businesses;
Americas	US defence, intelligence and federal civil government agencies operations, and Canadian operations; and
AMEAA	Africa, Middle East, Asia (including Hong Kong and India) and Australasia.

The following is an analysis of the Group's revenue and results by reportable segment in the year ended 31 December 2011.

Reportable segments **Year ended 31 December**	**Civil Government 2011 £m**	**Defence, Science and Nuclear 2011 £m**	**Local Government and Commercial 2011 £m**	**Americas 2011 £m**	**AMEAA 2011 £m**	**Total 2011 £m**
Revenue	**1,199.1**	**939.1**	**859.8**	**868.2**	**780.2**	**4,646.4**
Result						
Segment Adjusted operating profit	**79.7**	**79.9**	**52.4**	**73.0**	**55.4**	**340.4**
Amortisation of intangibles arising on acquisition	**(0.2)**	**-**	**(3.0)**	**(13.6)**	**(3.2)**	**(20.0)**
Acquisition-related costs	**(0.2)**	**-**	**(0.6)**	**-**	**(3.1)**	**(3.9)**
Segment result	**79.3**	**79.9**	**48.8**	**59.4**	**49.1**	**316.5**
Corporate expenses						**(50.3)**
Operating profit						**266.2**
Investment revenue						**12.2**
Finance costs						**(40.1)**
Profit before tax						**238.3**
Tax						**(63.1)**
Profit for the year						**175.2**

Group Adjusted operating profit is £290.1m and comprises segment Adjusted operating profit of £340.4m less Corporate expenses of £50.3m.

2. Segmental information (continued)

Year ended 31 December	Civil Government 2010 £m	Defence, Science and Nuclear 2010 £m	Local Government and Commercial 2010 £m	Americas 2010 £m	AMEAA 2010 £m	Total 2010 £m
Revenue	1,126.9	910.8	853.9	953.9	481.2	4,326.7
Result						
Segment Adjusted operating profit	66.6	77.3	55.8	77.9	32.6	310.2
Amortisation of intangibles arising on acquisition	(0.2)	-	(2.7)	(13.9)	(0.6)	(17.4)
Segment result	66.4	77.3	53.1	64.0	32.0	292.8
Corporate expenses						(51.5)
Operating profit						241.3
Investment revenue						3.9
Finance costs						(31.3)
Profit before tax						213.9
Tax						(57.1)
Profit for the year						156.8

Group Adjusted operating profit is £258.7m and comprises segment Adjusted operating profit of £310.2m less Corporate expenses of £51.5m.

Segment assets

	2011 £m	2010 £m
Civil Government	**268.6**	292.2
Defence, Science and Nuclear	**450.1**	408.0
Local Government and Commercial	**611.5**	533.5
Americas	**660.7**	694.5
AMEAA	**707.3**	251.0
Corporate assets	**182.1**	9.0
Total segment assets	**2,880.3**	2,188.2
Unallocated assets	**301.8**	328.8
Consolidated total assets	**3,182.1**	2,517.0

Segment assets exclude all derivative financial instruments, current and deferred taxation assets and cash.

Segment liabilities

	2011 £m	2010 £m
Civil Government	**(225.8)**	(243.0)
Defence, Science and Nuclear	**(361.8)**	(313.3)
Local Government and Commercial	**(177.8)**	(176.0)
Americas	**(103.9)**	(133.5)
AMEAA	**(190.2)**	(85.8)
Corporate liabilities	**(84.8)**	(102.3)
Total segment liabilities	**(1,144.3)**	(1,053.9)
Unallocated liabilities	**(1,034.0)**	(621.8)
Consolidated total liabilities	**(2,178.3)**	(1,675.7)

Segment liabilities consist of all trade and other payables and retirement benefit obligations.

