# Stock Exchange Announcement

**25 August 2010**

## Strong financial performance; well placed to support customers around the world

### Serco Group plc – 2010 Half Year Results

| 6 months to 30 June | 2010 | 2009 | % change |
|---|---|---|---|
| Revenue | £2,140.3m | £1,949.8m | up 9.8% |
| Adjusted operating profit | £124.4m | £110.0m | up 13.1% |
| Operating profit | £115.6m | £101.1m | up 14.3% |
| Profit before tax | £101.4m | £83.4m | up 21.6% |
| Adjusted earnings per share | 16.53p | 14.02p | up 17.9% |
| Earnings per share | 15.13p | 12.62p | up 19.9% |
| Dividend per share | 2.20p | 1.85p | up 18.9% |
| Group free cash flow | £93.0m | £50.7m | up 83.4% |

**Strong financial performance**

- Revenue growth of 9.8% (8.5% excluding currency)
- Adjusted operating profit margin increase of 17bps to 5.8% (16bps increase excluding currency)
- Group free cash flow increase of 83.4% to £93.0m; reflects a strong performance and a greater first half weighting of cash generation than in previous years
- Strong balance sheet and cash flow support planned £60m contribution to Group pension scheme

**Substantial UK and international activity, winning and delivering quality, essential front line services**

- Signed contracts in first half of £2.2bn, across a wide portfolio of geographies and markets
- Operational excellence supports continued high win rates of one in two new bids and 90% of rebids
- Order book of £16.7bn at 30 June 2010 (£17.1bn at 31 Dec 2009)

**Supporting customers around the world in achieving savings and transforming services**

- Continue to deliver strong growth, even as some markets change, through agile and innovative responses to our customers' needs
- Discussions ongoing with the UK Cabinet Office's Efficiency and Reform Group on cost savings
- Enhanced capabilities and breadth of portfolio in international businesses, which now account for nearly 40% of our revenues, showing substantial growth potential
- Well placed to benefit from developing opportunities given our strong customer relationships, our critical mass in UK and international markets, and track record of transforming services

**Guidance supported by visibility and scale of opportunities**

- Visibility of 98% of planned revenue for 2010, 84% for 2011 and 71% for 2012
- Substantial £28bn pipeline of specific, identified opportunities; shaping significant potential further opportunities across our international markets and in the UK
- In 2010, continue to expect strong organic revenue growth and further progress towards our 2012 margin guidance
- 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: "Through the dedicated efforts of our people, we have continued to deliver high quality, efficient, front line services all round the world. Many of our government and commercial customers are seeking to reduce costs. We have the necessary skills to help them, given our broad portfolio of markets and capabilities, and our close customer relationships, as existing markets continue to develop and new markets open up."

Note: 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.

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**Presentation**

A presentation for investors and analysts will be held at J.P. Morgan Cazenove, 20 Moorgate, London EC2R 6DA at 9.45 am today. The presentation will be webcast live on www.serco.com and will be subsequently available on demand.

**Performance excluding currency**

Where performance has been stated as "excluding currency", the currency effect has been calculated by translating non-Sterling revenue and earnings for the half year to 30 June 2010 into Sterling at the average foreign exchange rates for the same period in 2009.

**About Serco**

Serco is a FTSE 100 international service company, which combines commercial know-how with a deep public service ethos.

Around the world, we improve essential services by managing people, processes, technology and assets more effectively. We advise policy makers, design innovative solutions, integrate systems and - most of all - deliver to the public.

Serco supports governments, agencies and companies who seek a trusted partner with a solid track record of providing assured service excellence. Our people offer operational, management and consulting expertise in the aviation, BPO, defence, education, environmental services, facilities management, health, home affairs, information and communications technology, knowledge services, local government, science and nuclear, transport, welfare to work and the commercial sectors.

More information can be found at www.serco.com

**Overview**

**Strong financial performance and well placed to support our customers around the world**

We have continued to see a substantial level of activity across the Group in the first half of 2010, delivering high quality essential services in existing contracts, winning new business and starting new contracts across a wide range of geographies and markets. Our strong operational track record supported our continued high win rates for new business and rebids, and we signed contracts valued in total at £2.2bn in the first half of the year.

We delivered a strong financial performance. Revenue grew by 9.8% to £2,140.3m (8.5% growth excluding currency effects). Organic revenue growth, excluding currency, was also 8.5%. Adjusted operating profit rose by 13.1% to £124.4m, and our margins increased, with Adjusted operating profit margin rising 17 basis points to 5.81% (16 basis points excluding currency effects). Group free cash flow increased by 83.4% to £93.0m, reflecting a strong performance and a greater first half weighting of cash generation than in previous years.

Our policy is to increase the total dividend each year broadly in line with the increase in our underlying earnings. Accordingly, the Board has declared an interim dividend of 2.20p per share, representing an increase on the 2009 interim dividend of 18.9%. The interim dividend will be paid on 15 October 2010 to shareholders on the register on 3 September 2010.

We are actively supporting government and commercial customers around the world as they address unprecedented fiscal deficits and the ongoing challenges of delivering high quality services. We are continuing to deliver strong growth, even as some markets change, through our agile and innovative responses to these needs.

In the UK, we are identifying opportunities to help our government customers reduce their costs in the short-term as they seek to reduce the fiscal deficit as part our continuing discussions with UK Cabinet Office's Efficiency and Reform Group. We are also continuing to support the UK government in identifying how public services can be transformed by expanding competition and enhancing the role of the private and voluntary sectors.

In our international businesses, which now account for nearly 40% of our revenues, we see significant growth potential. This is being driven by the ongoing development of these markets, the strengthening of the capabilities we have in these businesses, and their broadening of their market portfolios.

Looking forward, we have a substantial pipeline of specific, identified opportunities, which stands at £28bn. We are actively shaping significant potential further opportunities across our international markets and in the UK. With our strong customer relationships, and track record of high quality delivery and transforming the efficiency and productivity of essential services, we are well placed to support our customers around the world as our markets continue to develop.

**£2.2bn contracts signed across a wide range of geographies and markets; strong order book and substantial opportunities**

In the first half of the year we signed contracts valued at £2.2bn across a wide range of geographies and markets. As at 30 June 2010, our order book was a substantial £16.7bn. This reflected our contract signings in the first half of the year, and the ending of our UK Flexible New Deal contracts in June 2011. The Flexible New Deal programme is expected to be replaced with the larger Work Programme in 2011 and to be bid in that year (for further detail please see page 10).

Smaller and medium-sized wins continue to play an important part in our growth, and, in addition, we made continued good progress in renewing, extending, and expanding the scope of existing contracts. We were also pleased to sign a number of contracts in new markets where we see good opportunities for growth. Details of some of these contract awards are set out in the Operating Review, starting on page 8.

We signed two significant contracts in the UK, which will make important contributions to our growth and the visibility of our revenues. We further consolidated our leading position in the UK Home Affairs market through the contract to provide and operate a new local prison at Belmarsh West, London, which has a value to us of approximately £415m over 26½ years, and we extended the term of one of our largest contracts, to operate Northern Rail, which will now run for an additional two years until September 2013, securing approximately a further £530m of revenue to Serco over those two years.

We secured a number of expansions and extensions to contracts in the first half, both in the UK, and our overseas businesses. Contract expansions included: growth in the scale of our immigration services contract in Australia, the renewal and expansion of our air traffic control contract with the US Federal Aviation Administration, and the expansion of our previous UK contract to support RAF Halton to include RAF High Wycombe (the home of UK Headquarters Air Command). We also renewed and expanded our UK contract with Enfield Borough Council to provide ICT services and secured extensions to our Scottish Electronic Monitoring contract, and our contract to operate London's Woolwich Ferry.

In new markets, we were pleased to sign two contracts which further contribute to our strategic position in supporting a new generation of low carbon emission energy production. Westinghouse, a leading nuclear power technology company, selected us to support their UK nuclear reactor development programme, and the UK Ministry of Defence selected us and Lockheed Martin to introduce a new radar technology which will enable greater use of offshore renewable wind energy.

We also saw progress in developing our global transport businesses, through contract wins in the Middle East and in Asia. These included a contract to deliver consultancy services on the new Makkah Metro in Saudi Arabia, and, since the half year end, new contracts signed to operate and maintain the Palm Monorail in Dubai and the Cross-Harbour Tunnel in Hong Kong.

Since the half year end, we have been appointed by Sandwell Metropolitan Borough Council as preferred bidder for its new 25-year Waste Improvement Plan contract, which is valued at around £650m. Under the contract, we will provide refuse collection, recycling, and street cleaning services, and deliver waste processing and disposal, including the construction of a new waste transfer station.

**Delivering high-quality, efficient, essential services**

We are focused on achieving high quality and efficiency in the essential services we deliver. The commitment of our people and the increasing scope of our capabilities mean that we continue to make productivity and efficiency gains for our customers, while improving the quality of the services we provide.

The quality of our operations was reflected in a number of areas: our high new contract and rebid win rates; the industry-leading performance benchmarks we are achieving; and the awards for operational best practice we received. We also continued to deliver strong performance in our rail operations in the UK and Dubai, details of which are given later in this operational review.

Of numerous awards received so far this year, UK highlights include a British Safety Council Five Star Health and Safety Audit Award for HMP Dovegate, recognition in the Healthcare 100 awards for our work at Yarl's Wood Immigration Removal Centre, and 23 awards and commendations in the annual RoSPA national safety awards.

In the US, we were pleased to receive the 2010 Defense Enterprise Architecture Achievement Award for support of the Air Force Space Command's Joint Space Operations Center Mission System programme, the Bravo Zulu Award for exceptional work on behalf of the Navy Expeditionary Medical Support Command for relief efforts in Haiti, and the "None in a Million" Federal Aviation Administration award for achieving a second milestone of one million error-free operations at Phoenix air traffic control.

In Australia, we were presented with the Operator and Service Provider Excellence Award at Infrastructure Partnerships, Australia's prestigious National Infrastructure Awards, for our work at Acacia Prison, and Great Southern Rail was awarded "Best Luxury Rail Journey" in the Luxury Travel Magazine's Gold List Awards.

**Well placed to support our customers around the world by transforming productivity and efficiency**

Given our breadth of capabilities and strong track record of delivery, we are well placed to support our customers around the world in their requirement to transform the productivity and efficiency of essential services, and to tackle their key challenges such as economic stability and development, congestion, security, health, and climate change.

In the UK, the new coalition government is addressing these challenges by seeking greater efficiency from existing services and reforming the role of government in delivering and procuring services in the future. We have a long track record of working in partnership with our UK government customers to help them achieve savings and improvements in existing services.

The UK coalition government has also stated its intention to significantly change the role of government. It aims to move from being an operator and deliverer of services to become an effective procurer of services, as well as promoting choice and competition, increasing accountability and transparency and devolving powers away from the centre.

