

Bringing service to life

A stylized world map in a light green color, centered on the Atlantic Ocean. A red horizontal bar with a fine grid pattern is overlaid across the middle of the map, containing the main headline text.

Strong performance and portfolio of
growth opportunities ahead

Serco Group plc

Full year results
2 March 2011

Advise | Design | Integrate | Deliver



Agenda

- Highlights Chris Hyman
- Financial review Andrew Jenner
- Operational review Chris Hyman
- Summary and outlook Chris Hyman
- Q&A

Strong financial performance

	2010	2009	Change
Revenue	£4,327m	£3,970m	9%
Adjusted operating profit	£258.7m	£229.7m	13%
Profit before tax	£213.9m	£177.1m	21%
Adjusted earnings per share	34.7 p	29.5p	18%
Dividend per share	7.35 p	6.25p	18%
Group free cash flow	£186m	£137m	35%

Strong service performance across portfolio

- Service performance achievements include:

UK Welfare to Work *18,000 people found jobs to date*

UAE Transportation *Dubai Metro availability at 99.6%*

US BPO *97% accuracy rating in processing one million patent applications*

UK Healthcare *50% faster tests for cervical cancer and diabetes*

Australian Home Affairs *Borallon Correctional Centre received two awards for excellence*

At forefront of service innovation as markets grow

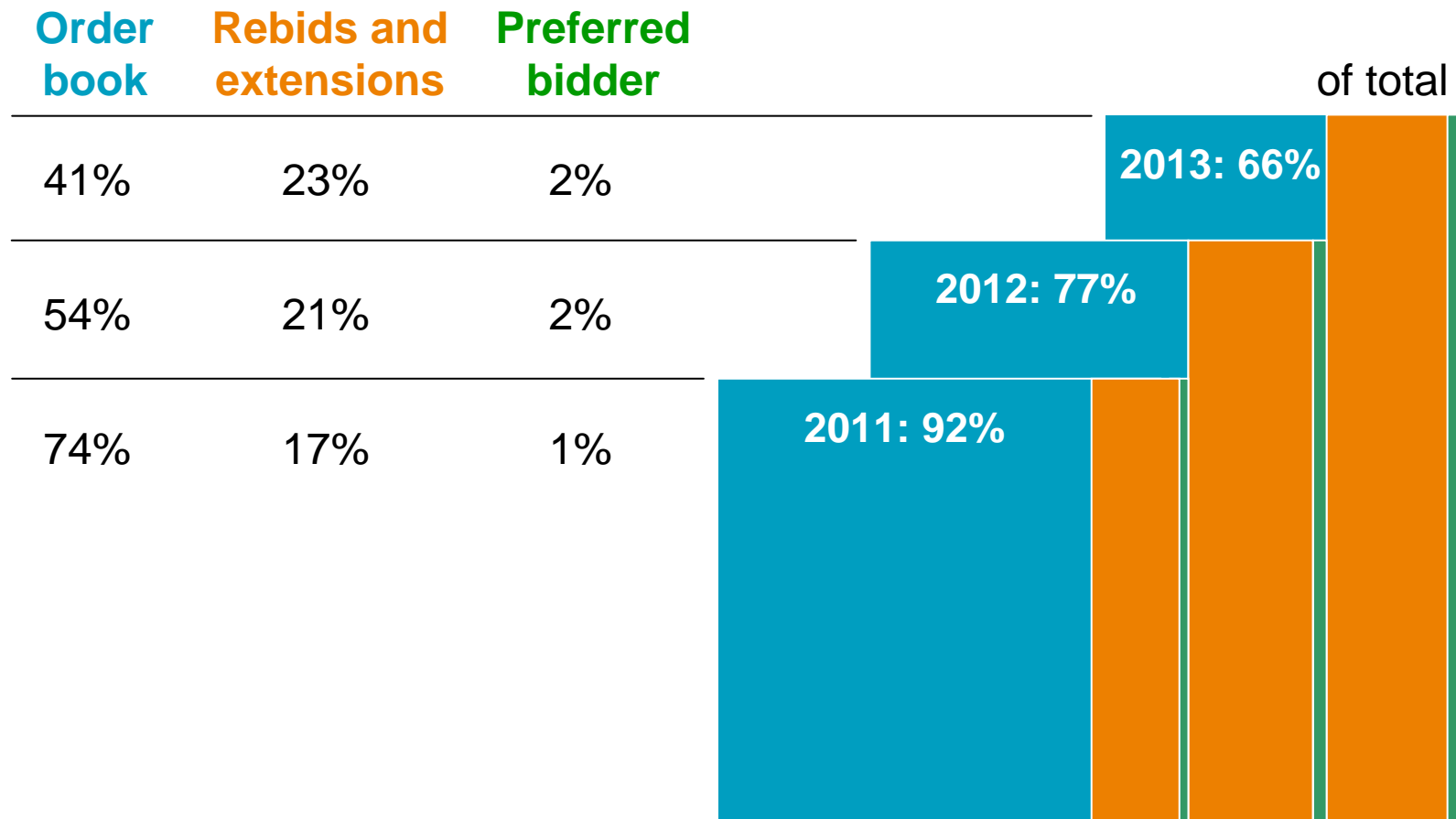
- Joint venture with leading NHS Trusts
- Partnering with voluntary sector to improve prisoner rehabilitation
- Network model of SMEs and charities adopted for new Work Programme
- Partnership contract with local councils to reduce costs and improve services
- Entered new geographies and markets by transferring service skills