2. Segmental information (continued)

Geographic information

	Revenue 2011 £m	Non-current assets* 2011 £m	Revenue 2010 £m	Non-current assets* 2010 £m
United Kingdom	**2,587.3**	**1,008.8**	2,586.4	707.9
United States	**802.1**	**460.8**	880.3	463.2
Other countries	**1,257.0**	**553.3**	860.0	165.5
Total	**4,646.4**	**2,022.9**	4,326.7	1,336.6

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

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

3. Investment revenue and finance costs

	2011 £m	2010 £m
Interest receivable on other loans and deposits	**4.0**	3.9
Net interest receivable on retirement benefit obligations	**8.2**	-
Investment revenue	**12.2**	3.9
Interest payable on non recourse loans	**(1.0)**	(1.4)
Interest payable on obligations under finance leases	**(2.1)**	(2.2)
Interest payable and amortisation of capitalised financing transaction costs on other loans	**(35.6)**	(23.7)
Movement in discount on provisions and deferred consideration	**(1.4)**	(1.2)
Net interest payable on retirement benefit obligations	**-**	(2.8)
Finance costs	**(40.1)**	(31.3)
Net finance costs	**(27.9)**	(27.4)

4. Dividends

	2011 £m	2010 £m
Amounts recognised as distributions to equity holders in the year:		
Final dividend for the year ended 31 December 2010 of 5.15p per share on 488.5 million ordinary shares (2010: Final dividend for the year ended 31 December 2009 of 4.40p per share on 490.5million ordinary shares)	**25.2**	21.6
Interim dividend for the year ended 31 December 2011 of 2.50p per share on 486.6 million ordinary shares (2010: Interim dividend for the year ended 31 December 2010 of 2.25p per share on 488.2 million ordinary shares)	**12.1**	10.7
	37.3	32.3
Proposed final dividend for the year ended 31 December 2011 of 5.90p per share on 489.1 million ordinary shares (2010: 5.15p on 488.5 million ordinary shares)	**28.9**	25.2

The proposed final dividend for 2011 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.

5. Earnings per share

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

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

Number of shares

	2011 Millions	2010 Millions
Weighted average number of ordinary shares for the purpose of basic EPS	**490.5**	491.5
Effect of dilutive potential ordinary shares: share options	**8.6**	8.4
Weighted average number of ordinary shares for the purpose of diluted EPS	**499.1**	499.9

Earnings per share

	Earnings 2011 £m	**Per share amount 2011 Pence**	Earnings 2010 £m	Per share amount 2010 Pence
Earnings for the purpose of basic EPS being net profit attributable to the equity holders of the parent	**175.1**	**35.70**	156.7	31.88
Add back:				
Amortisation of intangible assets arising on acquisition, net of tax of £4.3m (2010: £3.6m)	**15.7**	**3.20**	13.8	2.81
Acquisition-related costs, net of tax of £0.5m (2010: £nil)	**3.4**	**0.69**	-	-
Adjusted earnings before amortisation of intangible assets arising on acquisition	**194.2**	**39.59**	170.5	34.69
Earnings for the purpose of basic EPS	**175.1**	**35.70**	156.7	31.88
Effect of dilutive potential ordinary shares	**-**	**(0.62)**	-	(0.53)
Diluted EPS	**175.1**	**35.08**	156.7	31.35

6. Acquisitions

During the year, the Group completed the following acquisitions which have been accounted for in accordance with IFRS 3 Business Combinations (2008).

6 (a) The Listening Company Limited

On 14 March 2011, Serco acquired 100% of the issued share capital of The Listening Company Limited. The initial cash cost of the acquisition was £40.9m, comprising £25.0m in cash, plus the repayment of £15.9m of debt immediately after acquisition. Consideration under IFRS 3 for the acquisition is £37.5m, being initial cash payment of £25.0m noted above, and £12.5m being the fair value of deferred consideration, payable conditional on the financial performance in the two year period from 1 March 2011 to the end of February 2013. The Listening Company Limited is a leading UK provider of outsourced contact centre services.

6. Acquisitions (continued)

6 (a) The Listening Company Limited (continued)

Net assets acquired were:	Book value £m	Fair value adjustments £m	Provisional fair value £m
Goodwill	0.2	(0.2)	-
Intangible assets	-	6.6	6.6
Property, plant and equipment	7.8	(1.1)	6.7
Deferred tax asset	0.1	3.0	3.1
Trade and other receivables	19.8	0.2	20.0
Tax assets	-	0.1	0.1
Trade and other payables	(16.2)	1.1	(15.1)
Loans	(16.7)	-	(16.7)
Tax liabilities	(0.3)	0.3	-
Deferred tax liabilities	-	(1.8)	(1.8)
Obligations under finance leases	(0.2)	(0.6)	(0.8)
Provisions	-	(4.0)	(4.0)
Net liabilities acquired	(5.5)	3.6	(1.9)
Goodwill			39.4
Total consideration			37.5

Satisfied by:	
Cash	25.0
Contingent consideration arrangement	12.5
Total consideration	37.5

Net cash outflow arising on acquisition:	
Purchase consideration	25.0

The provisional fair value of the financial assets acquired includes trade receivables with a fair value of £14.0m and a gross contractual value of £14.5m.