We anticipate these reforms will result in competition being introduced into new areas of service, the increased use of the private and voluntary sectors and new models of delivery. Competition in the delivery of public services has been shown to deliver cost reductions of up to 30% and to enable more innovative delivery that better meets the needs of users.

In our international businesses, which now account for nearly 40% of our revenues, we are benefiting from the capabilities we have developed, and the broadening of their market portfolios. This is positioning us well for growth as these markets develop.

In the US, we are well positioned to grow our share of the substantial Federal services market, which is valued at over US$300bn per annum, and are seeing a high level of bidding activity, with over US$3bn of bid proposals submitted. While the US government is seeking to reduce expenditure in certain areas, such as large weapons programmes, and to increase efficiency and productivity, we expect to see a redistribution of spend towards emerging priority areas such as cybersecurity, federal health, intelligence surveillance and reconnaissance (ISR), human capital management, where we have strong capabilities. We also expect to benefit from our existing strengths in supporting soldiers and veterans through logistics, command and control, and personnel support services. Additionally, we anticipate opportunities arising from continued spend on mission critical requirements, alongside a trend towards larger contract vehicles where we now have the capabilities to succeed.

In Asia Pacific, we have an active bid pipeline, driven by public, private and third sector organisations being called upon to develop innovative solutions for government to provide better infrastructure and services for citizens, in a fiscally conservative environment. While Australia's economy has continued to outperform most other developed economies, governments are aiming to return their budgets to surplus and this is helping to build a solid pipeline of opportunities in the region, particularly in areas of health, justice and defence.

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

**Outlook and guidance**

We continue to identify significant potential for growth across our global portfolio of contracts and markets.

We continue to support our customers around the world as they address their financial and operational challenges. In the UK, discussions are ongoing with the Cabinet Office's Efficiency and Reform Group regarding potential cost savings for the government. We have a strong track record in the delivery of front-line essential services, long-term relationships with our customers, and have broad capabilities and skills across a number of markets.

Through these, we are helping to develop markets further and open up new areas of opportunity in the UK and overseas, and are seeing a broad range of opportunities to help our customers improve the efficiency and quality of services. In addition, the enhanced capabilities and the broader contract portfolios we have developed in our international businesses are now showing substantial potential for growth.

Our guidance is supported by this potential for further growth in opportunities around the world, together with our substantial pipeline of existing opportunities, and the high revenue visibility which comes from our existing order book.

We continue to expect, in 2010, strong organic revenue growth and further progress towards our 2012 margin guidance, and, by the end of 2012, an increase in revenue to approximately £5bn and in Adjusted operating profit margin to approximately 6.3%, excluding material acquisitions, disposals and currency effects, based on 2008 exchange rates.

**Operating Review**

At the start of 2010, we created five new divisions focused on our principal markets, to maximise our focus on growth and opportunities, and to ensure that we maintain a flexible and devolved organisation which is responsive to our customers' needs. This Operating Review is presented according to these five new divisions which are: Civil Government; Defence, Science and Nuclear; Local Government and Commercial; Americas; AMEAA (Africa, Middle East, Asia, and Australasia).

**Civil Government**

Our Civil Government segment includes our operations in the UK and Europe in home affairs (including custodial, immigration and field services, and border security and control), transport (including rail, metro and roads) welfare to work and healthcare.

Civil Government revenue grew by 13.6% to £574m, representing 27% of Group revenue (1H 2009: 26%). Civil Government growth benefited from contracts won in 2009, including our Flexible New Deal contracts in the Welfare to Work market, and Barclays Cycle Hire for Transport for London.

**Home Affairs**

In Home Affairs, we were pleased to sign a contract with the Ministry of Justice to provide and operate a new local prison at Belmarsh West, London. This is a Design, Construct, Manage and Finance contract, which has a value to Serco of approximately £415m, and will run for 26½ years. We had announced our selection in June 2009 as the preferred bidder. Belmarsh West will be built to Category B standards by our construction partner Skanska, will accommodate 900 adult male prisoners and is expected to be completed in the first half of 2012. Equity and debt finance has been secured from third parties.

Belmarsh West is the first prison contract to be awarded in the UK to an alliance of the private and voluntary sectors. The prison is designed to be highly efficient and, as a local prison with a high remand population, our focus will be to minimise the dislocation that short-term imprisonment can cause. Building on our innovative and successful alliance with leading voluntary sector partners, Turning Point and Catch22, we will focus on cost effective care and successful rehabilitation to create an environment that most effectively and efficiently prepares those in our care for release. In conjunction with other providers, we will also support the effective delivery of prison healthcare and other services, to ensure a safe, secure and decent environment for those in our care.

Elsewhere in Home Affairs, we were awarded extensions to a number of our contracts. These included a three-year extension to April 2013 to our contract to manage Yarl's Wood Immigration Removal Centre valued at around £32m, and a two-year extension to March 2013 to our Electronic Monitoring contract for the whole of Scotland, valued at around £10m.

In border security and control, since the half year end, the Home Office has announced the termination of its e-Borders contract with Raytheon, the prime supplier of this advanced border control and security 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 remain fully committed to the e-Borders programme.

**Transport – Rail and Metro**

In Transport, Northern Rail, our joint venture with Abellio, signed a two-year extension to its train operating franchise on the same terms as its existing contract. The extension, to September 2013, is valued at approximately £530m and follows the sustained performance improvements that Northern Rail has achieved since the franchise began in December 2004.

Northern Rail and Merseyrail, our other joint venture with Abellio, both continued to deliver excellent operating performance in the period. Merseyrail continues to be one of the best performing train operating companies, maintaining its record of achieving over 96% of trains on time in a 12-month period (to 24 July 2010) and achieving a 93% satisfaction rate in the Spring 2010 National Passenger survey, the highest score of any franchised train company in the UK. Northern Rail achieved 91.5% punctuality in the 12 months to June 2010, continuing the significant improvement from the 83% achieved prior to our taking over the franchise in 2004.

Northern Rail, in conjunction with its partners, also received a number of awards in the period including the ‘Transport Team/Partnership of the Year’ award at the National Transport Awards for the response to the Cumbrian floods last autumn, and first prize in the ‘Rail Station of the Year’ category. Northern also received two top national awards and four commendations in the Railway Industry Innovation Awards and the top transport title at the RoSPA (Royal Society for the Prevention of Accidents) Occupational Health and Safety Awards for the second year running.

On the Docklands Light Railway (DLR), passengers are now seeing further benefits after the roll out of a full three-carriage service, increasing capacity on the service by 50%. Customer satisfaction with the service currently stands at 95% for overall service and over 96% for safety and security. We have seen increased service reliability on the DLR network, with the most recent figures showing 98% of trains running to schedule. Passenger numbers have continued to grow, having increased by over 2% in the past six months to reach 69 million journeys per annum.

We were awarded an 18-month contract valued at £5m by Scheidt & Bachman to deliver the enabling works for the replacement of the automatic fare collection systems at Tyne & Wear Metro stations. We are responsible for structural alterations, the upgrade of the existing CCTV systems and the installation of a new fibre network. We were also awarded three rail sector contracts with a combined value of around £1.5m for infrastructure and technology for First Capital Connect, Virgin Trains, and Network Rail.

**Transport - other**

In other transport, we launched Barclays Cycle Hire for Transport for London to registered members. 4,200 bicycles and 315 docking sites were available at launch, which has now increased to 331, with capacity planned to increase to 6,000 bicycles and 400 docking sites. While the scheme has experienced some operational issues, it is proving popular, with nearly 45,000 members currently registered and 100,000 journeys made in the first 14 days of operation.

We also secured a 15-month contract extension to our existing 18-month contract to operate London's Woolwich Ferry. The extension is valued at approximately £9m.

In road transport services, we were awarded a five-year contract with a value of approximately £10m by Transport Scotland to renew communications technology on the Scottish roads network. The contract is to provide technology services including a new communications network, and emergency roadside telephones, and we will also provide design services, programme management, and installation and commissioning services.

**Welfare to Work**

We have made a successful start in the Welfare to Work market, providing outsourced support to unemployed people under contract to the Department for Work and Pensions. Under our existing Flexible New Deal (FND) contracts, as prime contractor, we support people who have been unemployed for more than 12 months to find sustainable work. We achieve this through our unique model of subcontracting to local networks of successful, established providers, including private, public and voluntary sector organisations. Following the start of these contracts in October 2009, we have now enabled over 7,500 people to move back into sustainable employment, in line with our expectations. We expect to have in excess of 50,000 jobseekers signed up with our network by the end of this year.

The Welfare market represents a significant opportunity for Serco. We have now been informed by the Department for Work and Pensions that these existing FND contracts will now end in June 2011 and be replaced by the significantly larger Work Programme. These Work Programme contracts will be tendered for in 2011 and let through Framework Agreements to allow for faster and more flexible procurement. These contracts are likely to be substantially larger, longer and have greater scope, given that they will be extended to encompass people on all benefits, including those on incapacity benefits.

This year, our Welfare to Work team has also implemented Serco’s Job Deal under contract to the National Offender Management Service. This is a new initiative designed to provide welfare-to-work support to ex-offenders, tackling their barriers to employment in order to enable access to sustainable work. Serco began delivering services in two of the nine English regions, the East of England and South East of England, in January 2010. Our two contracts are each valued at approximately £3m over a period of two years.

**Healthcare**

We continue to build our business providing a range of healthcare services supporting the NHS. Our offering already incorporates the delivery of primary care services and of clinical and non-clinical support services, including pathology, occupational health and custodial health services.

We are continuing to develop our business providing health services in secure accommodation, delivering healthcare in 15 secure custodial centres and have now been appointed to the country's largest integrated custodial health services contract, with NHS Norfolk, to provide integrated health services to three local prisons. The contract has a value to Serco of £22m over a period of three years. Working with us on the contract will be Norfolk Community Health and Care, the local NHS community service provider, Turning Point, a leading social care organisation, and Partnerships in Care, a leading provider of medium secure mental health hospitals. We have also been successful in retaining and growing the healthcare service we provide at HMP Leicester and have added £8m to the contract value over a period of five years.

In Occupational Health, we have extended two key contracts with Ford Motoring Group and PricewaterhouseCoopers to supply occupational health services to employees until June 2011 and September 2011 respectively.  The extensions have a combined value of over £3m.

**Defence, Science and Nuclear**

Our Defence, Science and Nuclear (DSN) segment 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, the National Physical Laboratory, the National Nuclear Laboratory, our energy market operations, and our nuclear safety and assurance business.

DSN revenue grew by 3.5% to £461m, representing 22% of Group revenue (1H 2009: 23%), principally reflecting organic growth across our contract portfolio in this segment.

We continued to renew and expand our support to the UK's Royal Air Force (RAF) in the period. We signed a Multi-Activity Contract, for which we had previously been appointed preferred bidder, to provide services at RAF Halton, which we have served since 1997, and which now includes RAF High Wycombe, the home of Headquarters Air Command. The contract is valued at £100m over ten years. The combination of services at both sites provides us with the ability to deliver synergies across both stations through an innovative and flexible solution.

