Stock Exchange Announcement

2 March 2011

Strong performance, portfolio of growth opportunities ahead

Serco Group plc – 2010 Results

12 months to 31 December	**2010**	**2009**	**% change**
Revenue	£4,327m	£3,970m	up 9.0%
Adjusted operating profit	£258.7m	£229.7m	up 12.6%
Operating profit	£241.3m	£212.1m	up 13.8%
Profit before tax	£213.9m	£177.1m	up 20.8%
Adjusted earnings per share	34.69p	29.53p	up 17.5%
Earnings per share	31.88p	26.76p	up 19.1%
Dividend per share	7.35p	6.25p	up 17.6%
Group free cash flow	£185.8m	£137.3m	up 35.3%

£5.6bn of contract awards spread internationally

- Service quality supports high win rates. Continue to win one in two new bids and 90% of rebids
- During 2010, signed £4.2bn of contracts, and appointed preferred bidder for £1.4bn of contracts
- 40% of revenue generated outside the UK, with strong growth in the Americas and AMEAA

Strong financial performance

- Revenue growth of 9.0% (7.6% excluding currency)
- Adjusted operating profit margin increase of 19bps to 6.0% (16bps excluding currency)
- Group free cash flow exceptionally strong at £185.8m (2009: £137.3m)
- Total dividend up 17.6% to 7.35p reflecting growth in earnings

Substantial global demand for efficient delivery of essential front-line services

- Economic environment and reform of public services create opportunities in new and existing markets
- Customers seeking help to build, protect and improve front-line services and increase efficiency
- Headwinds in UK during 2011 as Government austerity measures and reforms are shaped
- Exposure to different economies through portfolio provides resilience and overall growth potential

Reiterating guidance based on high revenue visibility and substantial pipeline of opportunities

- Order book of £16.6bn at 31 December 2010 (£17.1bn at 31 December 2009); visibility of 92% of planned revenue for 2011, 77% for 2012 and 66% for 2013
- Substantial £29bn pipeline of identified opportunities
- In 2011, expect good organic revenue growth and progress towards our 2012 margin guidance and continue to expect an increase in revenue to approximately £5bn and in Adjusted operating profit margin to approximately 6.3% by the end of 2012*

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

Christopher Hyman, Chief Executive of Serco Group plc, said: "Our colleagues across the world deliver essential services and their achievements have led to a strong financial performance in very challenging times. We expect Serco's position in new, diverse and expanding international markets to deliver ongoing benefits. Our agility and capacity to innovate underpins our confidence in continued growth across all our regions."

Notes:

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

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

Performance excluding currency has been calculated by translating non-Sterling revenue and earnings for the year to 31 December 2010 into Sterling at the average exchange rates for those currencies in 2009.

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 8.30 a.m. today. The presentation will be webcast live on www.serco.com and subsequently available on demand.

Overview

2010 was a successful year for Serco thanks to the commitment of our people to deliver quality essential services that matter to millions of people. Our continued focus on delivering excellent service for our customers resulted in high win rates and strong operational and financial performance in very challenging times.

Strong financial performance

Serco delivered a strong financial performance in 2010 with revenue growth of 9.0% to £4,326.7m; 7.6% growth excluding currency effects. Organic growth was also 7.6% excluding currency effects.

This growth demonstrated the capability, resilience and benefits of our portfolio, and our ability to develop new sectors and geographies, as economic headwinds began to be felt in the UK. Revenue growth was particularly strong in AMEAA, and we achieved a very good second half in the Americas. In the UK, good momentum from wins in 2009 drove growth in civil government markets while austerity measures began to be felt particularly in the defence and local government markets. The performance is described fully in the operational review below.

Adjusted operating profit rose by 12.6% to £258.7m, reflecting a 19 basis point increase in Adjusted operating profit margin to 6.0% (16 basis points increase excluding currency).

The Group delivered exceptionally strong free cash flow of £185.8m compared with £137.3m in 2009. Cash benefitted by around £20m from asset sale proceeds, a particularly high level of joint venture dividends and low tax payments.

Our policy is to increase the total dividend each year broadly in line with the increase in underlying earnings. Adjusted earnings per share rose 17.5% to 34.69p per share. Reflecting this growth, the Board has proposed a final dividend of 5.15p per share, bringing the total dividend for the year to 7.35p, up 17.6% compared with the previous year. The final dividend will be paid, subject to shareholder approval, on 17 May 2011 to shareholders on the register on 11 March 2011.

£5.6bn contract awards spread internationally

In 2010, we signed contracts valued at £4.2bn across a wide range of markets, and were appointed preferred bidder for a further £1.4bn of contracts. Our wins included significant contract extensions and expansions, as well as new contracts in existing and new geographies and sectors. The value of these wins does not include a number of Indefinite Delivery, Indefinite Quantity (IDIQ) contracts in the US which we qualified for and which have a combined ceiling value of US$4bn. These enable us to compete against other appointed companies for one or more of the specific task orders within the IDIQ.

Among the notable expansions and extensions to contracts during the year were:

- a two-year extension to our joint venture's Northern Rail contract, valued to Serco at approximately £530m;
- a renewed and expanded ten-year £100m contract to provide services at RAF Halton and RAF High Wycombe;
- a renewed and expanded US$170m, five-year air traffic control contract with the US Federal Aviation Administration;
- one renewed contract and one new contract with the US Navy to provide hazardous materials management, valued at approximately US$84m over 3½ years and US$88m over five years, respectively; and
- a renewed ten-year contract with the Royal Australian Navy, a 50:50 joint venture with P&O, valued to Serco at A$250m.

We had a number of important contract wins during 2010. These included:

- a 25-year, £650m environmental services contract with Sandwell Metropolitan Borough Council;
- a £415m, 26½ year contract to provide and operate a new prison at Belmarsh West, London;
- a ten-year contract with King's College Hospital NHS Foundation Trust for our GSTS Pathology joint venture, valued at around £110m to Serco;
- a £200m, eight-year strategic partnership with Hertfordshire County Council; and
- a five-year transportation management contract with the State of Georgia Department of Transportation valued at US$50m.

Transferring our skills and capabilities across our business helps us to expand into new geographies and sectors, and we had further success during 2010. Of particular note, we were:

- awarded our first home affairs contract in New Zealand, to manage the Mt Eden and Auckland Central Remand Prison, valued at up to NZ$300m (£140m) over ten years; and
- appointed preferred bidder for our first contract in the Australian health market – a substantial ten-year contract to provide services at Fiona Stanley Hospital in Perth, Australia.

In addition there were many smaller contracts won by transferring capabilities including a five-year contract with the Department of Veterans Affairs, a new US customer, to provide human capital solutions; and transport consultancy which includes a contract for the Makkah Metro in Saudi Arabia.

More details of these and other contract awards can be found in the operating review. We also signed numerous 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.

Substantial global demand for efficient delivery of essential front-line services

The economic environment, reform of public services and nation building are driving strong demand for the efficient delivery of essential front-line services, creating opportunities for Serco in both new and existing markets. Our broad capabilities and track record of delivery allow us to support customers as they look for help in transforming the quality and efficiency of these services, and in tackling key challenges such as economic stability and development, congestion, security, health and climate change.

In the UK, the Government's Comprehensive Spending Review has created a pressing need for public services to increase their efficiency in the face of reduced budgets and our markets are not immune. We signed a Memorandum of Understanding with the Cabinet Office in November to deliver cost savings on a number of contracts this year, further developing our strong partnership with the UK Government. While these savings are not material to the Group results, they combine with other headwinds, including the cancellation of one prison, the phasing out of the Business Link contracts and the pending developments in public service reform, to create a challenging environment in 2011.

The UK Government has stated that the public sector does not have to deliver the services it commissions. This is paving the way for the private and voluntary sectors to participate more fully in newer markets such as welfare to work and offender rehabilitation, and for the development of new delivery models, such as mutual organisations. We also expect to see service providers increasingly paid for the results they deliver, a model with which we already have considerable experience, particularly in the Flexible New Deal (FND) contract which is now planned to end in June 2011. This is to be replaced by the Work Programme framework for which we have been selected as a bidder for contracts in seven of the 11 regions.

We continue to work positively with our customers in the UK as they look for solutions to their financial and operational challenges. We are confident that our opportunities to support those needs will become clearer later this year and we expect these to drive further growth. We are anticipating that a forthcoming parliamentary white paper on Open Public Services will outline in more depth how private and third sector organisations could deliver additional UK public services.

Our international portfolio, spread across many expanding economies and markets, remains an important and proven element of our strategy. Our businesses outside the UK now account for 40% of our revenues and we are benefiting from the broader capabilities and contract portfolios we have developed in recent years. Our progress in establishing home markets in the US, Australia and the Middle East gives us strong international platforms from which to grow organically and benefit from the potential for rapid expansion of those markets. We also see significant potential in India where we have recently established our presence.

The US is the largest government contracting market in the world and our skills and capabilities, enhanced by those of our 2008 acquisition of SI International, enable us to participate successfully.

We are well positioned to grow our share of the addressable federal services market, which is valued at over US$150bn per annum. While the government is seeking to reduce expenditure in certain areas, such as large weapons programmes, we expect to see substantial opportunities in emerging priority areas such as IT infrastructure, cybersecurity, federal health and energy efficient IT.