The goodwill of £39.4m arising from the acquisition represents future opportunities in the UK outsourced contact centre services industry. None of the goodwill is expected to be deductible for income tax purposes.

The potential undiscounted amount of all future payments that Serco Group plc could be required to make under the contingent consideration arrangement, which has been measured based upon current expectations of future performance, is between £nil and £13.5m and the fair value is £12.5m.

Acquisition related costs, included in Operating profit, but excluded from Adjusted operating profit, amounted to £0.6m.

The Listening Company Limited contributed £69.0m revenue and £5.2m to the Group's Adjusted operating profit for the period between the date of acquisition and the balance sheet date. If the acquisition of The Listening Company Limited had been completed on the first day of the financial year, Group Revenue for the period would have been £4,663.3m and the Group's Adjusted operating profit would have been £291.1m.

6. Acquisitions (continued)

6 (b) Intelenet Global Services Private Limited (Intelenet)

On 7 July 2011, the Group acquired 87% of the share capital of SKR BPO Services Private Limited and its subsidiary companies (together 'Intelenet') for an initial cash consideration of £249.3m. On acquisition, the Group was unconditionally obligated to acquire the remaining 13% of share capital for which it paid a further £35.7m on 19 October 2011. As a result, the Group has accounted for Intelenet as a 100% subsidiary with no attributable non-controlling assets from the acquisition date.

Net debt acquired was £51.1m comprising £55.5m of acquired loans and £4.4m of acquired cash balances. There are contingent deferred consideration cash payments of up to £49.8m through to December 2013. The contingent cash payments are dependent principally on the delivery of revenue targets. The fair value of this contingent deferred consideration is £23.7m.

Intelenet is a leading provider of business process outsourcing (BPO) services to the private sector around the world and in the domestic Indian market. It operates from 34 global delivery centres across seven countries, providing a broad range of middle and back office services and has a strong customer base of international organisations, predominantly across the financial services, travel, healthcare and telecom sectors.

Net assets acquired were:	Book value £m	Fair value adjustments £m	Provisional fair value £m
Goodwill	**62.4**	**(62.4)**	**-**
Intangible assets	**3.6**	**44.2**	**47.8**
Property, plant and equipment	**47.9**	**(18.1)**	**29.8**
Deferred tax asset	**0.4**	**12.7**	**13.1**
Derivative financial instruments (assets)	**1.8**	**-**	**1.8**
Trade and other receivables	**46.6**	**-**	**46.6**
Tax assets	**14.4**	**(1.2)**	**13.2**
Cash and cash equivalents	**4.4**	**-**	**4.4**
Trade and other payables	**(19.0)**	**(12.0)**	**(31.0)**
Loans	**(55.5)**	**-**	**(55.5)**
Derivative financial instruments (liabilities)	**(0.2)**	**-**	**(0.2)**
Tax liabilities	**-**	**(4.5)**	**(4.5)**
Deferred tax liabilities	**-**	**(14.4)**	**(14.4)**
Provisions	**(1.8)**	**(29.8)**	**(31.6)**
Net assets acquired	**105.0**	**(85.5)**	**19.5**
Goodwill			**289.2**
Total consideration			**308.7**

Satisfied by:	
Cash	**285.0**
Contingent consideration arrangement	**23.7**
Total consideration	**308.7**

Net cash outflow arising on acquisition:	
Purchase consideration	285.0
Less: cash and cash equivalent balances acquired	(4.4)
Net cash outflow arising on acquisition	**280.6**

The provisional fair value of the financial assets acquired includes trade receivables with a fair value of £30.2m and a gross contractual value of £31.1m, and other receivables with a fair value of £16.4m and a gross contractual value of £16.5m.

6. Acquisitions (continued)

6 (b) Intelenet Global Services Private Limited (Intelenet) (continued)

The acquisition gives rise to £289.2m of goodwill relating to future opportunities in business process outsourcing. None of the goodwill recognised is expected to be deductible for corporate income tax purposes.

The Group incurred £3.1m of acquisition-related expenses in the period to 31 December 2011 in relation to this acquisition.