We also signed a contract with the Ministry of Defence (MoD) to deliver essential support services at RAF Brize Norton, worth around £36m for a period of up to six years. RAF Brize Norton is one of the MoD's most important bases involved in current military operations, and is the main gateway for British military personnel deploying to and returning from overseas operations. We have supported the RAF mission at Brize Norton since 1997, and this new contract reinforces our existing role in delivering operational support services, ranging from aircraft engineering to managing air movements and providing the station's security.

Earlier in the year we secured a contract worth more than £55m over 15 years to manage and operate the Emergency Planning College (EPC) on behalf of the Cabinet Office, placing Serco at the heart of UK civil resilience. As commercial partner to the Cabinet Office, we are managing all services at the EPC, including training delivery and support, sales and marketing, finance, estate management, ICT and security.

During the first half, we signed a new contract with the UK MoD, valued at around £20m to Serco over two years, which will help the UK tackle climate change through enabling greater use of off-shore renewable wind energy. In the capacity of prime contractor, we are working with Lockheed Martin of the US to introduce the Lockheed Martin TPS-77 radar technology, which is resistant to interference from wind farms, into the UK Air Defence System on the north Norfolk coast. This will remove a significant obstacle to the roll out of off shore wind power in the UK.

During the period, we also successfully secured a three-year contract to provide air traffic control and air traffic engineering at Coventry Airport, valued at around £1m per annum.  Serco's role underpins the airport's strategy to resume full normal operations, including attracting business jet traffic, freight and potentially future airline operations.

We continue to see strong performance at our joint venture with Lockheed Martin and Jacobs Engineering which manages and operates the UK's Atomic Weapons Establishment (AWE). We are achieving excellent delivery against the key milestones and, with our UK MoD customer, an internal AWE transformation programme to reduce costs while maintaining performance is delivering significant benefits. We are also 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.

In civil nuclear, we were appointed by Westinghouse as its lead nuclear safety adviser in the UK in support of the AP1000 nuclear reactor currently under assessment for the UK's civil nuclear programme. Our role is to lead a team of experts to assist Westinghouse in completing Step 4 of 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 for completion in 2011. The contract is of strategic importance, coming as it does at the beginning of a new era of nuclear energy in the UK.

The National Physical Laboratory (NPL) has continued to expand its non-core work partially offset by a reduction in its core funding from the UK Department for Business, Innovation and Skills' National Measurement Office. During the half-year NPL secured £13m of new orders, including nearly 1,000 measurement services contracts with a total value of £5m, and other orders totalling £8m, the largest being a £1.5m knowledge transfer contract with the Technology Strategy Board. NPL has also continued to promote the establishment of a Centre for Carbon Measurement with the purpose of supporting national and international efforts to understand and mitigate climate change through accelerating the development of the low-carbon technology sector.

**Local Government and Commercial**

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

LG&C revenue grew by 9.8% to £433m, representing 20% of Group revenue (1H 2009: 20%), principally as a result of a number of new contract starts in 2009 and expansion of our European agencies business.

**IT & BPO**

In IT & BPO in the UK, we signed a new information communication technology (ICT) support services contract with the London Borough of Enfield Council. The new contract, known as “EnfieldIT”, will deliver guaranteed cost savings of 20% for the council, improve services for Council employees and improve the communications and interactions with the residents of Enfield. The initial five-year contract, valued at £24m and with an option to extend for a further four years, is the result of our successful rebid for the Council's ICT services, delivered since 1999, and a key factor for the selection was the improvement to service practices and more efficient ways of operating, which guarantee efficiency savings for the Council over the life of the contract.

In our Business Link contracts, the replacement of Regional Development Agencies (RDAs) with Local Enterprise Partnerships (LEPs) and the related funding cuts announced in the UK government’s Emergency Budget in June are expected to affect our regional Business Link contracts, as the RDAs are wound down. Although there may be new opportunities with LEPs, it is not yet clear when these will start to emerge.

During the half year, we acquired RB Solutions, a successful provider in the Revenues and Benefits market, for £2m. Since acquisition we have made excellent progress on the transition of the business into the Local Government & Commercial division, and have recently won two new contracts valued in aggregate at £2m with Dacorum Borough Council and Dudley Metropolitan Borough Council to provide benefits processing services.

We secured two contracts with the European Space Agency (ESA) worth Euro35m over the first three years. This win strengthens our position as a leading provider of services to Europe’s space and technology agencies. In the first contract we are leading a consortium – which includes Logica and Infoterra – to provide operations and maintenance capabilities to ESA’s Earth Observation programme. This is the first time that ESA has procured these services through a single contractor. The second contract is an expansion of our existing manpower services contract to cover engineering and management support for the ESA Earth Observation payload data ground segment.

We were awarded a four-year contract by the European Medicines Agency (EMA), valued at Euro7m, to provide information and communications technology support to up to1,000 staff at their London headquarters, as well as a larger stakeholder community at various locations through-out Europe.

**Integrated and Environmental Services**

In integrated services, we were successful in renewing and winning a range of contracts for essential services.

Since the half year end, we have been appointed by Sandwell Metropolitan Borough Council as preferred bidder for its new 25 year Waste Improvement Plan contract, which is valued at around £650m. Under the contract, we will provide refuse collection, recycling, and street cleaning services, and deliver waste processing and disposal, including the construction of a new waste transfer station. Our innovative approach to this contract has resulted in the development of an operational solution which responds to the needs and aspirations of Sandwell and its residents. Under the contract, we will increase recycling rates, and significantly reduce the amount of waste sent to landfill through the development of an integrated waste processing and disposal solution using best-in-class local partners. This will help the council to meet Government recycling targets and reduce costs such as landfill taxes.

In the health services arena we extended our Norfolk and Norwich University Hospital 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 were also selected by the Middlesbrough, Redcar and Cleveland Primary Care Trust to provide integrated facilities management to their healthcare estate. The contract is valued at around £8m over five years, and will involve us delivering a range of services including building maintenance, catering facilities, cleaning and ward housekeeping to community hospitals and GP facilities throughout the region.

In the airports and aviation arena, we won a new contract with British Airways to provide a range of integrated facilities management services to their Gatwick estate, including support to the executive lounges and non essential aircraft maintenance.  The contract will run for two years, nine months and is valued at £5.2m.

**Education**

Our Serco-led Together for Disabled Children partnership has been awarded a one-year contract extension with effect from April 2010. The partnership supports the UK government's Aiming High for Disabled Children programme, specifically around short breaks and parent participation. In addition, a pilot to improve disabled children's access to childcare (DCATCH) across ten local authorities will now be rolled out nationally as part of this contract extension. The total value of the extension, including DCATCH, is £5m.

**Consulting**

Our consulting business continues to experience difficult market conditions, but has been active in developing and deploying targeted offerings that provide creative and practical ways of making cost savings that directly address our clients' needs. While the public sector consulting market contains a high degree of uncertainty going forward, we are well equipped to meet government efficiency needs and to enter new markets. Our consulting business also continues to benefit from its position on a number of government frameworks and programmes, and we are leveraging its expertise in parts of Serco, making a significant contribution to winning contracts and assuring their successful delivery.

**Americas**

Our Americas segment provides information technology (IT), professional, and management services primarily to the U.S. federal government, including every branch of the military, key federal civilian government such as the Department of Homeland Security, and the intelligence community.

Americas revenue grew by 1.7% to £455m (2.6% growth excluding currency effects), representing 21% of Group revenue (1H 2009: 23%), reflecting organic growth in our portfolio and a lower number of new contract starts in the period.

In the Americas, we continued to see demand for programme management services for the intelligence community, command and control (C4I) solutions for the Air Force, and logistics sustainment activities for the Army supporting the conflicts in Iraq and Afghanistan. We are seeing a high level of bidding activity, with over US$3bn of bid proposals submitted.

A key focus for our Americas business in the first half was to identify opportunities for collaboration across our business units, and to ensure an integrated approach that leverages the full range of our capabilities and expertise across our entire customer base. Examples include expanding the use of our Command, Control, Communications and Computer skills, which we currently provide to the Air Force Space Command and the US Navy, across all branches of the military, to the Department of Homeland Security, and to the intelligence community. We are also using our enterprise architecture capabilities developed with the Air Force Space Command to support other Department of Defense agencies and commands, and exploring opportunities to use our economic cost analysis expertise with the US Air Force and in the intelligence community, and to expand our logistics support to additional military bases.

More government agencies are using indefinite delivery, indefinite quantity (IDIQ) contract vehicles, where we are one of a number of companies with the opportunity to bid for task orders. So that we can fully leverage our position on these programmes, we have created a team to identify and quickly respond to key opportunities arising under these existing contract vehicles, which include Alliant, HRsolutions, Seaport-e, GSA schedules and intelligence contracts. We have also refocused our business development team, reflecting our greater concentration on IDIQ contract vehicles and larger prime contracts, and our positioning in key growth areas, including cybersecurity, human capital management, federal health and base realignment and closure (BRAC) programmes.

In the first half, our US business continued to strengthen its position on major US government programmes through the award by the US Army of an IDIQ contract to compete for task orders under the HRsolutions Program Office for the Studies and Analysis contract. The contract will support the Assistant Secretary of the Army (ASA) Manpower and Reserve Affairs (M&RA). Under this contract, we will have the opportunity to compete for work in areas such as business planning, and research and evaluation, including process re-engineering, policy analysis, manpower planning, training and development, policy development, proof of concept studies, programme analysis, predictive modeling and risk management and mitigation. We are among 12 awardees on this US$1.3bn IDIQ contract which has a five-year term, comprising a one-year base period and four one-year option periods.

Contract awards included the renewal of our IDIQ contract with the US Navy's Commander, Fleet and Industrial Supply Centers to provide support for the procurement, management, issuance and disposal of HAZMAT products and chemicals. The contract has a six-month base period with three one-year option periods and is valued at approximately US$84m, inclusive of the options.

For the Air Force Materiel Command, we were awarded a task order under the Consolidated Acquisition of Professional Services (CAPS) contract to support the depot maintenance management oversight programme. This task order renews and expands our current contract, more than doubling the number of job positions, and is valued at US$14m over two years.

Also for the Air Force, we signed a Logistics, Maintenance, Supply and Support contract, valued at US$15m over three years, supporting the acquisition and delivery of Special Operations Forces weapon systems.

For the Marine Corps Center for Lessons Learned, we renewed and expanded our contract to provide personnel to assist in gathering operations and exercise information. The contract is valued at US$15m over three years, a 25% increase over the current level.

In transport, we renewed our contract, valued at US$22.5m over five years, with Dayton Power and Light for fleet and maintenance support services, and expanded our existing contract with the City of San Francisco supporting their parking meter programme.