High level of bidding and winning activity

- Contract awards of £5.6bn (signed: £4.2bn, preferred bidder £1.4bn)
- Win rates: 1 in 2 for new bids, 90% for rebids and extensions
- Headwinds in some markets
- Strong order book at £16.6bn
- Substantial opportunity pipeline of £29bn

Excellent revenue visibility

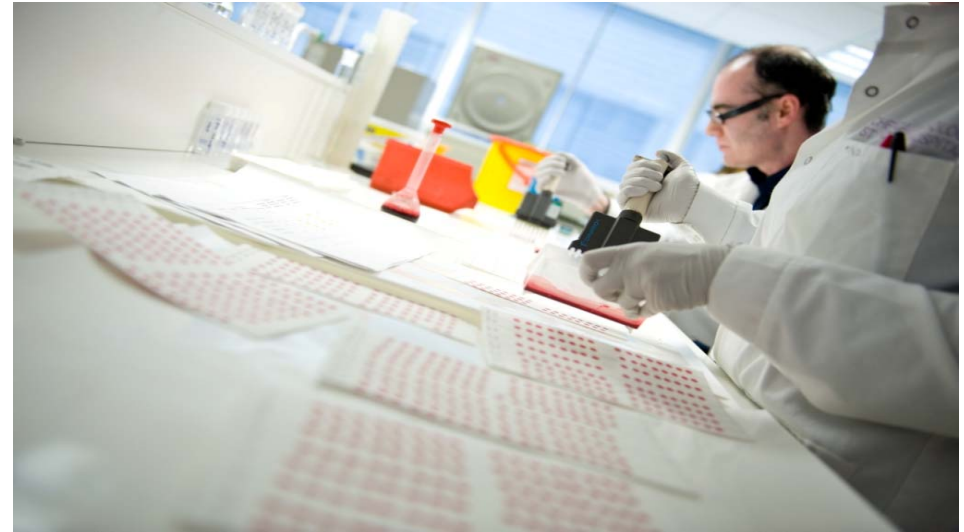
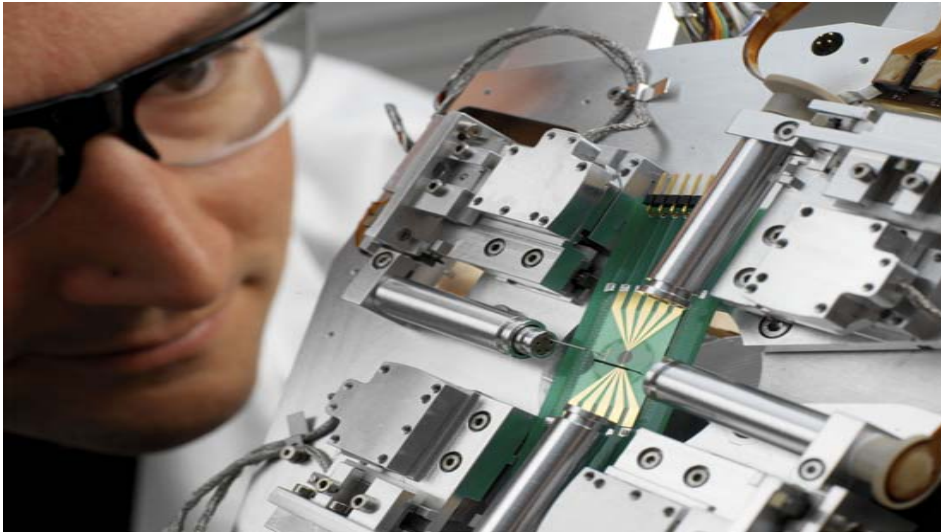
At 31 December 2010