Intelenet contributed £83.7m revenue and £10.7m to the Group's Adjusted operating profit for the period between the date of acquisition and the balance sheet date. If the acquisition of Intelenet had been completed on the first day of the financial year, Group Revenue for the period would have been £4,724.3m and the Group's Adjusted Operating profit would have been £299.8m.

6 (c) Other Acquisitions

Braintree Clinical Services Limited
On 8 March 2011, the Group acquired 100% of the issued share capital of Braintree Clinical Services Limited. The net cash received was £1.1m, comprising cash balances acquired of £1.6m and initial cash consideration of £0.5m. In addition, deferred consideration of £1.1m is payable in 2012. The fair value of net liabilities acquired totalled £2.0m.

Braintree Clinical Services Limited is based in the United Kingdom and provides clinical and hospital services to Strategic Health Authorities in the UK.

The acquisition gives rise to £3.6m of goodwill relating to future opportunities in the provision of clinical and hospital services. None of the goodwill recognised is expected to be deductible for income tax purposes.

Acquisition related costs, included in Operating profit, but excluded from Adjusted operating profit, amounted to £0.1m.

Due to the immaterial nature of this acquisition, full disclosures under IFRS 3 are not presented.

Philips Collection Services Limited
On 24 October 2011, the Group acquired 100% of the issued share capital of Philips Collection Services Limited and Philips Bailiffs Limited. The initial cash cost of the acquisition was £6.8m. In addition deferred consideration of up to £3.4m is payable, contingent on financial performance in the period to 31 December 2013. The fair value of this deferred, contingent consideration is £3.3m. The provisional fair value of assets acquired totalled £0.7m.

Philips Collection Services Limited and Philips Bailiffs Limited are based in the United Kingdom and are engaged in the delivery of debt collection and fine management services to local and central government agencies.

The acquisition gives rise to £9.4m of goodwill relating to future opportunities in the delivery of debt collection and fine management services. None of the goodwill recognised is expected to be deductible for income tax purposes.

Acquisition related costs included in Operating profit, but excluded from Adjusted operating profit, amounted to £0.1m.

Due to the immaterial nature of this acquisition, full disclosures under IFRS3 are not presented.

6. Acquisitions (continued)

6 (c) Other Acquisitions (continued)

Excelior Pty Limited
On 31 October 2011, the Group acquired 100% of the issued share capital of Excelior Pty Limited. The initial cash cost of the acquisition was £6.0m, In addition deferred consideration of up to £3.4m is payable, contingent on financial performance in the period to 31 December 2012. The fair value of this deferred, contingent consideration is £3.4m. The provisional fair value of assets acquired totalled £2.3m.

Excelior Pty Limited is based in Australia and is engaged in the provision of contact centre services and business processing.

The acquisition gives rise to £7.1m of goodwill relating to future opportunities in the provision of contact centre services and business processing. None of the goodwill recognised is expected to be deductible for income tax purposes.

Due to the immaterial nature of this acquisition, full disclosures under IFRS3 are not presented.

JBI Properties Services Company LLC
On 29 December 2011, the Group acquired 100% of the issued share capital of JBI Properties Services Company LLC. The consideration for this acquisition was £10.4m. The provisional fair value of assets acquired totalled £1.3m.

JBI Properties Services Company LLC is based in the United Arab Emirates and is engaged in the provision of facilities management services.

The acquisition gives rise to £9.1m of goodwill relating to future opportunities in the provision of facilities management services. None of the goodwill recognised is expected to be deductible for income tax purposes.

Due to the immaterial nature of this acquisition, full disclosures under IFRS3 are not presented.

6. Acquisitions (continued)

Other acquisitions (in aggregate):

Net assets acquired were:	Book value £m	Fair value adjustments £m	Provisional fair value £m
Intangible assets	0.3	1.2	1.5
Property, plant and equipment	3.7	(0.1)	3.6
Deferred tax assets	0.8	0.8	1.6
Inventories	2.9	(0.3)	2.6
Trade and other receivables	13.2	-	13.2
Cash and cash equivalents	4.0	-	4.0
Trade and other payables	(15.6)	(2.5)	(18.1)
Loans	(1.1)	-	(1.1)
Tax liabilities	(0.3)	-	(0.3)
Deferred tax liabilities	-	(0.2)	(0.2)
Provisions	(1.9)	(2.6)	(4.5)
Net assets acquired	6.0	(3.7)	2.3
Goodwill			29.2
Total consideration			31.5