In Asia Pacific, we have an active bid pipeline, driven by the need for better infrastructure and services in a fiscally conservative environment. Governments in Australia are aiming to return their budgets to surplus, helping to build a solid pipeline of opportunities in areas such as health, justice and defence.

In markets such as the Middle East and India, we continue to expect further opportunities arising from the demand for new services, including public transport systems, facilities management, education, health services and national security.

While we are primarily focused on organic growth, we will continue to acquire new skills and capabilities where they bring opportunities for growth in new markets and sectors, such as the US Federal market and international BPO markets.

Reiterating guidance

Our guidance reflects the growth potential we see across all our regions supported by our high revenue visibility and substantial pipeline of opportunities.

We have excellent visibility of future revenue 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 2010, our order book stood at £16.6bn, compared with £17.1bn at the end of 2009, including our contract signings during the year, the ending of our UK Flexible New Deal contracts and the cost savings on a number of contracts we have delivered to the UK Cabinet Office. We had visibility, at 31 December, of 92% of planned revenue for 2011, 77% for 2012 and 66% for 2013. Our pipeline of opportunities is currently £29bn.

For 2011, we expect good organic revenue growth and progress towards our 2012 margin guidance. Whilst this reflects the contracts we have won in 2010 and the opportunities we expect to see across our regions during 2011, we have also taken into account the headwinds in the UK. We expect the opportunities arising from the changed economic environment in the UK to begin to emerge from late 2011.

Prospects beyond the current year are encouraging and we continue to expect, by the end of 2012, an increase in revenue to approximately £5bn and in Adjusted operating profit margin to approximately 6.3%*.

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

Market opportunities and drivers

At the start of 2010, we created five new divisions based around our principal markets. This allowed us to maximise our focus on growth and opportunities and maintain a flexible and devolved organisation which responds to our customers' needs.

Both the sections on market opportunities and drivers, and operating performance are presented according to these divisions:

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

Our markets offer a broad range of opportunities, as governments address substantial budget deficits and face continued pressure to improve public services. Some governments are implementing deficit reduction programmes and require ongoing efficiencies in the delivery of essential front-line services whilst others are seeking to invest in creating or improving services. All are addressing significant challenges including unemployment and economic development, ageing and growing populations, migration, security, congestion and climate change.

Faced with this, governments are increasingly recognising the benefits of opening new areas of public service to competition. Studies have demonstrated that competition can reduce the cost of public services by 10-30% and stimulate innovation in delivery.

UK

In the UK, the economic environment has created a pressing need for more efficient public services in the face of reduced budgets. In its Comprehensive Spending Review, the Government stated its intention to move from being a deliverer of services to becoming a procurer, and is now looking to promote choice, increase accountability and devolve powers away from the centre. The competed public services market has potential to increase significantly in pursuit of efficiency; it was estimated in 2008 to be valued at some £80bn, representing only one third of the Government's expenditure on services.

We are anticipating headwinds in the current year while decisions on reform are resolved and customers develop their plans for future spending. However, a number of Government reviews including those into defence and security, transport and welfare, and a forthcoming parliamentary white paper on Open Public Services, may result in new opportunities for the private and third sector organisations to deliver services. We expect further clarity as the year progresses.

Civil Government

Welfare is an area of significant UK Government expenditure. The Work Programme is Britain's biggest employment programme for decades and will also be the first major move to a system of payment by results. The contracts are substantially larger, longer and have greater scope than the current Flexible New Deal contracts, as they will extend support to other groups including the 2.5 million people claiming Incapacity Benefit. The Work Programme will be let through framework agreements to allow for faster and more flexible procurement, and will adopt the model we have successfully pioneered of subcontracting front-line delivery to networks of providers. There is also potential for other employment-related support services contracts to be let through this framework over the next five years, including subsequent contracts that attract European Social Fund support.

In home affairs, the first three existing public sector prisons are being market-tested in 2011. We also see opportunities arising from the drive to manage the existing prison estate more effectively, reduce reoffending and improve the efficiency of probation, where a £1.6bn market is opening up. In addition, we are well placed to help with the proposed move to more community sentences for offenders, for example through our capabilities in electronic monitoring and rehabilitation of offenders.

The UK health budget is approximately 20% of government spending, at more than £100bn per annum, and reforms are focused on greater efficiency and improved outcomes. We see opportunities to grow our pathology joint venture and provide facilities management and support services to healthcare establishments and GP commissioners. We will also look at further opportunities to manage NHS hospitals and expand in offender healthcare.

Defence, Science and Nuclear

In the UK defence market, the Government has moved to a 'National Security' policy with the publication of the Strategic Defence and Security Review (SDSR) in October 2010, bringing together a number of markets in which we currently have presence and are increasing our potential. The SDSR also identified target reductions to the number of civil servants and the armed forces over the next five years, involving new ways of working and a more radical approach to the delivery of both back office services and procurement. Implementation of these changes is likely to provide opportunities for

Serco to support the Ministry of Defence (MOD) in change management, transition and the provision of complex integrated services. We are one of two bidders awaiting the decision on the Recruiting Partnering Project for the Army, and one of three bidders on the Future Outsourced Activities Programme for Royal Navy training services.

In wider security and civil resilience markets, we are pursuing opportunities such as the long-term provision of outsourced training services to the London Fire and Emergency Planning Authority.

The UK's scientific establishments have a critical role in addressing challenges such as economic recovery, climate change and national and energy security. We are in a strong position to contribute given our experience of managing the National Physical Laboratory, the National Nuclear Laboratory, the Atomic Weapons Establishment and our nuclear assurance business. Our partnership with the MOD on the Chemical, Biological, Radiological and Nuclear Protection Delivery Team also enables us to bid for further partnerships within the MOD.

In the energy sector, the UK Government faces significant challenges in securing the country's long-term needs while tackling climate change. Our participation ranges from delivering regulatory and technical services in the nuclear new-build programme to reducing the radar interference of windfarms. We are also exploring how we can apply our operations and maintenance capability in critical national infrastructure to the wider renewable energy market and establishing a Centre for Carbon Measurement.

Local Government and Commercial

In UK local government, councils are under significant pressure from reductions in central government grants, a freeze on council tax increases, reductions in business rates and increased service demands from citizens. This is driving increased interest in strategic partnering, service sharing, process re-engineering, personalisation of services and in some areas, engagement with the voluntary sector. We are currently in discussions with more than 20 local authorities on how we can help them to transform service delivery. Our successful bids into Enfield Borough Council, Hertfordshire County Council and Sandwell Metropolitan Borough Council are examples of how we have applied our broad and deep capabilities. We are committed to partnering with the voluntary sector and SMEs to develop solutions which address our customers' needs.

We are also engaging actively with a number of local authorities to discuss models for the outsourcing of Education and Children's Services, in the wake of the spending review and Education White Papers. Our partnership models, offering shared revenue and profit, have been well received. We anticipate a number of opportunities coming to market in 2011.

We are seeing a revolution in the way health services are delivered, increased opportunities to build on our integrated facilities management offering to acute hospital trusts, reaching into middle office services such as HR and Finance. Our success in transferring these skills as part of our proposition for Fiona Stanley Hospital in Australia, where we are preferred bidder, demonstrates the value of our experience.

Americas

The US market, which is the largest government contracting market in the world, offers Serco opportunities in both the Federal Defense and Federal Civilian markets.

In the US Federal services market, of which our addressable share is valued at US$150bn per annum out of a total of US$300bn, we expect the increasing reliance on information technology to continue to present significant opportunities for Serco. IT is essential for successful government operations and we expect increasing demand in areas where we have strong capabilities, such as systems engineering, cybersecurity, program management, command and control, and logistics systems modernisation.

Additionally, the Federal government continues to face workforce shortages and relies on contractors. Serco expects to grow in managed services including human capital management, military personnel support services, records management, business process outsourcing, and logistics supply operations. With our scale, capabilities, and past performance, we are well positioned to bid and win larger contracts.

We qualified on a number of 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. Notable examples awarded during 2010 included a five-year personnel support services IDIQ contract with the US Army, allowing us to compete with 16 other awardees for up to US$2.6bn of task orders. We are also eligible to compete with 11 other awardees for task orders within a studies and analysis IDIQ contract with the US Army, amounting to US$1.3bn over five years. In addition, we, along with 13 other companies, are signed up to a five-year Recruiting & Retention IDIQ contract for up to US$274m of task orders to provide program analysis, information technology, counselling and training with the US Army.

Since the year end, the US Navy's Space and Naval Warfare Systems Command (SPAWAR) has named Serco as one of four winners for an IDIQ contract to support the Navy in the installation and testing of Command, Control, Communications, Computers, Intelligence, Surveillance and Reconnaissance (C4ISR) systems. The contract has a ceiling value of US$1.4bn over a three-year base period with a two-year option period.

AMEAA

In Australia and New Zealand, there is a growing range of opportunities.

In the justice sector we are seeing a number of new-build and existing prisons being put to the market as governments challenge the traditional approach.

We also continue to pursue the emerging health market in both Australia and Hong Kong, as governments encourage the private and voluntary sectors to challenge traditional service delivery models for the build, finance and operation of hospitals.