Portfolio growth strategy

- Build a balanced portfolio
 - UK 60%; Americas 22%; AMEAA and Europe 18%
 - Developing new home markets: Australia and Middle East
 - Economies of scale: new Health FM and light rail sectors
- Develop new models
 - Partnering with third sector: creating outcome-based contracts
- Deliver quality essential services
 - Drives order book of £16.6bn and pipeline of £29bn
- Make strategic acquisitions
 - RB Solutions: benefits capabilities for UK local authority market
 - US Federal market and BPO market

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Financial review

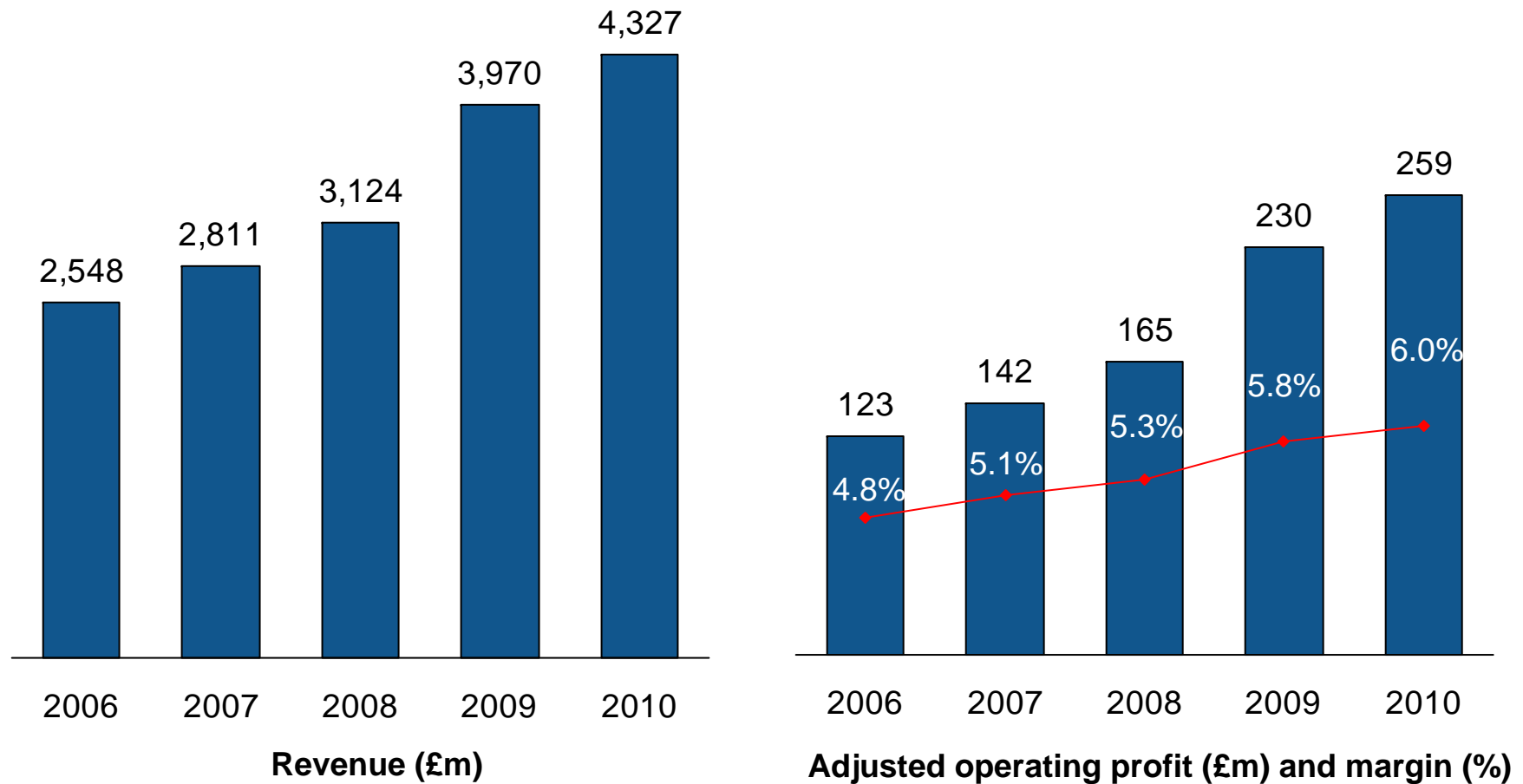
Andrew Jenner

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Financial review

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

Strong revenue and profit growth



Note: Adjusted operating profit is profit before interest and tax and amortisation of acquired intangibles. For the full year 2006, this also excludes the £11.4m gain on sale of PFI investments.