As previously reported, we were also awarded contracts to support the Federal Aviation Administration (FAA) Contract Tower Program valued at approximately US$170m over five years to provide air traffic control services at 65 sites in the United States and Pacific region, and with the Georgia Department of Transportation (GDOT) to provide comprehensive management, installation, and maintenance of the department's intelligent transportation system valued at around US$50m over five years.

**AMEAA**

Our AMEAA segment consists of our operations in Australasia, Middle East, Asia (including Hong Kong and India) and Africa, in which we provide a range of services including transport, aviation, justice, immigration, health, defence, BPO and local government.

AMEAA revenue grew by 37.4% to £218m (22.0% growth excluding currency effects), representing 10% of Group revenue (1H 2009: 8%). The strong growth in the period reflected significant contributions from new contract starts in both our home affairs business in Australia and our transport operations in the Middle East.

In home affairs in Australia, we are continuing to work with our customer, the Department of Immigration and Citizenship, to transform its immigration services across the country while expanding capacity to support the increasing number of people in our care. Serco has been recognised by members of the parliament and prominent Australian leaders for the transformation that is occurring in the centres, our humane approach, the constructive mood in the centres, and the positive relationship that exists between our employees and the people in our care.

We were also delighted to win the Operator and Service Provider Excellence Award at the prestigious National Infrastructure Awards. The award recognises the high standard of service we are providing at Acacia prison, Western Australia's only privately-operated prison, where we have expanded and invested in numerous education, training, rehabilitation and resettlement programmes, with a particular focus on restorative justice and community and social responsibility, while at the same time successfully integrating an additional 200 prisoners into the prison.

In transport in Australia, Great Southern Rail has shown good signs of recovery in the first half of 2010, with a particularly strong second quarter. However, we expect general weakness in consumer demand in the Australian economy to slow the pace of recovery in the second half of 2010. For 2011, Great Southern Rail has developed a new product called The Southern Spirit, a summer season service touring Australia's Great Dividing Range and Eastern seaboard. Initial market response has been strong, with 50% of total capacity sold in the first month.

In the Middle East, following the launch of the Dubai Metro in September last year, we have continued to achieve very high levels of availability and punctuality, which in the first half were 98% and 96% respectively. A further 10 stations opened in the first half of this year, bringing the total to 21, and the number of passengers is now around 120,000 per day, with around 40 million expected to use the service in 2010.

Elsewhere in the Middle East, we won a contract, valued at £10.5m to Serco over one year, to deliver operations and maintenance consultancy services to the Al Mashaaer Al Mugaddassah Metro Southern Line (Makkah Metro) in Makkah, Kingdom of Saudi Arabia. Working in partnership with China Railway Construction Corporation (CRCC) and Beijing Railway Administration (BRA), we will deliver the consultancy services and support the launch of the Metro for the 2010 Hajj (Pilgrimage). The Metro will link Makkah with the holy sites at Mina, Arafat, and Muzdalifah.

In Abu Dhabi, we were awarded a contract, valued at US$2.7m, to provide a schedule management system for the Abu Dhabi Department of Transport to manage timetable and vehicle scheduling, duty rosters, and personnel and vehicle deployment in its bus operations.

In Dubai, 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 extension, valued at around £3.5m per annum, to the existing contract with Dubai Airports Company which dates back to the 1960s.

Since the half year end, we have further expanded our presence in Dubai through a contract to operate and maintain the 5.4km Palm Jumeirah Monorail which runs from Gateway Station at the trunk of the iconic Palm Jumeriah to the landmark Atlantis Hotel and Aquaventure Water Park. The five-year contract is worth approximately £15m.

During the half year, we took the decision to exit our remaining business in the non-core South African market, a joint venture providing aviation ground handling services, following the non-renewal of its license. The joint venture is to be put into liquidation, resulting in a non-cash goodwill impairment charge of £4.2m.

In India, while our business performance continues to reflect the ongoing difficult conditions in the global financial services market, we are actively exploring potential opportunities for developing our presence in the business process outsourcing market and in shaping a market for the delivery of public services.
In Asia, since the half year end, we were awarded a new six-year contract valued at AUS$55m to manage, operate and maintain the Cross-Harbour Tunnel in Hong Kong. Geographically and strategically placed on Hong Kong Route 1, the Cross-Harbour Tunnel is the busiest tunnel in Hong Kong with over 120,000 vehicles travelling through the tunnel daily, generating around HK$700m in annual toll revenue for the Hong Kong government. The addition of this contract to our existing operations on the Aberdeen, Lion Rock and Kai Tak tunnels makes us the largest tunnel operator in Hong Kong.

**Market opportunities**

Our markets offer a broad range of opportunities for Serco, as governments address substantial budget deficits and as pressure from citizens to improve public services continues.

The reduction of these deficits will require the realisation of ongoing efficiencies in the delivery of essential front-line services.  Governments around the world are increasingly recognising the benefits of opening up to competition new areas in the delivery of public services, and of achieving the innovation in the procurement and delivery of these services that comes from competition.

The breadth of our capabilities, our strong track record of delivery, and our proven ability to create new business models mean that we are well placed to help our customers address their challenges and to select the best opportunities, wherever they may arise.

In the UK, while individual opportunities are subject to change as a result of the new coalition government's spending review, we remain confident that there is significant further potential for an overall expansion of opportunities across our UK markets. As well as seeking efficiencies, the new coalition government is also reforming the role of government from being a deliverer of services to become a procurer of services. Its reform ambitions include promoting choice and competition, increasing accountability and transparency and devolving powers away from the centre.

We anticipate these reforms will result in new opportunities as competition is introduced into new areas of service and the private and voluntary sectors are increasingly used. Competition in the delivery of public services has been shown to deliver cost reductions of up to 30% and enabled more innovative delivery that better meets the needs of users.

In UK Home Affairs, we expect further substantial opportunities to arise from increasing efficiency and productivity. We expect the first three existing public sector operated prisons, Birmingham, Wellingborough and Buckley Hall, to be market tested in the next 12 months. We also see potential for further opportunities arising from the drive to manage the existing prison estate more effectively, reduce reoffending and improve the efficiency of probation and immigration services.

In health, which incorporates approximately 20% of UK government spend, at over £100bn per annum, the government's focus is on driving structural changes aimed at greater efficiency and improved outcomes. This will include the introduction of GP commissioning, the expectation that all NHS Trusts will achieve Foundation Trust status, and a greater use of choice through the 'any willing provider' model.  All of these changes are likely to foster competition and offer opportunities for Serco to work with the NHS to achieve improved efficiency and service.  Opportunities will include the potential to expand our pathology joint venture with Guy's & St Thomas' NHS Foundation Trust, the provision of facilities management and support services to healthcare establishments, as well as the potential to offer services into GP commissioners.  We will also be looking at further opportunities to manage NHS hospitals following the innovative current competition to run Hinchingbrooke Hospital, which is expected to complete later this year and where we are now one of two shortlisted bidders. There will also be opportunities to further develop our business in areas such as offender health management and facilities management for healthcare establishments.

Another area of significant UK government expenditure is welfare. The existing Flexible New Deal programme, which addresses the approximately 750,000 people who have been out of work for more than 12 months, will come to an end in 2011, and will be replaced with the Work Programme, which will seek to help all people on benefit. These include 1.5 million Jobseeker's Allowance claimants and 2.5 million people claiming Incapacity Benefit, which means that the Work Programme is likely to be substantially larger than the Flexible New Deal programme. It will be let through Framework Agreements to allow for faster and more flexible procurement, and will adopt nationally the model we have successfully pioneered of subcontracting front-line delivery to networks of providers. The contracts are also anticipated to have a larger geographical coverage and a longer duration of seven years.

In Defence, the UK government's Strategic Defence and Security Review, which will define the national security capabilities the UK needs and can afford, is currently under way, and is due to report ahead of the Comprehensive Spending Review in October. As part of that review, we are in advanced discussions with our defence customers to determine ways in which we can help them significantly improve efficiency while minimising any effect on operational capability. Our discussions are grounded in our long track record of reducing operating costs while enhancing support across the defence establishment, and of using commercial and technological innovation to improve efficiency. In the broader area of national security, given our existing contracts and the recent addition of the Emergency Planning College contract, we are well positioned to pursue further opportunities.

In UK defence, there are three major opportunities in defence-related programmes valued at over £1bn. We have been downselected as one of the final two consortia of companies bidding for the Recruiting Partnering Project for the British Army, due for contract award in 2011, and continue to promote a value for money solution on the Future Outsourced Activities Programme to provide basic training for Royal Navy recruits. In addition, we have announced that we have formed a joint venture to provide a low risk and cost effective solution for the Ministry of Defence's Joint Military Air Traffic Services (JMATS) programme.

The UK's science-based establishments have a critical role in addressing the country's greatest challenges, such as sustaining economic recovery, tackling climate change and improving national and energy security. Given our experience in applying our scientific capabilities to those same challenges, through our management of the National Physical Laboratory, the National Nuclear Laboratory, AWE, and our nuclear assurance business, we are well placed to help the UK government maximise the strategic, economic, social and environmental benefit derived from its science establishments. To that end, we are bringing that experience to bear with customers across government as they make decisions on how and where to prioritise science spending.

In the energy market, the UK government faces significant challenges in securing the country's long-term energy needs, while at the same time tackling climate change. We are helping to address these challenges in a number of ways. In addition to our key role in the nuclear new build programme, we are also enabling the development of offshore wind farms through introducing new radar technology, and exploring how we can apply our capabilities in critical national infrastructure to the renewable energy market. In addition, our scientists are developing the means to underpin the global carbon trading system through the establishment of a Centre for Carbon Metrology.

In UK local government, we are seeing opportunities arising from local authorities' need to improve the quality and efficiency of local services, while at the same time addressing increasing budgetary constraints. These include improving technology infrastructure and ICT services and transforming ways of operating to reduce costs. In addition, we have a healthy pipeline of opportunities in environmental services, and are seeing increasing shared services opportunities in the present economic climate, as our customers look for cost efficiencies and added value. In education, we see potential for further opportunities given the need for our customers to consider the new trading models that will result from the increasing autonomy of schools.

In the US, we are well positioned to grow our share of the substantial Federal services market, which is valued at over US$300bn per annum. While the US 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 cybersecurity, federal health, intelligence surveillance and reconnaissance (ISR), human capital management, and to benefit from our existing strengths in supporting soldiers and veterans through logistics, command and control, and personnel support services. Despite a move to insource some services, we anticipate opportunities arising from continued spend on mission critical requirements, alongside a trend towards larger contract vehicles where we now have the capabilities to succeed.

Asia Pacific's substantial pipeline of opportunities continues to grow as governments look to the private sector for innovative models to deliver better services at a saving to the tax-payer. In Australia and New Zealand, there is an increasing range of opportunities in the justice sector, with the extension of Acacia prison, and a number of new-build and existing publicly run prisons being put to the market.