Our defence strategy in Australia continues to develop, with opportunities in areas such as logistics and garrison support. The Government's Strategic Reform Programme will support the creation of some of these opportunities, through reviews of warehousing, distribution and equipment maintenance.

Serco's operations in the Middle East centre on the United Arab Emirates. This region remains buoyant for Serco as governments progress with infrastructure and public service projects in transport, education and health. We continue to build on our core markets in the region, particularly in facilities management, transport and aviation, and are well placed to move into new markets of health, education and defence with a strong pipeline of opportunities for the foreseeable future.

In India, we continue to develop our presence in the domestic BPO market. In addition, our Global Transport team is shaping significant opportunities in both the Middle East and India including rail, road and traffic management, marine services and aviation.

Operating Review

The operating review outlines contract wins which are significant because of their value or their contribution to our business development. We 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 healthcare.

Civil Government's revenue grew 9.8% to £1,126.9m (2009: £1,026.3m) and represented 26% of Group revenue in both 2010 and 2009. The growth, which was particularly strong considering the change in accounting for Train Operating Company track access charges which reduced revenue by £26.5m, was derived principally from the large contracts awarded in 2009 which became operational during 2010. These included the Flexible New Deal contracts under the Welfare to Work programme which started in October 2009 and the Barclays Cycle Hire Scheme in London. We also benefited from contract wins during 2010 such as the expansion, in September, of the GSTS Pathology joint venture to include King's College Hospital NHS Foundation.

Transport – Rail and Metro

We operate three of the best performing train operating contracts in the UK.

Both Northern Rail and Merseyrail, joint ventures with Abellio, continued to deliver strong operating performances.

Northern Rail achieved 90.8% punctuality as of the last period and overall satisfaction in the National Passenger Survey was 82% - unchanged from the previous year. It has recently been awarded Train Operator of the Year in the Rail Business Awards, recognising the investment made by Serco and Abellio above and beyond the franchise requirements. In addition, Northern Rail received two top national awards and four commendations in the Railway Industry Innovation Awards, as well as the top transport title from the Royal Society for the Prevention of Accidents for the second year running.

Merseyrail was the UK's most punctual railway during 2010, with 95.2% of trains on time over the year and was also the highest rated train operating company, with a 93% satisfaction rating in the independent National Passenger Survey.

On the Docklands Light Railway, the roll out of a full three-carriage service has increased capacity by 50%. Customer satisfaction was 95.4% for overall service and 96.3% for safety and security in the fourth quarter of 2010. Increased service reliability resulted in 97.1% of trains running to schedule, on the most recent figures. Passenger numbers grew again in 2010, and were 9.3% higher at 75.2 million journeys.

Northern Rail signed a two-year extension to its franchise, on the same terms as its existing contract. Serco's share of the extension to September 2013 is valued at approximately £530m.

In Rail Technology, we have completed our contracted development work on the Asset Inspection Train for the London Underground and, following earlier delays, now look forward to the final handover.

In August 2010, we launched Barclays Cycle Hire for Transport for London. By the end of the year, over 110,000 members had registered and the scheme is also now available to casual users. In total, over 2 million journeys have been made to date and in a survey, 91% of users said they were happy with the service. The scheme's success has resulted in plans to extend it towards east London in readiness for the 2012 Olympics, increasing the area covered to 65km². Around 8,000 hire bikes will be available from 14,400 docking points spread across 600 docking stations.

Home Affairs

We signed a contract with the Ministry of Justice to provide and operate a new prison at Belmarsh West, London. The contract has a value to us of approximately £415m over 26½ years. The prison will be built by our construction partner Skanska, with equity and debt finance secured from third parties, and is on track to be completed in the first half of 2012. Belmarsh West is the first UK prison contract to be awarded to an alliance of the private and voluntary sectors. With our partners, Turning Point and Catch22, we will focus on cost-effective care and successful rehabilitation, creating an environment that prepares those in our care for release.

We were disappointed to be informed that, having been appointed preferred bidder to provide and operate a further prison at Maghull, the project would not go ahead as a result of the Comprehensive Spending Review. We fully understand the decision and look forward to working with the Government on its proposals to deliver innovative, effective rehabilitation to reduce reoffending.

We were awarded a number of contract extensions, including a two-year extension, valued at £38m, to our contract to run Colnbrook Immigration Removal Centre, and a three-year, £32m extension to our contract to manage Yarl's Wood Immigration Removal Centre. We were also awarded an additional two years for our electronic monitoring contract for Scotland, valued at around £10m, and signed a one year extension to our electronic monitoring contract for England and Wales, valued at an additional £38m of revenue at current levels.

In border security and control, the Home Office has announced the termination of its e-Borders contract with Raytheon, the prime supplier of this advanced border control and security services programme to the UK Border Agency. As a subcontractor on the programme, we are continuing to fulfil our obligations to operate key parts of the existing service and continue to work with the UK Border Agency on how we can best support them in the future on the e-Borders programme.

We were delighted that John Biggin, director of HMP & YOI Doncaster, was named Public Servant of the Year at the Guardian Public Service Awards. This is the first time a private sector employee has received such an award. We also received a British Safety Council Five Star Health and Safety Audit Award for HMP Dovegate, and recognition in the Healthcare 100 awards for our work at Yarl's Wood Immigration Removal Centre.

Welfare to Work

We have made a successful start in the Welfare to Work market. As prime contractor, under our three Flexible New Deal (FND) contracts with the Department for Work and Pensions (DWP), we help people claiming Jobseekers Allowance who have been unemployed for more than 12 months to find sustainable work. We achieve this through our unique model of subcontracting to networks of successful providers, including private, public and voluntary sector organisations. Since the start of these contracts in October 2009, we have enabled nearly 18,000 people to move back into employment.

These existing FND contracts, and all other existing back to work schemes, will now end in June 2011 and be replaced by the Work Programme which will be substantially larger, longer and have greater scope. It will extend support to additional groups including those who have been unemployed for less than 12 months and those claiming incapacity benefits. Contracts are being tendered for in 2011 and let through a new framework on which we are placed in seven out of 11 available regions across the UK. Each region is made up of between one and three Contact Package Areas in which there will be at least two suppliers. This offers the opportunity for us to substantially extend our footprint in the market.

Our Welfare to Work team has expanded into an adjacent market, winning a number of contracts, valued in aggregate at around £19m, to implement Job Deal which helps ex-offenders find jobs. The programme is jointly funded by the European Social Fund and the DWP, and is managed by the National Offender Management Service.

Health

King's College Hospital NHS Foundation Trust (King’s) joined GSTS Pathology, our joint venture with Guy's & St Thomas' NHS Foundation Trust, and awarded it a contract to provide pathology services. This will result in incremental revenue to Serco of approximately £110m over ten years. King's has one of the largest integrated automated laboratories in Europe and will further enhance the range of tests available to GSTS Pathology’s customers. GSTS Pathology is now the UK’s largest pathology service provider and has achieved considerable success in improving service levels. Among a wide range of improvements, cervical cancer screening times and the turnaround times for some forms of diabetic monitoring tests have been halved. We have achieved even better results for HIV genotyping assay, reducing time taken from 28 to ten days.

Defence, Science and Nuclear

Defence, Science and Nuclear (DSN) brings together our businesses providing operational support services 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.

DSN’s revenue reduced by 1% to £910.8m (2009: £921.2m) which represented 21% of Group revenue (2009: 23%). This decline reflected a slowdown in advance of the UK election and the Strategic Defence and Security Review (SDSR) during 2010, both in decision making and in major contract awards.

Key awards last year include a renewed and expanded multi-activity contract valued at £100m over ten years to provide services at Royal Air Force (RAF) Halton, which we have served since 1997, and RAF High Wycombe, the home of Headquarters Air Command. At RAF Brize Norton, the main gateway for British military personnel on overseas operations, the MOD awarded us a contract for up to six years to deliver essential support services, worth approximately £35m. We have supported the RAF there since 1997 and this contract confirms and reinforces our position supporting the MOD’s Programme Future Brize, which will see RAF Brize Norton develop into the core Air Transport and Air Re-fuelling station.

Utilising our scientific capabilities, our joint venture with Lockheed Martin and Jacobs Engineering, which manages and operates AWE, continues to achieve excellent delivery against key milestones. The AWE transformation programme is delivering significant benefits, working with the MOD to reduce costs while maintaining performance levels. In addition, we have delivered the Project Orion laser facility, a world-leading high energy density physics experimental facility, on time and to the MOD’s requirements. We are delighted that a team from AWE has been awarded a Commendation by the MOD’s Chief Scientific Advisor for work on collaborative arms verification with Norway.

Bridging the defence and energy markets, a new eight-year contract with the MOD, valued at around £20m to Serco, will help the UK tackle climate change through off-shore wind energy. As prime contractor, we are working with Lockheed Martin to introduce radar technology that resists interference from wind farms, removing a significant obstacle to the roll out of off-shore wind power across the UK. This new and innovative technology has already been commended for innovation at the 2010 National Buying & Selling Energy Awards.