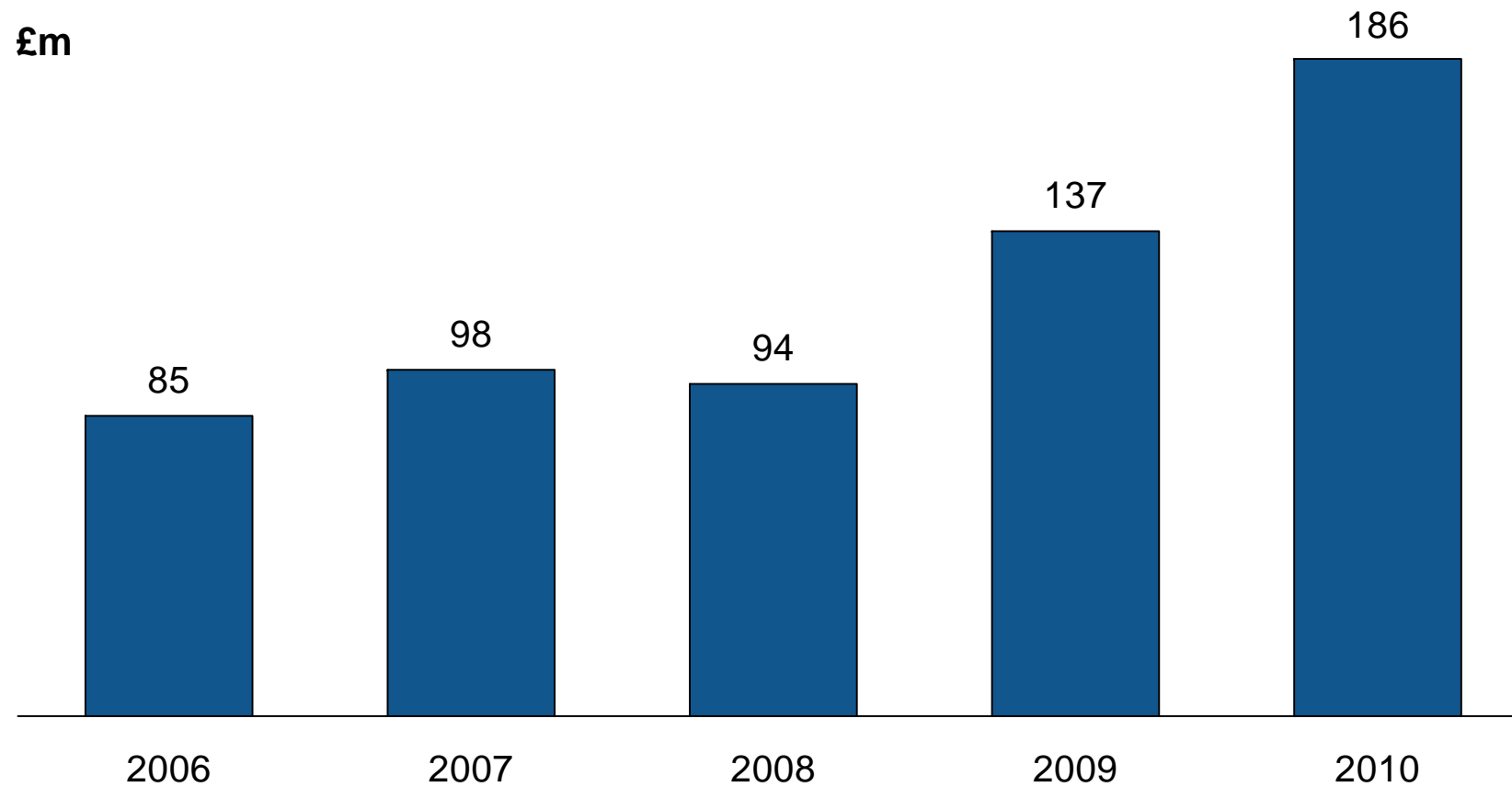
Income statement

Year ended 31 December £m	2010	2009	Increase	Increase excluding currency
Revenue	4,326.7	3,970.0	9.0%	7.6%
Adjusted operating profit	258.7	229.7	12.6%	10.5%
Investment revenue and finance costs	(27.4)	(35.0)		
Adjusted profit before tax	231.3	194.7	18.8%	16.2%
Amortisation of acquired intangibles	(17.4)	(17.6)		
Profit before tax	213.9	177.1	20.8%	18.0%

Income statement

Year ended 31 December	2010 £m	2009 £m	Increase
Effective tax rate	26.7%	26.5%	
Average shares in issue	491.5 m	486.6m	
Adjusted earnings per share	34.69 p	29.53p	17.5%
Earnings per share	31.88 p	26.76p	19.1%
Dividends per share	7.35p	6.25p	17.6%

Group free cash flow



Group free cash flow

Year ended 31 December	2010 £m	2009 £m
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

Group free cash flow to movement in recourse net debt

Year ended 31 December	2010 £m	2009 £m
Group free cash flow	185.8	137.3
Acquisition of subsidiaries	(2.3)	(15.4)
Net (purchase) / issue of share capital	(14.7)	8.0
Special pension contribution	(20.0)	-
Dividends paid	(32.5)	(25.9)
Repayment of non recourse debt	(7.6)	(6.5)
New finance leases	(10.0)	(11.6)
Exchange differences	(14.6)	52.0
Reduction in Group recourse net debt	84.1	136.8

Net debt

As at	31 Dec 2010 £m	31 Dec 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)
JV 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)

Defined benefit pension schemes

- Total net balance sheet liabilities of £83m (December 2009: £114m) on asset base of £1.5bn
- Contract specific schemes have limited commercial risk
- Non contract specific schemes
 - Main Group scheme balance sheet deficit significantly reduced to £16.4m (December 2009: £54.7m)
 - Movement in net liability due to asset increases (including the one-off pension payment) more than offsetting the increase in liabilities (mainly driven by a decrease in the discount rate)