We also continue to pursue our growth goals in the emerging market of health in both Australia and Hong Kong, where there is a growing pipeline of health opportunities as governments encourage the private and third sectors to challenge traditional service delivery models for the build, finance and operation of hospitals.

Our defence strategy in Australia continues to develop with several strategic opportunities identified and being shaped for bidding later in 2010. The government's Strategic Reform Programme will support the creation of some of these opportunities, through reviews of warehousing, distribution and equipment maintenance requirements.

As Serco is now the largest tunnel operator in Hong Kong, building on the provision of other services in the transport sector that we are already providing, we are well placed to contest the healthy pipeline of transport opportunities in tunnel operation and maintenance, and transport technology.

In India, we continue to make progress on potential opportunities for developing our presence in the business process outsourcing market and in shaping a market for the delivery of public services.

We also continue to identify opportunities to leverage our expertise across a broad range of modes of mass transport including rail, road and traffic management, marine, and aviation, through our Global Transport function, and are pursuing a number of opportunities to develop safe and cost-effective solutions to the challenges of congestion and urban and international mass transport in existing geographies and in new regions of operation.

**Risk Management**

The directors have considered the principal risks and uncertainties affecting the Group and its performance in 2010, which were discussed in full on pages 54-57 of the Group's published accounts for the year ended 31 December 2009.

We have robust systems and processes to identify and manage the key risks facing each of our businesses and the Group as a whole, and all parts of the business have appropriate risk and crisis management plans that meet our policy standards.

Risk management is fundamental to how we manage our business. Our risk management policies, systems and processes are therefore defined and embedded within the Serco Management System. The Board regularly reviews these, which conform to the Combined Code's requirements. Such policies, systems and processes, however, can only be designed to mitigate, rather than eliminate, the risk of failure to achieve business objectives, and can only provide reasonable, and not absolute assurance, against misstatement or loss.

The Group risk register identifies the principal risks facing the business, including those that we manage at a Group level. The process identifies the business objectives and the interests of shareholders and other stakeholders that are likely, directly or indirectly, to influence the business's performance and its value. The way that we operate as a responsible company recognises the interests of the community in areas such as social, environmental and ethical impact. The most significant risks relate to our reputation, and to operational and financial performance. A number of our risks also reflect social, environmental and ethical issues. We have refreshed our oversight of risk management with the establishment of the Group Risk Management Committee, which is a formal committee of the Company. This Committee reviews the risk register quarterly and considers updates and changes. These are subsequently discussed at quarterly Board meetings.

The following summarises the key risks we have identified that could have a material impact on our reputation, our operations, or our financial performance:

**Key Internal risks**

- Major accident or incident involving failure of duty of care or compliance with regulation, deaths or serious injuries to public or staff, or substantial damage to the environment
- Failure to manage our people effectively, including attracting and retaining key talent and maintaining good industrial relations
- Failure to deliver commitments, potentially resulting in a significant goodwill impairment
- Major information security breach resulting in loss or compromise of sensitive company, personal or customer information
- Major IT failure or prolonged loss of critical IT systems, including enterprise applications

- Increase in people costs, including pension-related costs

**Key External risks**

- Significant change in government policy that impacts market opportunities or results in changes to existing or new contracts
- Significant changes in rates of inflation directly impacting revenue generation and/or costs
- Failure to have sufficient funding to meet current and future business requirements
- Significant changes in energy and carbon costs and reporting requirements under the Carbon Reduction Commitment.

We also have material investments in a number of joint ventures, where we have joint control over management practices. Our representatives within these companies ensure that their processes and procedures for identifying and managing risk are appropriate and that internal controls exist and are regularly monitored.

We keep reputational and emerging risks under review. Emerging risks cover longer term risks that could represent a threat to our activities but which are not yet sufficiently defined to be included as active risks. Examples of these risks include climate change and changes in key markets.

# Finance Review

## Overview

Our business delivered a strong financial performance in the first half, with revenue growing 9.8% and Adjusted operating profit increasing by 13.1%. Excluding currency, revenue growth was 8.5% and Adjusted operating profit growth was 11.6%. Our Adjusted operating margin increased by 17 basis points (16 basis points excluding currency), profit before tax grew by 21.6% and free cash flow increased by 83.4% to £93.0m, partially reflecting a likely greater first half weighting of cash generation in 2010 than in previous years.

## 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**

| **Six months ended 30 June** | **2010 £m** | 2009 £m | Increase |
|---|---|---|---|
| Revenue | **2,140.3** | 1,949.8 | 9.8% |
| Gross profit | **316.1** | 285.7 | 10.6% |
| Administrative expenses | **(191.7)** | (175.7) | 9.1% |
| Adjusted operating profit | **124.4** | 110.0 | 13.1% |
| Investment revenue and finance costs | **(14.2)** | (17.7) | |
| Adjusted profit before tax | **110.2** | 92.3 | 19.4% |
| Amortisation of acquired intangibles | **(8.8)** | (8.9) | |
| Profit before tax | **101.4** | 83.4 | 21.6% |
| Tax | **(27.0)** | (22.0) | 22.7% |
| Profit for the period | **74.4** | 61.4 | 21.2% |
| Effective tax rate | **26.6%** | 26.4% | |
| Adjusted earnings per share | **16.53p** | 14.02p | 17.9% |
| Earnings per share | **15.13p** | 12.62p | 19.9% |
| Dividend per share | **2.20p** | 1.85p | 18.9% |

### 1.1 Revenue

Revenue grew by 9.8% to £2,140.3m (8.5% excluding currency effects). Organic revenue growth, excluding currency effects, was also 8.5% and reflects the growth of existing contracts and the contribution of new contracts started in 2009 and 2010.

### 1.2 Gross margin

Gross margin was 14.8% (2009: 14.7%), a small increase on the first half of 2009.

### 1.3 Adjusted operating profit

Adjusted operating profit increased by 13.1% to £124.4m representing an Adjusted operating profit margin of 5.8%. Adjusted operating profit margin increased by 17 basis points (16 basis points excluding currency effects).

### 1.4 Investment revenue and finance costs

Investment revenue and finance costs totalled a net cost of £14.2m, a decrease of £3.5m. The decrease was principally as a result of lower interest rates and the reduction in the Group's total net debt.

### 1.5 Adjusted profit before tax

Adjusted profit before tax was £110.2m, an increase of 19.4%.

### 1.6 Tax

The tax charge of £27.0m (2009: £22.0m) represents an effective rate of 26.6%, compared with 26.4% in the first half of 2009. The small increase principally reflects changes in the mix of taxable profits.

### 1.7 Earnings per share (EPS)

Adjusted EPS rose by 17.9% to 16.53p. EPS grew by 19.9% to 15.13p. EPS and Adjusted EPS are calculated on an average share base of 491.1m during the period (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 declared an interim dividend of 2.20p per share, representing an increase on the 2009 interim dividend of 18.9%. The interim dividend will be paid on 15 October 2010 to shareholders on the register as at 3 September 2010.

## 3. Cash flow

The Group generated a free cash inflow of £93.0m (2009: £50.7m), an increase of 83.4%.

Figure 3 analyses the cash flow. As in previous years, we have designed the analysis to show the underlying cash performance of the Group – the cash flows generated by subsidiaries plus the dividends received from joint ventures. It therefore differs from the consolidated cash flow on page 41, which proportionately consolidates the cash flows of joint ventures. The adjustment line in Figure 3 reconciles the movement in Group cash to the consolidated cash flow.

**Figure 3: Cash flow**

| **Six months ended 30 June** | **2010 £m** | 2009 £m |
|---|---|---|
| Operating profit excluding joint ventures | **87.9** | 73.0 |
| Non cash items | **40.3** | 38.5 |
| Group EBITDA | **128.2** | 111.5 |
| Working capital movement | **(21.8)** | (31.3) |
| Group operating cash flow | **106.4** | 80.2 |
| Interest | **(12.5)** | (18.0) |
| Tax | **(14.7)** | (8.4) |
| Net expenditure on tangible and intangible assets | **(12.2)** | (22.5) |
| Dividends from joint ventures | **26.0** | 19.4 |
| **Group free cash flow** | **93.0** | 50.7 |
| Acquisition of subsidiaries | **(1.4)** | (15.4) |
| Financing | **(111.1)** | (32.9) |
| Dividends paid | **(21.6)** | (16.9) |
| Group net decrease in cash and cash equivalents | **(41.1)** | (14.5) |
| Adjustment to include joint venture cash impacts | **32.8** | 14.1 |
| Net decrease in cash and cash equivalents | **(8.3)** | (0.4) |

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 £106.4m (2009: £80.2m) represents a very strong conversion of Group EBITDA into cash of 83.0% (2009: 71.9%). The working capital movement of £21.8m was smaller than in the first half of 2009, a good performance given the strong growth in our business.

### 3.2 Interest

Net interest paid decreased by £5.5m to £12.5m, reflecting the reduction in Group recourse net debt since the first half of 2009, lower interest rates and changes to the timing of interest payments.

### 3.3 Tax

Tax paid increased to £14.7m (2009: £8.4m), reflecting the continued trend towards a cash tax rate which is closer to our effective rate. Cash tax is below the equivalent charge in the income statement as a result of accelerated capital allowances and other timing differences.

### 3.4 Net expenditure on tangible and intangible assets

Net expenditure on tangible and intangible assets was £12.2m (2009: £22.5m). This comprised gross expenditure of £19.4m, representing 1.1% of Group revenue excluding joint ventures (2009: 1.4%) and the disposal described below.

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 non-core Learning software product to Patni. Cash realised from the sale was £7.0m and profit on disposal of this asset was £1.4m.

### 3.5 Dividends from joint ventures

Dividends received from joint ventures totalled £26.0m (2009: £19.4m), reflecting a high conversion rate of joint ventures' profit after tax and minority interest into dividends.

During the period, the Group took the decision to exit its remaining business in the non-core South African market, a joint venture providing aviation ground handling services, resulting in a non-cash goodwill impairment charge to operating profit of £4.2m.

Dividends from joint ventures represented a good conversion rate of 102% (2009: 81%) of joint ventures' profit after tax and minority interest excluding this goodwill impairment charge and costs allocated by Group.

### 3.6 Financing

The movement in financing resulted primarily from repayments on our committed facility and non recourse debt.

## 4. Net debt

Figure 4 analyses Serco's net debt.