In the civil energy market, Westinghouse appointed Serco as their lead nuclear safety advisor in the UK. Serco's role is to lead a team of experts to assist Westinghouse complete Step 4 of the Generic Design Assessment (GDA) for the AP1000, a critical stage in the reactor design approval process being conducted by the UK Nuclear Regulators which is due to complete in 2011. The contract is strategically important for Serco, coming at the beginning of a new era for nuclear energy in the UK.

Our European defence operations secured over £50m in new business and renewals of existing contracts including several with the German Ministry of Defence. These include the planning and installation of communications and laboratory equipment and a contract to deliver deployable network solutions.

In the expanding training market we secured a 15-year contract worth more than £55m to manage and operate the Emergency Planning College (EPC) on behalf of the Cabinet Office, placing us at the heart of UK civil resilience and positioning us well for future opportunities coming to market. We manage all services at the EPC, including training delivery and support, sales and marketing, finance, estate management, ICT and security.

National Physical Laboratory (NPL) commercial revenues have expanded and they now represent more than 30% of its overall income. This includes orders from the environmental and sustainability sectors, responding to environmental legislation and the growing sustainability agenda. Customers include E.ON, BP, Veolia Environment and the Department of Food and Rural Affairs. The business case for a Centre for Carbon Measurement has been developed and is being considered with our stakeholder community. It will support national and international efforts to understand and mitigate climate change through accelerating the development of the low-carbon technology sector. NPL also received the highest recognition after a paper co-authored by NPL scientists was cited in support of the Nobel Prize in Physics.

Local Government and Commercial

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

The revenue of LG&C increased by 5.5% to £853.9m (2009: £809.2m) which represented 20% of Group revenue in both 2010 and 2009.

Growth was driven by a number of 2009 wins which became operational during 2010, including a full range of environmental services for the London Borough of Bexley; expanding our presence in integrated services markets with the Plymouth Hospitals NHS Trust and Airbus, as well as support services for The European Space Agency and Peterborough City Council's ICT services. This performance was robust given Business Link services, provided for the London and South East Regional Development Agencies, were reduced in scope and some customers delayed decisions on discretionary project work following the outcome of the Comprehensive Spending Review.

IT & BPO

We signed a new contract with Hertfordshire County Council to deliver a ground-breaking strategic partnership. The contract, due to commence in April 2011, is valued at up to £200m over eight years and will achieve efficiency savings for the Council of at least £25m. We will provide 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. These services will also be offered to other public sector bodies in the area, including Hertfordshire's ten district councils and the county's police authority. The new contract builds on our 18-year track record of working with the Council and is significantly larger than the existing £8m per annum service.

We successfully rebid our contract to provide ICT support services to the London Borough of Enfield. The new contract will deliver guaranteed cost savings of 20% for the council, improve services for its employees and improve communication and interaction with residents. The initial five-year contract is valued at £24m, with an option to extend for a further four years.

The replacement of Regional Development Agencies (RDAs) with Local Enterprise Partnerships (LEPs) and related funding cuts will see our regional Business Link services close by the end of 2011. Although there may be new opportunities with the introduction of business support programmes from national and local government, it is not yet clear when these will start to emerge.

Our acquisition, in March 2010, of RB Solutions, a successful provider in the revenues and benefits market, gave us an additional capability in this market, enabling us to win five new contracts including Dacorum Borough Council and Dudley Metropolitan Borough Council to provide benefits processing services.

We secured two contracts with the European Space Agency (ESA) valued at €35m over the first three years, strengthening our position as a leading service provider to Europe's space and technology agencies. Under the first contract we are leading a consortium to provide operations and maintenance to ESA's Earth Observation programme. The second is an expansion of an existing contract, covering engineering and management support for the ESA Earth Observation payload data ground segment.

We were delighted that Duncan Mackison, who leads our highly-successful ACCESS joint venture with Glasgow City Council, was named Outsourcing Professional of the Year by the National Outsourcing Association.

Integrated and Environmental Services

Sandwell Metropolitan Borough Council awarded us its new 25-year Waste Improvement Plan contract, valued at around £650m. We are providing refuse and recycling collection services, street cleansing services, and delivering waste processing and disposal, including the construction of a new waste transfer station. Our innovative approach will increase recycling rates and significantly reduce the amount of waste sent to landfill. This will help the council meet Government recycling targets and reduce costs such as landfill taxes.

Norfolk and Norwich University Hospital extended our contract for a further five years until 2016. The extension, under which we will continue to provide a full range of integrated non-clinical support services, is valued at £75m.

We also began our contract to provide facilities management services to the new Forth Valley Royal Hospital in Scotland, one of the most modern and well-equipped hospitals in Europe. Our services include operating and maintaining a team of robotic vehicles, which help to keep patient areas free of trolleys and other related items, reduce infection risks and free up our staff to focus on patients' priorities. The contract is valued at £600m over 30 years.

Education

Our education services contracts in Bradford and Walsall continue to perform well. We are delighted that our Bradford contract – now in its final year – continues to deliver significant improvements. At Key Stage two, 73% of pupils are now achieving Level 4 or higher in English and Maths (combined), equivalent to the national average. At GCSE level, more than twice as many of the district's 16-yearolds gained 5 A*-C grades in 2010 (71.9%) compared with 2001 (34.3%) when Serco was asked to manage education services in Bradford. In July, our ten-year contract with Bradford Council comes to an end and we will transfer the responsibility for all education services back to the Council.

In Walsall we are continuing to see significant improvements at both Key Stage two and four. At Key Stage two, pupils are achieving above national averages in 'Level four and above' for English and Maths, and at Key Stage four, improvements in the most important measure of five good GCSEs including English and Maths continues to outpace national improvements by some margin.

Americas

Our Americas segment provides professional, technology and management services focused primarily on the US federal government, including every branch of the military, key civilian agencies such as the Department of Homeland Security, and the intelligence community.

Revenue grew 9% (8% excluding currency effects), to £953.9m (2009: £872.6m). This represented 22% of Group revenue both in 2010 and 2009. Growth in the second half of the year was very strong following lower growth in the first half, largely reflecting a particularly strong prior period. This strong organic growth arose from new task orders in both Federal defence and civilian contracts, including program management work for an intelligence agency and the Canadian Driver Examination Services, DES, as it recovered the backlog following strike action. We also benefitted in the second half from 109 task orders valued at US$80m under the Government-wide single-award IDIQ for Command, Control, Computer, Communications, Intelligence and Information Technology Surveillance, Reconnaissance (C4I2TSR).

A key focus during the year was to increase collaboration between our business units and leverage our wide range of capabilities across our customer base. Several of our business units came together to win new work with the Department of Veterans Affairs, valued at approximately US$20m over its first one-year base period with additional funding expected for the four option years. We will provide 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.

Other examples of integrated working include expanding the use of our 'Command, Control, Communications and Computer' skills across all branches of the military, the Department of Homeland Security and the intelligence community. We are also using our enterprise architecture capabilities to support more Department of Defense agencies and commands, exploring opportunities to use our economic cost analysis expertise with the US Air Force and the intelligence community, and looking to expand our logistics support to additional military customers.

Many government agencies use Indefinite Delivery, Indefinite Quantity (IDIQ) contract vehicles, where we are one of a number of companies able to bid for task orders. To leverage our position fully, we have increased resources to respond to key opportunities under these vehicles, which include Alliant, HRsolutions, Seaport-e, Office of Personnel Management's Training and Management Assistance Program and several General Services Administration department schedules including facilities management and IT. We have also strengthened our business development team, reflecting our greater concentration on larger prime contracts.

Other awards included the renewal of a single-award IDIQ (where there are no other awardees) contract with the US Navy's Commander, Fleet and Industrial Supply Centers to support the procurement, management, issuance and disposal of hazardous materials (HAZMAT). The contract has a six-month base period with three one-year option periods and is valued at approximately US$84m, including the options. We also received a new single-award IDIQ contract to perform HAZMAT management services and provide consolidated HAZMAT reutilization and inventory management to the US Navy's Fleet and Industrial Supply Center Norfolk. The contract has a one-year base period with four one-year option periods and is valued at approximately US$88m, if all option years are exercised.

The Naval Operational Logistics Support Center awarded us a new single-award IDIQ contract to provide program management and technical services. The contract has a one-year base period and four one-year options, with a ceiling value of US$44m if all option years are exercised.

We strengthened our position on major US government programs through an award by the US Army of an IDIQ contract to compete for task orders supporting the Assistant Secretary of the Army Manpower and Reserve Affairs. We are among 12 awardees on this US$1.3bn contract, allowing us to compete for work in areas such as business planning and research and evaluation. The contract has a five-year term, comprising a one-year base period and four one-year option periods.

Within the civilian arena we were awarded a contract to provide air traffic control services to the Federal Aviation Administration Contract Tower Program, valued at approximately US$170m over five years. We are also contracted to provide comprehensive management, installation and maintenance of the Georgia Department of Transportation's intelligent transportation system, valued at approximately US$50m over five years.

We were pleased to receive the 2010 Defense Enterprise Architecture Achievement Award for supporting the Air Force Space Command's Joint Space Operations Center Mission System programme. We also won the 'None in a Million' Federal Aviation Administration award for achieving – for the second time – one million error-free operations at Goodyear, Arizona air traffic control, as well as the Bravo Zulu Award for exceptional work on behalf of the Navy Expeditionary Medical Support Command for relief efforts in Haiti.