Outcome of main Group scheme funding review

- Completed regular triennial review of main Group pension scheme, showing an actuarial deficit of £141m at April 2009
 - £93m at 31 December 2010
- One-off cash contribution of £60m to main Group scheme
 - £20m in December 2010
 - £40m in January 2011
- No material effect on earnings from contribution
- Continue to review the scheme in light of business needs and pension legislation

Guidance

- We expect good organic revenue growth in 2011 and progress towards our 2012 margin guidance
- By the end of 2012, we expect an increase in revenue to approximately £5bn and Adjusted operating profit margin to approximately 6.3%

Note: 2012 guidance excludes material acquisitions, disposals and currency effects, based on 2008 exchange rates

Summary

- Strong revenue and profit growth
- Exceptionally good free cash flow generation
- Excellent balance sheet position
- Reiterating guidance

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Operational review and Outlook

Chris Hyman

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UK central and local government markets

- Spending Review and Open Public Services White Paper driving reform
 - Central government department spending cuts of up to 25%
 - ▶ Reviews across defence, transport, health, welfare and justice
 - ▶ Serco's MoU delivers scope changes and cost savings
 - Shift from deliverer to procurer
 - ▶ Greater private and third sector involvement
 - ▶ Payment by results; faster procurement
 - Local Government looking at transformation to achieve savings

Civil Government

UK and Europe

- Revenue up 10% to £1,126.9m (2009: £1,026.3m)
- Division represents 26% of Group and provides services in:
 - Transport
 - Home affairs
 - Welfare to work
 - Healthcare



Civil Government

Transport

■ High performance levels

	On time	Satisfaction
– Northern Rail	91%	82%
– Merseyrail	95%	93%
– DLR	97%	95%
– Barclays Cycles 110k members, 2m trips		91%

■ Extension of Northern Rail (£530m, 2 years)

■ Short and medium term opportunities

- Barclays Cycle Hire Scheme expansion
- Transport review potential
- Extensive track record giving rise to international opportunities

Civil Government

Home Affairs

- Significant new contracts and extensions
 - Belmarsh West prison (£415m, 26½ years) but Maghull cancelled
 - Yarl's Wood and Colnbrook immigration removal centre extensions (£32m, 3 years and £38m, 2 years)
 - Scotland electronic monitoring renewal (£10m, 2 years)
- Opportunities
 - Court escorting services
 - Two private sector and two public sector prison management contracts
 - Community sentencing
 - Probation services: £1.6bn market
- Working with third sector to reduce re-offending and criminal justice costs

Civil Government

Welfare to work

- Encouraging start in this new market
 - Flexible New Deal (ends June 2011)
 - ▶ Jobs for 18,000 people through network of third sector and SMEs
 - Job Deal programme for ex-offenders (£19m, 2 - 4 years)
- Opportunities
 - Work Programme (starts July 2011)
 - ▶ Tripling in size to £3bn and 4m people
 - ▶ 2.5 million Incapacity Benefit; 1.5 million Jobseeker Allowance claimants
 - ▶ Shortlisted for seven regions; payment by results

Civil Government

Healthcare

- Service performance builds pathology business
 - Expanded GSTS joint venture with Kings (£110m, 10 years)
 - Faster screening and monitoring on cervical cancer, diabetes and HIV
- Opportunities
 - NHS reform programme to extend choice and competition
 - Outsourcing management of failing hospitals
 - Pathology and prison healthcare

Defence, Science and Nuclear

UK and Europe

- Revenue down 1% to £910.8m (2009: £921.2m)
- Division represents 21% of Group revenue delivering in:
 - Land, air and sea defence operational support
 - Science establishment management
 - Nuclear safety and assurance