**Figure 4: Net debt**

| At | **30 June 2010 £m** | 31 December 2009 £m |
|---|---|---|
| Group - cash and cash equivalents | **215.1** | 253.7 |
| Group - loans | **(571.1)** | (619.1) |
| Group - obligations under finance leases | **(24.9)** | (22.3) |
| **Group recourse net debt** | **(380.9)** | (387.7) |
| Joint venture recourse net cash | **91.4** | 58.2 |
| **Total recourse net debt** | **(289.5)** | (329.5) |
| Group non recourse debt | **(27.3)** | (29.0) |
| **Total net debt** | **(316.8)** | (358.5) |

### 4.1 Group recourse net debt

Group recourse net debt decreased by £6.8m to £380.9m. The decrease reflects our strong cash generation, less dividend payments of £21.6m and a £16.6m net cash outflow on purchase and issue of share capital, which includes a purchase of Serco shares by our Employee Share Ownership Trust to be used to satisfy the exercise of awards under our employee share schemes. In addition, changes in currency exchange rates increased Group recourse net debt by £34.7m.

Cash and cash equivalents includes encumbered cash of £15.1m (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 £1.7m to £27.3m, as a result of £3.5m payments made in line with the debt repayment schedule on debt relating to our Driver Examination Services contract in Canada, offset by £1.9m 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 30 June 2010, the net retirement benefit liability included in the balance sheet arising from our defined benefit pension scheme obligations was £319.6m (31 December 2009: £294.2m), on a pension scheme asset base of £1.4bn.

**Figure 5: Defined benefit pension schemes**

| **At** | **30 June 2010 £m** | 31 December 2009 £m |
|---|---|---|
| Group schemes – non contract specific | **(124.5)** | (120.0) |
| Contract specific schemes: | | |
| – reimbursable | **(165.3)** | (144.3) |
| – not certain to be reimbursable | **(29.8)** | (29.9) |
| Net retirement benefit liabilities | **(319.6)** | (294.2) |
| Intangible assets arising from rights to operate franchises and contracts | **10.1** | 11.4 |
| Reimbursable rights debtor | **165.3** | 144.3 |
| Deferred tax assets | **26.9** | 24.9 |
| Net balance sheet liabilities | **(117.3)** | (113.6) |

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 30 June 2010, SPLAS had a deficit included in our balance sheet of £57.5m (31 December 2009: £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. Following this review, the Group has agreed with the Trustees to make a cash contribution of £60m to the scheme, with £20m to be 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 6 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 6: Pension assumption sensitivities**

| | Assumption | Change in assumption | Change in liability |
|---|---|---|---|
| Discount rate | 5.4% | +0.5% | (9)% |
| | | (0.5)% | +9% |
| Price inflation | 3.0% | +0.5% | +8% |
| | | (0.5)% | (7)% |
| Salary | 3.4% | +0.5% | +2% |
| | | (0.5)% | (2)% |
| Longevity | 20.8-25.0* | Increase by one year | +3% |

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

## 6. Treasury

The Group's principal debt finance comprises a £400m bank revolving credit facility which matures in September 2013 together with an amortising term loan and bilateral facility totalling US Dollar 550m to fund the acquisition of SI. The term loan and bilateral facility are repayable between September 2010 and September 2013. There is a scheduled repayment of US Dollar 92m due in September 2010; thereafter the next repayment on these facilities is due in September 2011. The facilities, which are syndicated with a group of 13 banks, are unsecured. As at 30 June 2010, £422m had been drawn down on these combined facilities (31 December 2009: £458m). Excluding the effects of currency on the US Dollar denominated debt, the equivalent draw down would have been £390m.

Serco has loan notes in issue under a private placement of £117m, which will be repaid evenly from 2011 to 2015.

## 7. Going concern

The directors have considered the principal risks and uncertainties affecting the Group and its performance in 2010, which were discussed in full on pages 54-57 of the Group's published accounts for the year ended 31 December 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 (as discussed in the section 'Principal Risks and Uncertainties' included in the Annual Report and Accounts for the year ended 31 December 2009) 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 highly unlikely to affect the Group as a whole. In addition, with an order book of £16.7bn and high visibility of future revenue streams (98% in 2010; 84% in 2011 and 71% in 2012), the Group is well placed to manage its business risks despite the current uncertain economic climate.

In September 2008, the Group secured its principal financing by entering into a five-year revolving credit facility and amortising term facility. Including some bilateral facilities and US private placements, the Group has in excess of £880m of committed credit facilities. As at 30 June 2010, the headroom on the facilities was approximately £350m. The first scheduled repayment on these facilities falls due in September 2010 for an amount of US Dollar 92m. 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

## Responsibility statement

We confirm to the best of our knowledge:

a) the condensed set of financial statements has been prepared in accordance with IAS 34 'Interim Financial Reporting';

b) the interim management report includes a fair review of the information required by DTR 4.2.7R (indication of the important events during the first six months and description of principal risks and uncertainties for the remaining six months of the year); and

c) the interim management report includes a fair review of the information required by DTR 4.2.7R (disclosure of related parties' transactions and changes therein).

By order of the Board,

| | |
|---|---|
| Chris Hyman<br>Chief Executive | Andrew Jenner<br>Finance Director |

24 August 2010

**INDEPENDENT REVIEW REPORT TO SERCO GROUP PLC**

We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2010 which comprises the condensed consolidated income statement, the condensed consolidated statement of comprehensive income, the condensed consolidated statement of changes in equity, the condensed consolidated balance sheet, the condensed consolidated cash flow statement and related notes 1 to 13. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the company in accordance with International Standard on Review Engagements (UK and Ireland) 2410 'Review of Interim Information Performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board. Our work has been undertaken so that we might state to the company those matters we are required to state to them in an independent review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company, for our review work, for this report, or for the conclusions we have formed.

**Directors' responsibilities**

The half-yearly financial report is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

As disclosed in note 1, the annual financial statements of the Group are prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union.

**Our responsibility**

Our responsibility is to express to the company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

**Scope of Review**

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

**Conclusion**

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2010 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

**Deloitte LLP**
**Chartered Accountants and Statutory Auditors**
**London, United Kingdom**
**24 August 2010**

## Condensed consolidated income statement

For the six months ended 30 June 2010

| | Note | **6 months to 30 June 2010 (unaudited) £m** | 6 months to 30 June 2009 (unaudited) £m | Year ended 31 December 2009 (audited) £m |
|---|---|---|---|---|
| **Continuing operations** | | | | |
| **Revenue** | 3 | **2,140.3** | 1,949.8 | 3,970.0 |
| Cost of sales | | **(1,824.2)** | (1,664.1) | (3,383.2) |
| **Gross profit** | | **316.1** | 285.7 | 586.8 |
| Administrative expenses | | **(191.7)** | (175.7) | (357.1) |
| Other expenses – amortisation of intangibles arising on acquisition | | **(8.8)** | (8.9) | (17.6) |
| Total administrative expenses | | **(200.5)** | (184.6) | (374.7) |
| **Operating profit** | 3 | **115.6** | 101.1 | 212.1 |
| Investment revenue | 2 | **1.6** | 1.3 | 2.7 |
| Finance costs | 2 | **(15.8)** | (19.0) | (37.7) |
| **Profit before tax** | | **101.4** | 83.4 | 177.1 |
| Tax | | **(27.0)** | (22.0) | (46.9) |
| **Profit for the period** | | **74.4** | 61.4 | 130.2 |
| Attributable to: | | | | |
| Equity holders of the parent | | **74.3** | 61.4 | 130.2 |
| Minority interest | | **0.1** | - | - |
| **Earnings per share (EPS)** | | | | |
| Basic EPS | 5 | **15.13p** | 12.62p | 26.76p |
| Diluted EPS | 5 | **14.83p** | 12.46p | 26.45p |

## Condensed consolidated statement of comprehensive income

For the six months ended 30 June 2010

| | Note | **6 months to 30 June 2010 (unaudited) £m** | 6 months to 30 June 2009 (unaudited) £m | Year ended 31 December 2009 (audited) £m |
|---|---|---|---|---|
| **Profit for the period** | | **74.4** | 61.4 | 130.2 |
| **Other comprehensive income for the period:** | | | | |
| Net actuarial loss on defined benefit pension schemes[1] | 13 | **(58.5)** | (148.6) | (259.0) |
| Actuarial gain on reimbursable rights[1] | 13 | **43.5** | 60.8 | 117.1 |
| Net exchange gain/(loss) on translation of foreign operations[2] | | **3.2** | (28.5) | (9.9) |
| Fair value gain/(loss) on cash flow hedges during the period[2] | | **1.7** | (5.9) | (6.3) |
| Tax credit on items taken directly to equity[3] | | **4.4** | 23.2 | 45.2 |
| Recycling of cumulative net hedging reserve[2] | | **0.2** | 0.1 | 0.2 |
| **Total comprehensive income/(expense) for the period** | | **68.9** | **(37.5)** | **17.5** |
| Attributable to: | | | | |
| Equity holders of the parent | | **68.8** | (37.5) | 17.5 |
| Minority interest | | **0.1** | - | - |

1 Taken to Retirement benefit obligations reserve in condensed consolidated statement of changes in equity.

2 Taken to Hedging and translation reserve in condensed consolidated statement of changes in equity.

3 Of the tax credit, £1.9m (30 June 2009: £22.6m, 31 December 2009: £39.6m) was taken to the Retirement benefit obligations reserve; a debit of £0.5m (30 June 2009: credit of £1.6m, 31 December 2009: credit of £1.4m) was taken to the Hedging and translation reserve; £3.0m (30 June 2009: debit of £1.0m, 31 December 2009: credit of £4.2m) was taken to the Share based payment reserve.