AMEAA

Our AMEAA segment consists of our operations in 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 grew 41% to £481.2m, (2009: £340.7m) and represented 11% of Group revenue, up from 9% in 2009. Excluding the impact of currency, particularly given the strong Australian dollar, growth was 26%.

This high revenue growth reflects the contracts that became operational during late 2009 and early 2010 in our markets in Australia, the Middle East and India.

In home affairs in Australia, we continue to work with the Australian Department of Immigration and Citizenship to transform its immigration services, whilst expanding capacity to support the increasing number of people in our care. Serco has been recognised for the transformation we have achieved, our humane approach, the constructive mood in the centres and the positive relationship between our employees and the people in our care.

In defence, our 50:50 joint venture with P&O Maritime Services renewed its contract, valued at A$250m to us, to provide harbour and offshore services to the Royal Australian Navy for ten years.

We expanded into a new market when we were appointed preferred bidder for a substantial ten-year contract at Fiona Stanley Hospital in Perth. When it opens in 2014, the 783-bed hospital will be a major tertiary hospital for the area. We will provide all non-clinical services, including managed equipment services, transport, procurement, sterilisation and clerical services, drawing on our extensive experience of hospital support contracts in the UK.

We were delighted to win the Operator and Service Provider Excellence Award at the prestigious National Infrastructure Awards. The award recognises our high standards at Acacia, Western Australia's only privately-operated prison. Borallon Correctional Centre was awarded two Minister's Awards for Excellence for its innovative recycling project and health initiatives.

In December we entered another new market when we were appointed preferred bidder to manage the Mt Eden and Auckland Central Remand Prison in New Zealand. The contract, signed in February 2011 to commence in August 2011, includes rehabilitation and reintegration programmes for prisoners as well as logistics and infrastructure management. The six-year contract has an option for a further four years, and is valued at around NZ$300m over the full ten years.

In the Middle East, the Dubai Metro has continued to achieve high levels of service, with availability and punctuality at 99.6% and 97.9% respectively for the year. 38.8m passengers used the Metro during 2010 and a further 16 stations opened, bringing the total to 26. We also expanded our presence in Dubai through a five-year, £15m contract to operate and maintain the 5.4km Palm Jumeirah Monorail.

We were delighted to play our part in the opening of Dubai's second airport, Dubai World Central – Al Maktoum International, where we provide air traffic control and airside engineering services. This is an addition, valued at around £3.5m per annum, to our existing contract with Dubai Airports Company which dates back to the 1960s with a value of approximately £250m.

Elsewhere in the Middle East, we won a one-year, £10.5m contract to deliver operations and maintenance consultancy services to the Al Mashaaer Al Mugaddassah Metro Southern Line in Makkah, Kingdom of Saudi Arabia.

India continues to present excellent opportunities for the future. Our BPO operation is developing value-driving products to banking, insurance, telecom and retail customers.

Finance Review

Overview

Our business delivered a strong financial performance in 2010, with revenue growing 9.0% and adjusted operating profit increasing by 12.6%. Our adjusted operating margin increased by 19 basis points. Adjusted EPS grew by 17.5% to 34.69p. Free cash flow grew by 35.3% to £185.8m, and Group recourse net debt reduced by £84.1m to £303.6m.

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	2010 £m	2009 £m	Increase
Revenue	**4,326.7**	3,970.0	9.0%
Gross profit	**644.3**	586.8	9.8%
Administrative expenses	**(385.6)**	(357.1)	8.0%
Adjusted operating profit	**258.7**	229.7	12.6%
Investment revenue and finance costs	**(27.4)**	(35.0)	
Adjusted profit before tax	**231.3**	194.7	18.8%
Amortisation of acquired intangibles	**(17.4)**	(17.6)	
Profit before tax	**213.9**	177.1	20.8%
Tax	**(57.1)**	(46.9)	21.7%
Profit for the year	**156.8**	130.2	20.4%
Effective tax rate	**26.7%**	26.5%	
Adjusted earnings per share	**34.69p**	29.53p	17.5%
Earnings per share	**31.88p**	26.76p	19.1%
Dividend per share	**7.35p**	6.25p	17.6%

1.1 Revenue

Revenue grew by 9.0% to £4,326.7m (7.6% excluding currency effects). Organic revenue growth, excluding currency effects, was 7.6% and reflects the growth of existing contracts and the contribution of new contracts started in 2009 and 2010.

1.2 Adjusted operating profit

Adjusted operating profit increased by 12.6% to £258.7m representing an adjusted operating profit margin of 6.0%. Adjusted operating profit margin increased by 19 basis points (16 basis points excluding currency effects).

1.3 Investment revenue and finance costs

Investment revenue and finance costs totalled a net cost of £27.4m (2009: £35.0m), a decrease of £7.6m. The decrease excluding currency effects was £7.4m. The principal reasons for this decrease were reduced average borrowings during the year, lower interest rates and a decrease in the net pension finance cost.

1.4 Adjusted profit before tax

Adjusted profit before tax was £231.3m, an increase of 18.8%. Excluding currency effects the adjusted profit before tax margin was 5.3%, an increase of 40 basis points.

1.5 Tax

The tax charge of £57.1m (2009: £46.9m) represents an effective rate of 26.7%, compared with 26.5% in 2009. The slight increase in the rate is principally due to changes in the mix of taxable profits across the Group.

1.6 Earnings per share (EPS)

Adjusted EPS rose by 17.5% to 34.69p. EPS grew by 19.1% to 31.88p. EPS and adjusted EPS are calculated on an average share base of 491.5m during the year (2009: 486.6m). The increase in the average share base principally resulted from a full weighting of shares issued during 2009.

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 5.15p per share, representing an increase on the 2009 final dividend of 17.0%, and bringing the total dividend for the year to 7.35p, a growth of 17.6%. The final dividend will be paid, subject to shareholder approval, on 17 May 2011 to shareholders on the register as at 11 March 2011.

3. Cash flow

The Group generated an exceptionally strong free cash performance with an inflow of £185.8m (2009: £137.3m), an increase of 35.3%. This included benefits of around £20m from asset sale proceeds, a particularly high level of joint venture dividends and low tax payments.

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 35, 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	**2010 £m**	2009 £m
Operating profit excluding joint ventures	**176.7**	150.6
Non cash items	**79.2**	75.4
Group EBITDA	**255.9**	226.0
Working capital movement	**(30.6)**	(27.2)
Group operating cash flow	**225.3**	198.8
Interest	**(25.2)**	(31.5)
Tax	**(24.0)**	(26.5)
Net expenditure on tangible and intangible assets	**(41.8)**	(49.8)
Dividends from joint ventures	**51.5**	46.3
Group free cash flow	**185.8**	137.3
Disposal of investments/subsidiaries	**-**	0.6
Acquisition of subsidiaries	**(2.3)**	(15.4)
Financing	**(188.1)**	(36.8)
Special pension contribution	**(20.0)**	-
Dividends paid	**(32.3)**	(25.9)
Group net (decrease)/increase in cash and cash equivalents	**(56.9)**	59.8
Adjustment to include joint venture cash impacts	**8.7**	14.1
Net (decrease)/increase in cash and cash equivalents	**(48.2)**	73.9

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

3.1 Group operating cash flow

Group operating cash flow of £225.3m (2009: £198.8m) reflects a conversion of Group EBITDA into cash of 88.0% (2009: 88.0%). The working capital movement of £30.6m reflects the requirements of a growing business.

3.2 Interest

Net interest paid was £25.2m, compared to £31.5m in 2009 reflecting the reduction in Group recourse net debt since 2009 and lower interest rates.

3.3 Tax

Tax paid was £24.0m (2009: £26.5m). The reduction in tax paid during 2010 is due to increases in accelerated capital allowances and other timing differences in the period, additional tax relief on the

December 2010 special pension contribution and tax refunds received during the year. In 2011, we expect the cash tax rate to trend closer to our effective tax rate. This is principally as a result of a higher proportion of overseas taxable profits which more than offsets the benefit of the tax relief on the special pension contribution.

3.4 Net expenditure on tangible and intangible assets

Net expenditure on tangible and intangible assets in the year was £41.8m (2009: £49.8m). Gross expenditure, excluding disposals, was £51.1m (2009: £52.3m) representing 1.4% of group revenue excluding joint ventures (2009: 1.6%).

On 30 June 2010, as part of forming a strategic partnership with Patni Computer Systems Ltd. (Patni), a leading global provider of Information Technology services and business solutions, to provide services in education and e-learning in the UK and Irish markets, we disposed of a Learning software product to Patni. Cash realised from the sale was £7.0m and profit on disposal of this asset was £1.4m.

In 2011 we are planning to invest around £20m in the implementation of SAP for HR across the Group.

3.5 Dividends from joint ventures

Dividends received from joint ventures totalled £51.5m (2009: £46.3m) reflecting an uncharacteristically high conversion rate of joint ventures' profit after tax and non controlling interests into dividends. This high rate reflected the impairment charge of £4.2m resulting from our exit from the non-core South African joint venture Equity Aviation. Excluding this, the conversion rate of dividends from joint ventures was approximately 95%. In 2011, we expect the conversion rate to be closer to the normal rate of 80-90%.