Satisfied by:	
Cash	23.7
Contingent consideration arrangement	7.8
Total consideration	31.5

Net cash outflow arising on acquisition:	
Purchase consideration	23.7
Less: cash and cash equivalent balances acquired	(4.0)
Net cash outflow arising on acquisition	19.7

7. Notes to the consolidated cash flow statement

Reconciliation of operating profit to net cash inflow from operating activities

	2011 £m	2010 £m
Operating profit for the year	**266.2**	241.3
Adjustments for:		
Share-based payment expense	**11.2**	8.8
Depreciation of property, plant and equipment	**46.0**	39.4
Amortisation and impairment of intangible assets	**39.5**	43.6
Loss on disposal of property, plant and equipment	**0.5**	0.8
Profit on disposal of intangible assets	**-**	(1.5)
Impairment of goodwill	**-**	4.2
Movement in provisions	**(9.8)**	(5.1)
Other non cash movements	**3.4**	-
Operating cash inflow before movements in working capital	**357.0**	331.5
Decrease in inventories	**9.2**	3.5
Decrease/(increase) in receivables	**26.8**	(43.4)
(Decrease)/increase in payables	**(84.5)**	10.0
Special contribution to defined benefit pension scheme	**(40.0)**	(20.0)
Cash generated by operations	**268.5**	281.6
Tax paid	**(51.5)**	(40.6)
Net cash inflow from operating activities	**217.0**	241.0

Additions to fixtures and equipment during the year amounting to £29.6m (2010: £10.0m) were financed by new finance leases.

8. Analysis of net debt

	At 1 January 2011 £m	Cash flow £m	Acquisitions £m	Exchange differences £m	Non cash movements £m	At 31 December 2011 £m
Cash and cash equivalents	279.3	(32.2)	8.4	(0.7)	-	254.8
Non recourse loans	(23.7)	7.9	-	0.3	-	(15.5)
Other loans	(490.4)	(258.6)	(73.3)	(5.0)	-	(827.3)
Obligations under finance leases	(26.4)	10.7	(0.8)	0.2	(29.6)	(45.9)
	(261.2)	(272.2)	(65.7)	(5.2)	(29.6)	(633.9)

9. Provisions

	Employee related £m	Property £m	Contract £m	Other £m	Total £m
At 1 January 2010	7.7	8.0	10.4	16.2	42.3
Charged to income statement	3.5	0.1	0.2	2.3	6.1
Released to income statement	-	(0.9)	(0.9)	(2.7)	(4.5)
Utilised during the year	(0.6)	(1.2)	(2.2)	(2.7)	(6.7)
Unwinding of discount	-	0.3	0.3	-	0.6
Exchange differences	0.4	0.3	0.2	0.9	1.8
At 1 January 2011	**11.0**	**6.6**	**8.0**	**14.0**	**39.6**
Arising from acquisitions	**0.4**	**3.6**	**29.2**	**6.9**	**40.1**
Charged to income statement	**4.5**	**0.4**	**-**	**-**	**4.9**
Released to income statement	**-**	**(0.2)**	**(1.2)**	**(3.2)**	**(4.6)**
Utilised during the year	**(1.0)**	**(1.5)**	**(7.5)**	**(0.1)**	**(10.1)**
Unwinding of discount	**-**	**0.3**	**0.2**	**-**	**0.5**
Exchange differences	**0.1**	**(0.3)**	**(2.6)**	**(1.0)**	**(3.8)**
At 31 December 2011	**15.0**	**8.9**	**26.1**	**16.6**	**66.6**
Analysed as:					
Current					**10.4**
Non-current					**56.2**

10. Joint ventures

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

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

Income statement	**2011 £m**	2010 £m
Revenue	**819.3**	794.1
Expenses	**(737.7)**	(729.5)
Operating profit	**81.6**	64.6
Investment revenue	**2.7**	2.2
Finance costs	**(0.7)**	(0.5)
Profit before tax	**83.6**	66.3
Tax	**(20.0)**	(17.2)
Share of post-tax results of joint ventures	**63.6**	49.1

Operating profit is after allocating £1.0m (2010: £0.7m) of costs incurred by Group.