## Condensed consolidated statement of changes in equity

For the six months ended 30 June 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 | Minority interest £m |
|---|---|---|---|---|---|---|---|---|---|---|
| At 1 January 2009 (audited) | 9.7 | 301.1 | 0.1 | 339.8 | (47.7) | 40.0 | (19.7) | 61.9 | 685.2 | 0.1 |
| Total comprehensive expense for the period | - | - | - | 61.4 | (65.2) | (1.0) | - | (32.7) | (37.5) | - |
| Shares transferred to option holders on exercise of share options | - | 0.6 | - | - | - | (0.6) | 2.4 | - | 2.4 | - |
| Dividends paid | - | - | - | (16.9) | - | - | - | - | (16.9) | - |
| Expense in relation to share-based payment | - | - | - | - | - | 4.0 | - | - | 4.0 | - |
| At 1 July 2009 (unaudited) | 9.7 | 301.7 | 0.1 | 384.3 | (112.9) | 42.4 | (17.3) | 29.2 | 637.2 | 0.1 |
| Total comprehensive income for the period | - | - | - | 68.8 | (37.1) | 5.2 | - | 18.1 | 55.0 | - |
| Shares transferred to option holders on exercise of share options | 0.1 | 2.4 | - | - | - | (1.2) | 6.7 | - | 8.0 | - |
| Dividends paid | - | - | - | (9.0) | - | - | - | - | (9.0) | - |
| Expense in relation to share-based payment | - | - | - | - | - | 3.2 | - | - | 3.2 | - |
| Purchase of own shares for employee benefit trust (ESOP) | - | - | - | - | - | - | (2.4) | - | (2.4) | - |
| **At 1 January 2010 (audited)** | **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 period | **-** | **-** | **-** | **74.3** | **(13.1)** | **3.0** | **-** | **4.6** | **68.8** | **0.1** |
| Shares transferred to option holders on exercise of share options | **-** | **1.4** | **-** | **-** | **-** | **(2.7)** | **7.7** | **-** | **6.4** | **-** |
| Dividends paid | **-** | **-** | **-** | **(21.6)** | **-** | **-** | **-** | **-** | **(21.6)** | **(0.1)** |
| Expense in relation to share-based payment | **-** | **-** | **-** | **-** | **-** | **4.5** | **-** | **-** | **4.5** | **-** |
| Purchase of own shares for employee benefit trust (ESOP) | **-** | **-** | **-** | **-** | **-** | **-** | **(23.0)** | **-** | **(23.0)** | **-** |
| **At 30 June 2010 (unaudited)** | **9.8** | **305.5** | **0.1** | **496.8** | **(163.1)** | **54.4** | **(28.3)** | **51.9** | **727.1** | **0.1** |

## Condensed consolidated balance sheet

At 30 June 2010

| | Note | **At 30 June 2010 (unaudited) £m** | Restated at 30 June 2009 (unaudited) £m | At 31 December 2009 (audited) £m |
|---|---|---|---|---|
| **Non-current assets** | | | | |
| Goodwill | | **925.7** | 900.3 | 898.4 |
| Other intangible assets | | **146.4** | 171.9 | 164.4 |
| Property, plant and equipment | | **129.9** | 117.5 | 129.2 |
| Trade and other receivables | | **206.5** | 141.1 | 181.4 |
| Deferred tax assets | | **50.2** | 42.7 | 48.0 |
| Derivative financial instruments | | **3.6** | 3.9 | 2.5 |
| | | **1,462.3** | 1,377.4 | 1,423.9 |
| **Current assets** | | | | |
| Inventories | | **62.7** | 54.4 | 65.9 |
| Trade and other receivables | | **804.3** | 714.2 | 720.9 |
| Cash and cash equivalents | | **313.8** | 237.2 | 319.4 |
| Derivative financial instruments | | **4.1** | 0.8 | 1.4 |
| | | **1,184.9** | 1,006.6 | 1,107.6 |
| **Total assets** | | **2,647.2** | 2,384.0 | 2,531.5 |
| **Current liabilities** | | | | |
| Trade and other payables | | **(871.0)** | (746.8) | (771.6) |
| Current tax liabilities | | **(19.0)** | (20.7) | (14.1) |
| Obligations under finance leases | | **(7.3)** | (5.1) | (6.0) |
| Loans | | **(105.9)** | (42.2) | (110.7) |
| Derivative financial instruments | | **(5.6)** | (8.6) | (5.5) |
| | | **(1,008.8)** | (823.4) | (907.9) |
| **Non-current liabilities** | | | | |
| Trade and other payables | | **(21.8)** | (26.2) | (23.1) |
| Obligations under finance leases | | **(19.1)** | (17.1) | (18.0) |
| Loans | | **(498.3)** | (605.8) | (543.2) |
| Derivative financial instruments | | **(2.8)** | (2.4) | (1.7) |
| Retirement benefit obligations | 13 | **(319.6)** | (210.0) | (294.2) |
| Provisions | 9 | **(41.0)** | (40.5) | (42.3) |
| Deferred tax liabilities | | **(8.6)** | (21.3) | (9.0) |
| | | **(911.2)** | (923.3) | (931.5) |
| **Total liabilities** | | **(1,920.0)** | (1,746.7) | (1,839.4) |
| **Net assets** | | **727.2** | 637.3 | 692.1 |
| **Equity** | | | | |
| Share capital | | **9.8** | 9.7 | 9.8 |
| Share premium account | | **305.5** | 301.7 | 304.1 |
| Capital redemption reserve | | **0.1** | 0.1 | 0.1 |
| Retained earnings | | **496.8** | 384.3 | 444.1 |
| Retirement benefit obligations reserve | | **(163.1)** | (112.9) | (150.0) |
| Share-based payment reserve | | **54.4** | 42.4 | 49.6 |
| Own shares reserve | | **(28.3)** | (17.3) | (13.0) |
| Hedging and translation reserve | | **51.9** | 29.2 | 47.3 |
| **Equity attributable to equity holders of the parent** | | **727.1** | 637.2 | 692.0 |
| **Minority interest** | | **0.1** | 0.1 | 0.1 |
| **Total equity** | | **727.2** | 637.3 | 692.1 |

## Condensed consolidated cash flow statement

For the six months ended 30 June 2010

| | Note | **6 months to 30 June 2010 (unaudited) £m** | 6 months to 30 June 2009 (unaudited) £m | Year ended 31 December 2009 (audited) £m |
|---|---|---|---|---|
| **Net cash inflow from operating activities** | 7 | **150.8** | 104.2 | 235.1 |
| **Investing activities** | | | | |
| Interest received | | **1.1** | 1.2 | 2.1 |
| Proceeds from disposal of subsidiary and business undertakings | | **-** | - | 0.6 |
| Proceeds from disposal of property, plant and equipment | | **1.7** | 3.4 | 3.7 |
| Proceeds on disposal of intangible assets | | **7.2** | - | - |
| Acquisition of subsidiaries and business undertakings, net of cash acquired | 6 | **(1.4)** | (14.7) | (14.7) |
| Purchase of other intangible assets | | **(7.3)** | (8.1) | (17.3) |
| Purchase of property, plant and equipment | | **(14.9)** | (17.4) | (38.9) |
| **Net cash outflow from investing activities** | | **(13.6)** | (35.6) | (64.5) |
| **Financing activities** | | | | |
| Interest paid | | **(13.4)** | (19.1) | (33.6) |
| Dividends paid | | **(21.6)** | (16.9) | (25.9) |
| Repayment of loans | | **(91.5)** | (59.5) | (66.8) |
| Repayment of non recourse loans | | **(3.5)** | (3.6) | (6.5) |
| New loan advances | | **6.3** | 30.8 | 33.8 |
| Purchase of own shares for employee benefit (ESOP) | | **(23.0)** | - | (2.4) |
| Capital element of finance lease repayments | | **(5.2)** | (3.1) | (5.7) |
| Proceeds from issue of share capital | | **6.4** | 2.4 | 10.4 |
| **Net cash outflow from financing activities** | | **(145.5)** | (69.0) | (96.7) |
| **Net (decrease)/increase in cash and cash equivalents** | | **(8.3)** | (0.4) | 73.9 |
| **Cash and cash equivalents at beginning of period** | | **319.4** | 250.8 | 250.8 |
| Net exchange gain/(loss) | | **2.7** | (13.2) | (5.3) |
| **Cash and cash equivalents at end of period** | | **313.8** | 237.2 | 319.4 |

## Notes to the Condensed set of financial statements

For the six months ended 30 June 2010

### 1. General information, going concern and accounting policies

The information for the year ended 31 December 2009 does not constitute statutory accounts as defined in section 435 of the Companies Act 2006. A copy of the statutory accounts for that year has been delivered to the Registrar of Companies. The auditors' report on those accounts was not qualified and did not contain statements made under s498(2) or (3) of the Companies Act 2006.

The annual financial statements of Serco Group plc are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34 'Interim Financial Reporting', as adopted by the European Union.

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Operating Review on pages 8 to 26. The Finance Review includes a summary of the Group's financial position, its cash flows and borrowing facilities.

The Group's revenues are largely derived from long-term contracts with governments 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 highly unlikely to affect the Group as a whole. In addition, with an order book of £16.7bn and high visibility of future revenue streams, the Group is well placed to manage its business risks despite the current economic climate.

During 2008, the Group secured its principal financing by entering into a five-year revolving credit facility and amortising term facility. Including some bilateral facilities and US private placements, the Group has committed funding in excess of £880m Sterling equivalent.

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

The same accounting policies, presentation and methods of computation are followed in the condensed set of financial statements as applied in the Group's latest annual audited financial statements except for as described below. The condensed set of financial statements includes the results of subsidiaries and joint ventures. Joint ventures have been proportionally consolidated.

**Changes in accounting policy**

In the current financial year, the Group has adopted International Financial Reporting Standard 3 'Business Combinations' (revised 2008) and International Accounting Standard 27 'Consolidated and Separate Financial Statements' (revised 2008).

The most significant changes to the Group's previous accounting policies for business combinations are: acquisition related costs are included in administrative expenses as they are incurred rather than capitalised; and any changes to the cost of an acquisition, including contingent consideration, resulting from an event after the date of acquisition are recognised in profit or loss rather than as an adjustment to goodwill.

Any adjustments to contingent consideration of acquisitions made prior to 1 January 2010 which result in an adjustment to goodwill continue to be accounted for under IFRS 3(2004) and IAS 27(2005), for which the accounting policies can be found in the Annual Review and Accounts for the year ended 31 December 2009.

**Changes in segmental information**

As described in the Annual Review and Accounts for the year ended 31 December 2009, 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, we have reorganised our 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 will be included in the new Civil Government division; our UK and Europe Consulting, Education, Integrated Services and IT & BPO businesses will be part of the new Local Government and Commercial division; and our Civil Government businesses in North America and the rest of the world will be allocated to our Americas and AMEAA divisions respectively;

Defence transfers to Defence, Science and Nuclear, with the exception of 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 transfers to Defence, Science and Nuclear.

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

**Restatement of comparative information**

In the Annual Review and Accounts for the year ended 31 December 2009, the Consolidated Balance Sheet at 31 December 2008 was restated to reflect the finalisation of provisional fair value adjustments relating to the acquisitions of SI International, Inc and Amtech Private Limited ('Infovision'). The finalisation of these adjustments also necessitates the restatement of the Balance Sheet as at 30 June 2009. Further details of the balances impacted are contained within the Annual Review and Accounts for the year ended 31 December 2009, and not replicated in this report.

## 2. Investment revenue and finance costs

| | **6 months to 30 June 2010 (unaudited) £m** | 6 months to 30 June 2009 (unaudited) £m | Year ended 31 December 2009 (audited) £m |
|---|---|---|---|
| **Investment revenue** | **1.6** | 1.3 | 2.7 |
| Interest payable on non recourse loans | **(0.8)** | (0.8) | (1.6) |
| Interest payable on other loans | **(11.3)** | (14.4) | (26.8) |
| Interest payable on obligations under finance leases | **(1.0)** | (0.7) | (1.8) |
| Movement in discount on provisions and deferred consideration | **(0.6)** | - | (1.2) |
| Net interest payable on retirement benefit obligations | **(2.1)** | (3.1) | (6.3) |
| **Finance costs** | **(15.8)** | (19.0) | (37.7) |

## 3. Segmental information

Information reported to the Chief Executive and Executive Board for the purposes of resource allocation and assessment of segment performance focuses on the categories of customer identified using their respective markets. Details of the different products and services provided to each operating segment are included in the Operating Review section of this report. From 1 January 2010, the Group has reapportioned its business into five new divisions. The Group's reportable operating segments under IFRS 8 are:

**Restatement of prior period segmental information**

| 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 each new operating segment in the six months ended 30 June 2010. The accounting policies of the reportable segments are the same as those described in the summary of the significant accounting policies which are described in the Group's latest annual review and accounts.