3.6 Financing

The movement in financing resulted primarily from repayments on our bank facilities and non recourse debt.

4. Net debt

Figure 3 analyses Serco's net debt.

Figure 3: Net debt

At 31 December	2010 £m	2009 £m
Group - cash and cash equivalents	**204.0**	253.7
Group – loans	**(482.6)**	(619.1)
Group - obligations under finance leases	**(25.0)**	(22.3)
Group recourse net debt	**(303.6)**	(387.7)
Joint venture recourse net cash	**66.1**	58.2
Total recourse net debt	**(237.5)**	(329.5)
Group non recourse debt	**(23.7)**	(29.0)
Total net debt	**(261.2)**	(358.5)

4.1 Group recourse net debt

Group recourse net debt decreased by £84.1m to £303.6m.

Cash and cash equivalents includes encumbered cash of £10.9m (31 December 2009: £11.2m). This is cash securing credit obligations and customer advance payments.

4.2 Group non recourse debt

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

Group non recourse debt reduced by £5.3m to £23.7m, as a result of £7.6m payments made in line with the debt repayment schedule on debt relating to our Driver Examination Services contract in Canada, offset by £2.3m increase in non recourse debt due to exchange movements.

5. Pensions

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

At 31 December 2010, the net liability included in the balance sheet arising from our defined benefit pension scheme obligations was £83.0m (31 December 2009: £113.6m), on a pension scheme asset base of £1.5bn.

Figure 4: Defined benefit pension schemes

At 31 December	**2010 £m**	2009 £m
Group schemes – non contract specific	**(76.1)**	(120.0)
Contract specific schemes:		
– reimbursable	**(123.4)**	(144.3)
– not certain to be reimbursable	**(26.7)**	(29.9)
Net retirement benefit liability	**(226.2)**	(294.2)
Intangible assets arising from rights to operate franchises and contracts	**8.9**	11.4
Reimbursable rights debtor	**123.4**	144.3
Deferred tax assets	**10.9**	24.9
Net balance sheet liabilities	**(83.0)**	(113.6)

The total pension charge included in operating profit for the year ended 31 December 2010, including the proportionate share of joint ventures, increased to £106.5m (2009: £92.4m). Within this charge, the Group's contributions to UK and other defined contribution pension schemes increased to £76.0m (2009: £64.8m). The service charge relating to the Group's defined benefit schemes was £30.5m (2009: £27.6m), and the movement was principally as a result of changes to the discount rate and inflation assumptions as at the end of 2009 and increases in payroll.

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 to either the right of cost reimbursement or because the deficit will, in general, pass back to the customer or on to the next contractor at the end of the contract. Among our non contract specific schemes, the largest is the Serco Pension and Life Assurance Scheme (SPLAS). At 31 December 2010, SPLAS had a deficit of £16.4m (31 December 2009: deficit of £54.7m). This deficit, which is calculated under IAS 19 using market rates at the period end, 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.

We have now completed the regular triennial review of SPLAS. The actuarial deficit of SPLAS used in the review and calculated using prudent long-term valuation assumptions, was £141m at 6 April 2009 and was approximately £93m at 31 December 2010. Following this review, the Group agreed with the Trustees to make a cash contribution of £60m to the scheme, with £20m 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	5.4%	+0.5% (0.5)%	(9)% +10%
Price inflation	3.1% (RPI) and 2.6% (CPI)	+0.5% (0.5)%	+8% (7)%
Salary	3.5%	+0.5% (0.5)%	+2% (2)%
Longevity	20.8 – 24.5 *	Increase by one year	+3%

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

6. Treasury

The Group's bank credit facilities comprise a £400.0m syndicated revolving credit facility, a syndicated amortising term loan for US Dollar 396.4m and bilateral revolving credit facilities for £35.0m and EUR 12.5m. The syndicated revolving credit facility matures in September 2013 whilst the syndicated term loan is repayable between September 2011 and September 2013. The bilateral facilities mature in December 2011 and April 2012 respectively. In relation to the syndicated term loan, the next scheduled repayment of US Dollar 138m is due in September 2011. As at 31 December 2010, £329.8m had been drawn down on these combined facilities (31 December 2009: £457.7m). Excluding the effects of currency on the US Dollar denominated debt, the equivalent draw down would have been £320m.

In addition to the bank credit facilities, Serco has loan notes in issue under a private placement of £117.7m, which will be repaid evenly from 2011 to 2015. All of the credit facilities of the Group detailed above are unsecured.

7. Going concern

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

The Group's revenues are largely derived from long-term contracts with governments which, historically, have been largely unaffected by changes in the general economy. The contract portfolio is spread across a number of markets, sectors and geographies such that a downturn in any one segment is unlikely to affect the Group as a whole. In addition, with an order book of £16.6bn and high visibility of future revenue streams (92% in 2011; 77% in 2012 and 66% in 2013), the Group is well placed to manage its business risks despite the current uncertain economic climate.

In September 2008, the Group secured medium-term financing by entering into a five-year syndicated revolving credit facility and bilateral facilities. Including the term loan and US private placements, the Group has in excess of £816m of committed credit facilities. As at 31 December 2010, the headroom on the facilities was approximately £369m. The next repayment on these facilities falls due in September 2011 for an amount of US Dollar 138m. The Group fully expects to meet this repayment through internally generated cash flows. Based on the information set out above, the Directors believe that it is appropriate to prepare the financial statements on a going concern basis.

Consolidated Income Statement

For the year ended 31 December 2010

	Note	**2010 £m**	2009 £m
Continuing operations			
Revenue	2	**4,326.7**	3,970.0
Cost of sales		**(3,682.4)**	(3,383.2)
Gross profit		**644.3**	586.8
Administrative expenses		**(385.6)**	(357.1)
Adjusted operating profit - before amortisation of intangibles arising on acquisition		**258.7**	229.7
Other expenses – amortisation of intangibles arising on acquisition		**(17.4)**	(17.6)
Operating profit	2	**241.3**	212.1
Investment revenue	4	**3.9**	2.7
Finance costs	4	**(31.3)**	(37.7)
Profit before tax		**213.9**	177.1
Tax		**(57.1)**	(46.9)
Profit for the year		**156.8**	130.2
Attributable to:			
Equity holders of the parent		**156.7**	130.2
Non-controlling interest		**0.1**	-
Earnings per share (EPS)			
Basic EPS	5	**31.88p**	26.76p
Diluted EPS	5	**31.35p**	26.45p

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2010

	2010 £m	2009 £m
Profit for the year	**156.8**	130.2
Other comprehensive income for the year:		
Net actuarial gain/(loss) on defined benefit pension schemes[1]	**49.9**	(259.0)
Actuarial (loss)/gain on reimbursable rights[1]	**(38.4)**	117.1
Net exchange gain/(loss) on translation of foreign operations[2]	**19.0**	(9.9)
Fair value gain/(loss) on cash flow hedges during the year[2]	**1.7**	(6.3)
Tax (charge)/credit on items taken directly to equity[3]	**(1.7)**	45.2
Recycling of cumulative net hedging reserve[2]	**0.3**	0.2
Total comprehensive income for the year	**187.6**	17.5
Attributable to:		
Equity holders of the parent	**187.5**	17.5
Non-controlling interest	**0.1**	-

1 Recorded in Retirement benefit obligations reserve in the consolidated statement of changes in equity.
2 Recorded in Hedging and translation reserve in the consolidated statement of changes in equity.
3 Of the tax (charge)/credit, a debit of £4.3m (2009: credit of £39.6m) was recorded in the Retirement benefit obligations reserve; a debit of £0.6m (2009: credit of £1.4m) was recorded in the Hedging and translation reserve; a credit of £3.2m (2009: £4.2m) was recorded in the Share-based payment reserve.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2010

	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 2009	9.7	301.1	0.1	339.8	(47.7)	40.0	(19.7)	61.9	685.2	0.1
Total comprehensive income for the year	-	-	-	130.2	(102.3)	4.2	-	(14.6)	17.5	-
Shares transferred to option holders on exercise of share options	0.1	3.0	-	-	-	(1.8)	9.1	-	10.4	-
Dividends paid	-	-	-	(25.9)	-	-	-	-	(25.9)	-
Expense in relation to share-based payment	-	-	-	-	-	7.2	-	-	7.2	-
Purchase of own shares for employee benefit trust (ESOP)	-	-	-	-	-	-	(2.4)	-	(2.4)	-
At 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**	**3.2**	**-**	**20.4**	**187.5**	**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**	**-**
Purchase of own shares for employee benefit trust (ESOP)	**-**	**-**	**-**	**-**	**-**	**-**	**(23.0)**	**-**	**(23.0)**	**-**
At 31 December 2010	**9.9**	**306.7**	**0.1**	**568.5**	**(142.8)**	**58.7**	**(27.5)**	**67.7**	**841.3**	**-**