11. Related party transactions

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

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

	2011 £m	2010 £m
Royalties and management fees receivable	**1.5**	2.0
Dividends receivable	**64.3**	51.5
	65.8	53.5

11. Related party transactions (continued)

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

	2011 £m	2010 £m
Current:		
Loans	**0.5**	0.1

	2011 £m	2010 £m
Non-current:		
Loans	**3.2**	3.5

12. Share-based payments

In accordance with IFRS 2, a charge of £11.2m (2010: £8.8m) relating to the fair value of share-based schemes has been charged to the consolidated income statement.

13. Defined benefit pension schemes

The Group operates defined benefit schemes for qualifying employees of its subsidiaries in the UK and Europe. In addition, the Group has interests in joint ventures, which operate defined benefit schemes for qualifying employees.

The assets of the funded schemes are held independently of the Group's assets in separate trustee administered funds. 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:

	Virtually certain costs reimbursed 2011 £m	Not certain costs reimbursed 2011 £m	Non contract specific 2011 £m	Total 2011 £m
Fair value of scheme assets	**252.6**	**429.3**	**1,065.3**	**1,747.2**
Present value of scheme liabilities	**(441.3)**	**(594.9)**	**(1,001.3)**	**(2,037.5)**
Net amount recognised	**(188.7)**	**(165.6)**	**64.0**	**(290.3)**
Members' share of deficit	**-**	**43.7**	**2.2**	**45.9**
Franchise adjustment	**-**	**95.4**	**-**	**95.4**
Effect of IFRIC 14	**-**	**-**	**(7.4)**	**(7.4)**
	(188.7)	**(26.5)**	**58.8**	**(156.4)**
Analysed as:				
Net pension liability	**(188.7)**	**(26.5)**	**(63.5)**	**(278.7)**
Net pension asset	**-**	**-**	**122.3**	**122.3**
Related assets				
Intangible assets	**-**	**6.3**	**-**	**6.3**
Trade and other receivables	**188.7**	**-**	**-**	**188.7**
	188.7	**6.3**	**-**	**195.0**

13. Defined benefit pension schemes (continued)

	Virtually certain costs reimbursed 2010 £m	Not certain costs reimbursed 2010 £m	Non contract specific 2010 £m	Total 2010 £m
Fair value of scheme assets	254.8	403.3	875.1	1,533.2
Present value of scheme liabilities	(378.2)	(510.4)	(951.5)	(1,840.1)
Net amount recognised	(123.4)	(107.1)	(76.4)	(306.9)
Members' share of deficit	-	26.7	1.5	28.2
Franchise adjustment	-	53.7	-	53.7
Effect of IFRIC 14	-	-	(1.2)	(1.2)
Net pension liability	(123.4)	(26.7)	(76.1)	(226.2)
Related assets				
Intangible assets	-	8.9	-	8.9
Trade and other receivables	123.4	-	-	123.4
	123.4	8.9	-	132.3

Assumptions in respect of the expected return on scheme assets are based on market expectations of returns over the life of the related obligation. Due consideration has been given to current market conditions as at 31 December 2011 in respect to inflation, interest, bond yields and equity performance when selecting the expected return on assets assumptions.

The expected yield on bond investments with fixed interest rates is derived from their market value. The yield on equity investments contains an additional premium (an 'equity risk premium') to compensate investors for the additional anticipated risks of holding this type of investment, when compared to bond yields. Management have concluded that an appropriate equity risk premium is 4.6% (2010: 4.1%).

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

	2011 %	2010 %
Main assumptions:		
Rate of salary increases	**3.30**	3.50
Rate of increase in pensions in payment	**2.10 (CPI) and 2.90 (RPI)**	2.60 (CPI) and 3.10 (RPI)
Rate of increase in deferred pensions	**2.10 (CPI) and 2.90 (RPI)**	2.60 (CPI) and 3.10 (RPI)
Inflation assumption	**2.10 (CPI) and 2.90 (RPI)**	2.60 (CPI) and 3.10 (RPI)
Discount rate	**4.70**	5.40
Expected rates of return on scheme assets:		
Equities	**7.70**	8.30
Bonds except LDI	**4.70**	5.40
LDI	**3.90**	4.90
Gilts	**3.10**	4.20
Property	**4.35**	5.45
Cash and other	**0.50**	0.50
Annuity policies	**4.70**	5.40

	2011 Years	2010 Years
Post-retirement mortality:		
Current pensioners at 65 – male	**20.9**	20.8
Current pensioners at 65 – female	**23.4**	23.3
Future pensioners at 65 – male	**22.5**	22.4
Future pensioners at 65 – female	**24.6**	24.5