Defence

UK and Europe

- Organic growth from broad contract base
 - Efficiency drive leads to expanding multi-activity contract at RAF bases High Wycombe and Halton (£100m, 10 years)
 - RAF Brize Norton renewed (£35m, 6 years)
- Opportunities
 - Opportunities from Strategic Defence and Security Review outcomes
 - British Army Recruiting Partnering Programme and Royal Navy Future Outsourced Activities training services (combined value over £1bn)

Science and Nuclear

UK and Europe

- New business in agency management and energy
 - Emergency Planning College management (£55m, 15 years)
 - Offshore wind energy radar for MoD (£20m, 8 years)
- Opportunities
 - Nuclear energy revival
 - Civil resilience: partnering on acquisition and support
 - Carbon measurement to underpin carbon trading

Local Government and Commercial

UK and Europe

- Revenue increase of 5.5% to £853.9m (2009: £809.2m)
- Division represents 20% of Group revenue delivering services in:
 - IT and BPO
 - Management consulting
 - Integrated and environmental services
 - Education



Local Government and Commercial

IT and BPO

■ IT and BPO

- New Hertfordshire County Council partnership (£200m, 8 years)
- Winding down regional Business Link services
- Expanded Enfield Council contract (£24m, 5 years)
- European Space Agency programme and management (€35m, 3 years)

■ Opportunities

- Local government funding squeeze driving efficiencies, shared services and strategic partnership opportunities
- Discussions on-going with many local authorities seeking IT-enabled transformation
- Revenues and Benefits capabilities enhanced

Local Government and Commercial Integrated and Environmental Services

- Integrated and Environmental Services
 - Forth Valley Hospital FM (£600m, 30 years)
 - Sandwell Council Waste Improvement Plan (£650m, 25 years)
 - Norwich University Hospital extension to Norfolk (£75m, 5 years)
- Opportunities
 - 5 possible bids in environmental services pipeline with combined valued of more than £700m

Americas

US and Canada

- Revenue increase of 9% (8% excluding currency) to £953.9m (2009: £872.6m)
- Division represents 22% of Group revenue representing services for federal defence and civilian agencies including:
 - IT and BPO services
 - HR and management services
 - Transportation management



Americas

US and Canada

- New contracts and task orders across all armed forces
 - Two US Navy hazardous materials management contracts with a combined value of \$170m
 - Department of Veteran Affairs (\$20m, 1 year)
- Growth in transport
 - Ontario Driver Examination Services volumes increased
 - Expanded Federal Aviation Administration air traffic control contract (\$170m, 5 years)
 - New Georgia traffic management system contract (\$50m, 5 years)
- Qualified for IDIQs with combined ceiling value of \$4bn

Americas

US and Canada

■ Opportunities

- Addressable Federal Services market valued at \$300bn pa
- Military workforce shortages increasing contracting of managed services
- Increased reliance on IT and redistribution of spending to
 - ▶ IT integration and systems engineering
 - ▶ HR and records management
 - ▶ Cyber-security, intelligence

AMEAA

Africa, Middle East, Asia and Australasia

- Revenue increase of 41% (26% excluding currency) to £481.2m (2009: £340.7m)
- Division represents 11% of Group revenues delivering services in:
 - Defence
 - Home Affairs
 - Transport



AMEAA

Australia and New Zealand

- Growth in DIAC immigration contract
- Renewed Royal Australian Navy 50/50 JV (A\$250m our share)
- New markets
 - Fiona Stanley Hospital, Perth, all non-clinical services preferred bidder (10 years)
 - Mt Eden Prison in Auckland, New Zealand (NZ\$300m, 10 years)
 - Australia established as home market
- Opportunities
 - Transforming service delivery models
 - Wiri prison in New Zealand
 - Australian defence strategic reform programme

AMEAA

Middle East and India

- Strategic expansion of transport services
 - Consulting Makkah Metro, Saudi Arabia, (£10m, 1 year)
 - Dubai Palm Jumeirah monorail operation (£15m, 5 years)
 - Gurgaon Metro/Delhi Airport Metro operational consulting support