Consolidated Balance Sheet
At 31 December 2010

	Note	2010 £m	2009 £m
Non-current assets			
Goodwill		**899.5**	898.4
Other intangible assets		**145.0**	164.4
Property, plant and equipment		**135.4**	129.2
Trade and other receivables		**156.7**	181.4
Deferred tax assets		**38.1**	48.0
Derivative financial instruments		**3.5**	2.5
		1,378.2	1,423.9
Current assets			
Inventories		**65.4**	65.9
Trade and other receivables		**790.2**	720.9
Cash and cash equivalents		**279.3**	319.4
Derivative financial instruments		**3.9**	1.4
		1,138.8	1,107.6
Total assets		**2,517.0**	2,531.5
Current liabilities			
Trade and other payables		**(805.5)**	(771.6)
Current tax liabilities		**(19.5)**	(14.1)
Obligations under finance leases		**(7.1)**	(6.0)
Loans		**(159.5)**	(110.7)
Derivative financial instruments		**(2.4)**	(5.5)
		(994.0)	(907.9)
Non-current liabilities			
Trade and other payables		**(22.2)**	(23.1)
Obligations under finance leases		**(19.3)**	(18.0)
Loans		**(354.6)**	(543.2)
Derivative financial instruments		**(5.2)**	(1.7)
Retirement benefit obligations	11	**(226.2)**	(294.2)
Provisions	9	**(39.6)**	(42.3)
Deferred tax liabilities		**(14.6)**	(9.0)
		(681.7)	(931.5)
Total liabilities		**(1,675.7)**	(1,839.4)
Net assets		**841.3**	692.1
Equity			
Share capital		**9.9**	9.8
Share premium account		**306.7**	304.1
Capital redemption reserve		**0.1**	0.1
Retained earnings		**568.5**	444.1
Retirement benefit obligations reserve		**(142.8)**	(150.0)
Share-based payment reserve		**58.7**	49.6
Own shares reserve		**(27.5)**	(13.0)
Hedging and translation reserve		**67.7**	47.3
Equity attributable to equity holders of the parent		**841.3**	692.0
Non-controlling interest		**-**	0.1
Total equity		**841.3**	692.1

The financial statements were approved by the Board of Directors on 1 March 2011 and signed on its behalf by:

Christopher Hyman
Chief Executive

Andrew Jenner
Finance Director

Consolidated Cash Flow Statement

For the year ended 31 December 2010

	Note	2010 £m	2009 £m
Net cash inflow from operating activities	7	**241.0**	235.1
Investing activities			
Interest received		**3.3**	2.1
Disposal of investments/business undertakings		**-**	0.6
Proceeds from disposal of property, plant and equipment		**6.1**	3.7
Proceeds from disposal of intangible assets		**7.3**	-
Acquisition of subsidiaries, net of cash acquired	6	**(2.1)**	(14.7)
Purchase of other intangible assets		**(20.9)**	(17.3)
Purchase of property, plant and equipment		**(35.4)**	(38.9)
Net cash outflow from investing activities		**(41.7)**	(64.5)
Financing activities			
Interest paid		**(27.9)**	(33.6)
Dividends paid		**(32.3)**	(25.9)
Non-controlling interest dividends paid		**(0.2)**	-
Cash inflow from matured derivative financial instruments		**1.6**	-
Repayment of loans		**(167.8)**	(66.8)
Repayment of non recourse loans		**(7.6)**	(6.5)
New loan advances		**10.1**	33.8
Capital element of finance lease repayments		**(8.7)**	(5.7)
Purchase of own shares for employee benefit trust (ESOP)		**(23.0)**	(2.4)
Proceeds from issue of share capital and exercise of share options		**8.3**	10.4
Net cash outflow from financing activities		**(247.5)**	(96.7)
Net (decrease)/increase in cash and cash equivalents		**(48.2)**	73.9
Cash and cash equivalents at beginning of year		**319.4**	250.8
Net exchange gain/(loss)		**8.1**	(5.3)
Cash and cash equivalents at end of year		**279.3**	319.4

Notes to the Full Year Announcement

1. General information and changes in accounting policy

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 2010 or 2009, but is derived from these accounts.

Statutory accounts for 2009 have been delivered to the Registrar of Companies and those for 2010 will be delivered following the Company's annual general meeting. The auditors have reported on these accounts; their reports were unqualified and did not draw attention to any matters by way of emphasis without qualifying their report 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 March 2011.

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

Changes in accounting policy

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

IFRS 3 (2008) Business Combinations
IFRS 3 (2008) includes a number of significant changes to the accounting for business combinations. All acquisition costs are now required to be expensed as incurred, rather than capitalised as part of the cost of acquisitions. Any changes to the cost of an acquisition resulting from an event taking place after the date of acquisition, including those arising from adjustments to contingent consideration, are required to be recognised in the income statement rather than in goodwill. Any adjustments to contingent consideration in respect of acquisitions made prior to 1 January 2010 will continue to be accounted for under IFRS (2004).

Amendments to IAS 27 Consolidated and Separate Financial Statements
The amendments to IAS 27 affect the treatment of acquisitions and disposals achieved in stages, and focus on whether or not this results in a change in control. Acquisitions and disposals that do not result in a change in control are accounted for within reserves, and goodwill is not re-measured. Where control is lost, all assets, liabilities and non-controlling interests are derecognised, and the resulting gain or loss, after any proceeds, is recognised in profit or loss.

1. General information and changes in accounting policy (continued)

Changes in segmental information

From the start of 2010 the Group repositioned its business to maximise the focus on growth and opportunities and to ensure that it maintains a flexible and devolved organisation which is responsive to its customers' needs. From 1 January 2010, the Group reorganised its business into five new divisions, focused on the Group's principal markets: Civil Government; Local Government and Commercial; Defence, Science and Nuclear; Americas; and AMEAA. The key changes arising from our previous segments are as follows:

Civil Government, our UK and Europe Healthcare, Home Affairs and Welfare to Work business is included in the new Civil Government division; our UK and Europe Consulting, Education, Integrated Services, IT and BPO businesses are part of the new Local Government and Commercial division; and our Civil Government businesses in North America and the rest of the world are allocated to our Americas and AMEAA divisions respectively.

Defence has transferred to Defence, Science and Nuclear, with the exception of those businesses operating in the geographical regions of Americas and AMEAA.

Transport has been transferred to Civil Government, with the exception of businesses operating in the geographical regions of Americas and AMEAA.

Science has transferred to Defence, Science and Nuclear.

As a consequence of these changes, previously published financial information has been restated.

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 by each operating segment are included in the Operating Review section of this report. From 1 January 2010, the Group has reapportioned its business into five new divisions. 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 operating segment in the year ended 31 December 2010.

Reportable segments **Year ended 31 December 2010**	**Civil Government £m**	**Defence, Science and Nuclear £m**	**Local Government and Commercial £m**	**Americas £m**	**AMEAA £m**	**Total £m**
Revenue	**1,126.9**	**910.8**	**853.9**	**953.9**	**481.2**	**4,326.7**
Result						
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**

Year ended 31 December 2009 (Restated)	**Civil Government £m**	**Defence, Science and Nuclear £m**	**Local Government and Commercial £m**	**Americas £m**	**AMEAA £m**	**Total £m**
Revenue	1,026.3	921.2	809.2	872.6	340.7	3,970.0
Result						
Segment result	45.0	77.9	47.0	61.8	24.1	255.8
Corporate expenses						(43.7)
Operating profit						212.1
Investment revenue						2.7
Finance costs						(37.7)
Profit before tax						177.1
Tax						(46.9)
Profit for the year						130.2

2. Segmental information (continued)

Geographic analysis

Year ended 31 December 2010	United Kingdom £m	United States £m	Other countries £m	Total £m
Revenue	**2,586.4**	**880.3**	**860.0**	**4,326.7**

Year ended 31 December 2009	United Kingdom £m	United States £m	Other countries £m	Total £m
Revenue	2,541.9	819.2	608.9	3,970.0

3. Dividends

	2010 £m	2009 £m
Amounts recognised as distributions to equity holders in the year:		
Final dividend for the year ended 31 December 2009 of 4.40p per share on 490.5 million ordinary shares (2009: Final dividend for the year ended 31 December 2008 of 3.52p per share on 481.1million ordinary shares)	**21.6**	16.9
Interim dividend for the year ended 31 December 2010 of 2.20p per share on 488.2 million ordinary shares (2009: Interim dividend for the year ended 31 December 2009 of 1.85p per share on 489.0 million ordinary shares)	**10.7**	9.0
	32.3	25.9
Proposed final dividend for the year ended 31 December 2010 of 5.15p per share on 488.5 million ordinary shares (2009: 4.40p on 490.5 million ordinary shares)	**25.2**	21.6

The proposed final dividend for 2010 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.

4. Investment revenue and finance costs

	2010 £m	2009 £m
Interest receivable on other loans and deposits	**3.9**	2.7
Investment revenue	**3.9**	2.7

	2010 £m	2009 £m
Interest payable on non recourse loans	**(1.4)**	(1.6)
Interest payable on obligations under finance leases	**(2.2)**	(1.8)
Interest payable on other loans	**(23.7)**	(26.8)
Movement in discount on provisions and deferred consideration	**(1.2)**	(1.2)
Net interest payable on retirement benefit obligations	**(2.8)**	(6.3)
Finance costs	**(31.3)**	(37.7)
Net finance costs	**(27.4)**	(35.0)

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

	2010 Millions	2009 Millions
Weighted average number of ordinary shares for the purpose of basic EPS	**491.5**	486.6
Effect of dilutive potential ordinary shares: share options	**8.4**	5.6
Weighted average number of ordinary shares for the purpose of diluted EPS	**499.9**	492.2

Earnings per share

	2010		2009	
	Earnings £m	**Per share amount Pence**	Earnings £m	Per share amount Pence
Earnings for the purpose of basic EPS being net profit attributable to the equity holders of the parent	**156.7**	**31.88**	130.2	26.76
Add back:				
Amortisation of intangible assets arising on acquisition, net of tax of £3.6m (2009: £4.1m)	**13.8**	**2.81**	13.5	2.77
Adjusted earnings before amortisation of intangible assets arising on acquisition	**170.5**	**34.69**	143.7	29.53
Earnings for the purpose of basic EPS	**156.7**	**31.88**	130.2	26.76
Effect of dilutive potential ordinary shares	**-**	**(0.53)**	-	(0.31)
Diluted EPS	**156.7**	**31.35**	130.2	26.45

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) RB Solutions Limited:
On 17 February 2010, the Group acquired 100% of the share capital in RB Solutions Limited. Net assets acquired total £0.1m purchased for consideration of £1.5m of cash and £0.5m in deferred consideration paid on 17 August 2010.

The acquisition gives rise to £1.9m of goodwill relating to future opportunities in Local Government business process outsourcing. None of the goodwill recognised is expected to be deductible for corporate income tax purposes.

RB Solutions Limited is based in the UK and provides remote processing services to Local Government.

Costs of £0.3m have been expensed in relation to the acquisition and integration of RB Solutions Limited.

6 (b) HyIT Knowledge Systems Private Limited:
On 28 August 2010, the Group acquired the trade and liabilities of HyIT Knowledge Systems Private Limited. Net liabilities acquired were INR3,000 (£0.0m) for a purchase consideration of INR15.0m (£0.2m) of cash and INR77.2m (£1.0m) in deferred consideration to be paid contingent on future performance of the acquired trade and liabilities.

The acquisition gives rise to £1.2m of goodwill relating to future opportunities in the local Geo-Informatics market. None of the goodwill recognised is expected to be deductible for corporate income tax purposes.

HyIT Knowledge Systems Private Limited is based in Hyderabad, India, providing client-site Geo-Informatics and technical support staffing services.

7. Notes to the consolidated cash flow statement

Reconciliation of operating profit to net cash inflow from operating activities

	2010 £m	2009 £m
Operating profit for the year	**241.3**	212.1
Adjustments for:		
Share-based payment expense	**8.8**	7.2
Depreciation of property, plant and equipment	**39.4**	34.4
Amortisation and impairment of intangible assets	**43.6**	40.5
Loss on disposal of property, plant and equipment	**0.8**	2.0
Profit on disposal of intangible assets	**(1.5)**	-
Impairment of goodwill	**4.2**	-
Movement in provisions	**(5.1)**	(0.6)
Operating cash inflow before movements in working capital	**331.5**	295.6
Decrease/(increase) in inventories	**3.5**	(15.1)
Increase in receivables	**(43.4)**	(31.1)
Increase in payables	**10.0**	24.8
Special contribution to defined benefit pension scheme	**(20.0)**	-
Cash generated by operations	**281.6**	274.2
Tax paid	**(40.6)**	(39.1)
Net cash inflow from operating activities	**241.0**	235.1

Additions to fixtures and equipment during the year amounting to £10.0m (2009: £11.9m) were financed by new finance leases.

8. Analysis of net debt

	At 1 January 2010 £m	Cash flow £m	Acquisitions £m	Exchange differences £m	Non cash movements £m	At 31 December 2010 £m
Cash and cash equivalents	319.4	(48.3)	0.1	8.1	-	279.3
Non recourse loans	(29.0)	7.6	-	(2.3)	-	(23.7)
Other loans	(624.9)	157.7	-	(21.8)	(1.4)	(490.4)
Obligations under finance leases	(24.0)	8.7	-	(1.1)	(10.0)	(26.4)
	(358.5)	125.7	0.1	(17.1)	(11.4)	(261.2)

9. Provisions

	Employee related £m	Property £m	Contract £m	Other £m	Total £m
At 1 January 2009	5.9	9.8	11.2	19.0	45.9
Charged to income statement	2.4	-	0.9	1.9	5.2
Released to income statement	-	-	(0.5)	-	(0.5)
Utilised during the year	(0.6)	(1.2)	(0.7)	(2.8)	(5.3)
Unwinding of discount	-	0.4	0.3	-	0.7
Exchange differences	-	(1.0)	(0.8)	(1.9)	(3.7)
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 31 December 2010	**11.0**	**6.6**	**8.0**	**14.0**	**39.6**

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 and balance sheet is as follows:

Income statement	**2010 £m**	2009 £m
Revenue	**794.1**	786.0
Expenses	**(729.5)**	(724.5)
Operating profit	**64.6**	61.5
Investment revenue	**2.2**	1.0
Finance costs	**(0.5)**	(0.5)
Profit before tax	**66.3**	62.0
Tax	**(17.2)**	(14.9)
Share of post-tax results of joint ventures	**49.1**	47.1

Operating profit is after allocating £0.7m (2009: £2.8m) of costs incurred by Group.

11. 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 plans are held independently of the Group's assets in separate trustee administered funds. The Group's major plans are valued by independent actuaries annually using the projected unit credit 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 plan assets. Discount rates are based on the market yields of high-quality corporate bonds in the country concerned. Long-term expected rates of return for plan assets are based on published brokers' forecasts for each category of scheme assets. Pension assets and liabilities in different defined benefit schemes are not offset unless the Group has a legally enforceable right to use the surplus in one plan to settle obligations in the other plan and intends to exercise this right.

Year ended 31 December 2010	Virtually certain costs reimbursed £m	Not certain costs reimbursed £m	Non contract specific £m	Total £m
Scheme assets at fair value				
Equities	132.2	255.2	36.6	424.0
Bonds except LDI	56.1	45.1	16.6	117.8
Liability driven investments (LDI)	-	9.3	651.3	660.6
Gilts	-	33.8	1.1	34.9
Property	17.8	26.5	9.5	53.8
Cash and other	48.7	32.4	134.9	216.0
Annuity policies	-	1.0	25.1	26.1
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

11. Defined benefit pension schemes (continued)

Year ended 31 December 2009	Virtually certain costs reimbursed £m	Not certain costs reimbursed £m	Non contract specific £m	Total £m
Scheme assets at fair value				
Equities	143.6	230.0	41.4	415.0
Bonds except LDI	52.7	20.9	15.2	88.8
Liability driven investments (LDI)	-	-	493.6	493.6
Gilts	-	54.4	0.9	55.3
Property	16.4	20.4	8.9	45.7
Cash and other	11.8	26.3	193.2	231.3
Annuity policies	-	2.9	24.3	27.2
Fair value of scheme assets	224.5	354.9	777.5	1,356.9
Present value of scheme liabilities	(368.8)	(476.3)	(899.3)	(1,744.4)
Net amount recognised	(144.3)	(121.4)	(121.8)	(387.5)
Members' share of deficit	-	33.5	3.3	36.8
Franchise adjustment	-	58.0	-	58.0
Effect of IFRIC 14	-	-	(1.5)	(1.5)
Net pension liability	(144.3)	(29.9)	(120.0)	(294.2)

Related assets				
Intangible assets	-	11.4	-	11.4
Trade and other receivables	144.3	-	-	144.3
	144.3	11.4	-	155.7

Employer contributions for non-current specific schemes in 2010 include a £20m special contribution paid in December 2010.

Assumptions in respect of the expected return on plan assets are based on market expectations of returns over the life of the related obligation. Due consideration has been given to current market conditions as at 31 December 2010 in respect to inflation, interest, bond yields and equity performance when selecting the expected return on assets assumptions.

The expected yield on bond investments with fixed interest rates is derived from their market value. The yield on equity investments contains an additional premium (an 'equity risk premium') to compensate investors for the additional anticipated returns of holding this type of investment, when compared to bond yields. Management have considered the impact of the adverse changes and volatility in the equity market in 2009 and have concluded that an equity risk premium of 4.1% is appropriate at 31 December 2010 (31 December 2009: 4.1%).

11. Defined benefit pension schemes (continued)

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

	2010 %	2009 %
Main assumptions:		
Rate of salary increases	**3.50**	3.70
Rate of increase in pensions in payment	**2.60 (CPI) and 3.10 (RPI)**	3.30
Rate of increase in deferred pensions	**2.60 (CPI) and 3.10 (RPI)**	3.30
Inflation assumption	**2.60 (CPI) and 3.10 (RPI)**	3.30
Discount rate	**5.40**	5.80
Expected rates of return on scheme assets:		
Equities	**8.30**	8.60
Bonds except LDI	**5.40**	5.80
LDI	**4.90**	5.20
Gilts	**4.20**	4.50
Property	**5.45**	5.75
Cash and other	**0.50**	0.50
Annuity policies	**5.40**	5.80

	2010 Years	2009 Years
Post-retirement mortality:		
Current pensioners at 65 – male	**20.8**	20.3
Current pensioners at 65 – female	**23.3**	23.2
Future pensioners at 65 – male	**22.4**	21.6
Future pensioners at 65 – female	**24.5**	24.4