- Opportunities
 - Qatar 2022 World Cup light rail and transport
 - Abu Dhabi air traffic control
 - Hyderabad Metro operation and maintenance
 - Opportunities evolving in education and health

Summary of 2010 performance

- Strong operational and financial performance
- Deepened presence in multiple sectors and opened new markets
- Resilient portfolio across the world
- Building new home markets
- Awarded £5.6bn of new business
- Robust order book and further potential driven by public service reform

Growth drivers across markets

- Markets driven by on-going economic and social challenges
 - Delivering better services at lower cost
 - Tackling security, migration, congestion, health, climate change
 - Building national infrastructure
- Competition seen to drive innovation up and cost down
- Global outsourcing market valued at around £1.5 trillion

Significant markets across the world

- UK: addressable market c £100bn pa
 - Only 15% of government spend opened to competition
 - Government White Paper on Open Public Services
- US: addressable market c \$300bn pa
 - Only 10% of total spend opened to competition
- Australia
 - Pressure to improve efficiency to build financial surplus
- Middle East, India, China
 - Rapid economic growth fuelling consumer demand

Outlook – well positioned for growth

- Excellent track record and capabilities
- Breadth of our portfolio
- Broad range of essential services
- Innovative models of service delivery
- Opportunities across all our regions
- Positive outlook going forward

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Questions & Answers

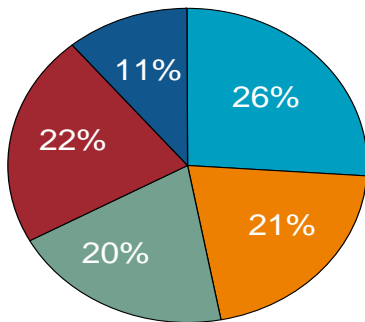
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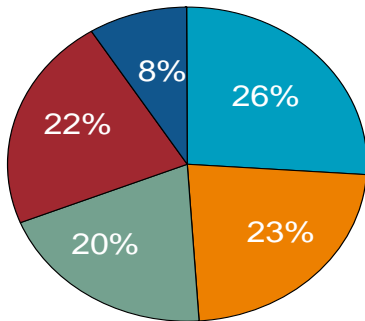
Appendix

Segmental breakdown

Revenue by market

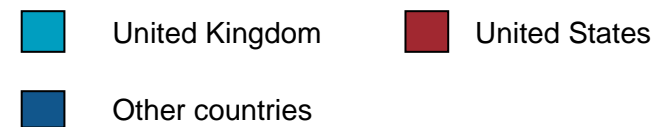
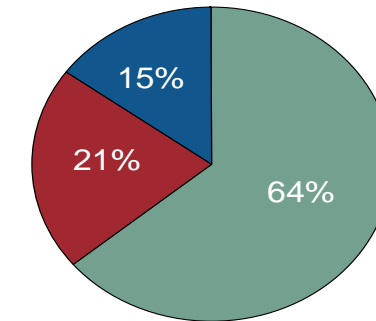
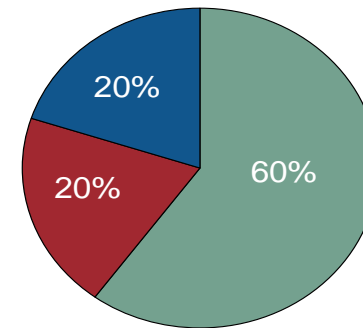


2010 £4,327m



2009 £3,970m

Revenue by geography



Currency

Full Year average rates

	FY 2010	FY 2009
£:US\$	1.54	1.56
£:Aus\$	1.68	1.99
£:Eur	1.16	1.12

Half Year average rates

	1H 2010	1H 2009
£:US\$	1.52	1.49
£:Aus\$	1.70	2.11
£:Eur	1.15	1.11

Closing rates

	31 Dec 2010	30 Jun 2010	31 Dec 2009
£:US\$	1.57	1.50	1.61
£:Aus\$	1.53	1.77	1.80
£:Eur	1.17	1.22	1.13