### Reportable segments

| **6 months to 30 June 2010 (unaudited)** | **Civil Government £m** | **Defence, Science and Nuclear £m** | **Local Government and Commercial £m** | **Americas £m** | **AMEAA £m** | **Total £m** |
|---|---|---|---|---|---|---|
| **Revenue** | | | | | | |
| External sales | **573.9** | **460.9** | **433.1** | **454.7** | **217.7** | **2,140.3** |
| **Result** | | | | | | |
| Segment result | **34.4** | **39.1** | **25.2** | **31.1** | **14.4** | **144.2** |
| Corporate expenses | | | | | | **(28.6)** |
| **Operating profit** | | | | | | **115.6** |
| Investment revenue | | | | | | **1.6** |
| Finance costs | | | | | | **(15.8)** |
| **Profit before tax** | | | | | | **101.4** |
| Tax | | | | | | **(27.0)** |
| **Profit after tax** | | | | | | **74.4** |

| **Restated 6 months to 30 June 2009 (unaudited)** | **Civil Government £m** | **Defence, Science and Nuclear £m** | **Local Government and Commercial £m** | **Americas £m** | **AMEAA £m** | **Total £m** |
|---|---|---|---|---|---|---|
| **Revenue** | | | | | | |
| External sales | 505.0 | 445.1 | 394.4 | 446.9 | 158.4 | 1,949.8 |
| **Result** | | | | | | |
| Segment result | 22.8 | 37.1 | 17.7 | 30.9 | 11.9 | 120.4 |
| Corporate expenses | | | | | | (19.3) |
| **Operating profit** | | | | | | 101.1 |
| Investment revenue | | | | | | 1.3 |
| Finance costs | | | | | | (19.0) |
| **Profit before tax** | | | | | | 83.4 |
| Tax | | | | | | (22.0) |
| **Profit after tax** | | | | | | 61.4 |

## 3. Segmental information (continued)

| Restated Year ended 31 December 2009 (audited) | Civil Government £m | Defence, Science and Nuclear £m | Local Government and Commercial £m | Americas £m | AMEAA £m | Total £m |
|---|---|---|---|---|---|---|
| **Revenue** | | | | | | |
| External sales | 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 after tax** | | | | | | 130.2 |

| **Segment assets** | **6 months to 30 June 2010 (unaudited) £m** | Restated 6 months to 30 June 2009 (unaudited) £m | Restated Year ended 31 December 2009 (audited) £m |
|---|---|---|---|
| Civil Government | **303.6** | 255.2 | 284.4 |
| Defence, Science and Nuclear | **443.6** | 400.5 | 447.4 |
| Local Government and Commercial | **559.3** | 541.5 | 538.7 |
| Americas | **721.5** | 648.0 | 661.2 |
| AMEAA | **222.4** | 164.2 | 197.2 |
| Total segment assets | **2,250.4** | 2,009.4 | 2,128.9 |
| Unallocated assets | **22.2** | 86.3 | 30.0 |
| Consolidated segment assets | **2,272.6** | 2,095.7 | 2,158.9 |

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

| **Segment liabilities** | **6 months to 30 June 2010 (unaudited) £m** | Restated 6 months to 30 June 2009 (unaudited) £m | Restated Year ended 31 December 2009 (audited) £m |
|---|---|---|---|
| Civil Government | **(275.8)** | (202.1) | (242.2) |
| Defence, Science and Nuclear | **(381.2)** | (303.8) | (340.6) |
| Local Government and Commercial | **(234.5)** | (239.8) | (207.8) |
| Americas | **(131.7)** | (114.1) | (105.7) |
| AMEAA | **(77.4)** | (49.0) | (54.0) |
| Total segment liabilities | **(1,100.6)** | (908.8) | (950.3) |
| Unallocated liabilities | **(111.8)** | (74.2) | (138.6) |
| Consolidated segment liabilities | **(1,212.4)** | (983.0) | (1,088.9) |

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

| **Geographical analysis** | **6 months to 30 June 2010** | | Restated 6 months to 30 June 2009 | | Restated Year ended 31 December 2009 | |
|---|---|---|---|---|---|---|
| | **Revenue (unaudited) £m** | **Non-current assets (unaudited) £m** | Revenue (unaudited) £m | Non-current assets (unaudited) £m | Revenue (audited) £m | Non-current assets (audited) £m |
| United Kingdom | **1,337.2** | **747.2** | 1,244.0 | 691.9 | 2,541.9 | 734.9 |
| United States | **417.1** | **486.0** | 418.9 | 471.1 | 819.2 | 404.8 |
| Other countries | **386.0** | **175.3** | 286.9 | 167.8 | 608.9 | 233.7 |
| **Total** | **2,140.3** | **1,408.5** | 1,949.8 | 1,330.8 | 3,970.0 | 1,373.4 |

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

## 4. Dividends

| | **6 months to 30 June 2010 (unaudited) £m** | 6 months to 30 June 2009 (unaudited) £m | Year ended 31 December 2009 (audited) £m |
|---|---|---|---|
| Amounts recognised as distributions to equity holders in the period: | | | |
| Final dividend for the year ended 31 December 2009 of 4.40p per share on 490.5 million ordinary shares | **21.6** | - | - |
| Final dividend for the year ended 31 December 2008 of 3.52p per share on 481.1 million ordinary shares | **-** | 16.9 | 16.9 |
| Interim dividend for the year ended 31 December 2009 of 1.85p per share on 489.0 million ordinary shares | **-** | - | 9.0 |
| | **21.6** | 16.9 | 25.9 |

The proposed interim dividend for the year ending 31 December 2010 is 2.20p per ordinary share on 488.0 million shares (£10.7m) (30 June 2009: 1.85p per ordinary share on 489.0 million shares (£9.0m)).

The proposed interim dividend was approved by the Board on 24 August 2010 and has not been included as a liability as at 30 June 2010.

## 5. Earnings per share

Basic and diluted earnings per 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**

| | **6 months to 30 June 2010 (unaudited) Millions** | 6 months to 30 June 2009 (unaudited) Millions | Year ended 31 December 2009 (audited) Millions |
|---|---|---|---|
| Weighted average number of ordinary shares for the purpose of basic EPS | **491.1** | 486.6 | 486.6 |
| Effect of dilutive potential ordinary shares: share options | **9.9** | 6.2 | 5.6 |
| Weighted average number of ordinary shares for the purpose of diluted EPS | **501.0** | 492.8 | 492.2 |

| **Earnings** | **6 months to 30 June 2010** | | 6 months to 30 June 2009 | | Year ended 31 December 2009 | |
|---|---|---|---|---|---|---|
| | **Earnings (unaudited) £m** | **Per share amount (unaudited) Pence** | Earnings (unaudited) £m | Per share amount (unaudited) Pence | Earnings (audited) £m | Per share amount (audited) Pence |
| Earnings for the purpose of basic EPS being net profit attributable to the equity holders of the parent | **74.3** | **15.13** | 61.4 | 12.62 | 130.2 | 26.76 |
| Add back: | | | | | | |
| Amortisation of intangible assets arising on acquisition, net of tax £1.9m (30 June 2009: £2.1m, 31 December 2009: £4.1m) | **6.9** | **1.40** | 6.8 | 1.40 | 13.5 | 2.77 |
| Adjusted earnings before amortisation of intangible assets arising on acquisition, net of tax | **81.2** | **16.53** | 68.2 | 14.02 | 143.7 | 29.53 |
| | | | | | | |
| Earnings for the purpose of basic EPS | **74.3** | **15.13** | 61.4 | 12.62 | 130.2 | 26.76 |
| Effect of dilutive potential ordinary shares | **-** | **(0.30)** | - | (0.16) | - | (0.31) |
| Diluted EPS | **74.3** | **14.83** | 61.4 | 12.46 | 130.2 | 26.45 |

## 6. Acquisitions

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 BPO. None of the goodwill recognised is expected to be deductible for income tax purposes.

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

This transaction has been accounted for in accordance with IFRS 3 ‘Business Combinations’ (2008). Costs of £0.3m have been expensed in relation to the acquisition and integration of RB Solutions Limited.

Due to the small size of the acquisition, full IFRS 3 disclosures have not been presented.

## 7. Reconciliation of operating profit to net cash inflow from operating activities

| | **6 months to 30 June 2010 (unaudited) £m** | 6 months to 30 June 2009 (unaudited) £m | Year ended 31 December 2009 (audited) £m |
|---|---|---|---|
| **Operating profit for the period** | **115.6** | 101.1 | 212.1 |
| Adjustments for: | | | |
| Share-based payment expense | **4.5** | 4.0 | 7.2 |
| Depreciation of property, plant and equipment | **19.8** | 17.8 | 34.4 |
| Amortisation of intangible assets | **24.9** | 20.3 | 40.5 |
| Loss on disposal of property, plant and equipment | **1.1** | - | 2.0 |
| Profit on disposal of intangible assets | **(1.5)** | - | - |
| Impairment of goodwill | **4.2** | - | - |
| Movement in provisions | **(4.1)** | (0.7) | (0.6) |
| **Operating cash inflow before movements in working capital** | **164.5** | 142.5 | 295.6 |
| Decrease/(increase) in inventories | **4.8** | (5.5) | (15.1) |
| Increase in receivables | **(70.0)** | (16.9) | (31.1) |
| Increase/(decrease) in payables | **74.3** | (1.7) | 24.8 |
| **Cash generated by operations** | **173.6** | 118.4 | 274.2 |
| Tax paid | **(22.8)** | (14.2) | (39.1) |
| **Net cash inflow from operating activities** | **150.8** | 104.2 | 235.1 |

## 8. Analysis of net debt

| | **At 30 June 2010 (unaudited) £m** | At 30 June 2009 (unaudited) £m | At 31 December 2009 (audited) £m |
|---|---|---|---|
| Cash and cash equivalents | **313.8** | 237.2 | 319.4 |
| Non recourse loans | **(27.3)** | (28.9) | (29.0) |
| Other loans | **(576.9)** | (619.1) | (624.9) |
| Obligations under finance leases | **(26.4)** | (22.2) | (24.0) |
| **Total net debt** | **(316.8)** | (433.0) | (358.5) |

## 9. Provisions

| | **Employee related £m** | **Property £m** | **Contract £m** | **Other £m** | **Total £m** |
|---|---|---|---|---|---|
| **At 1 January 2009 (audited)** | **5.9** | **9.8** | **11.2** | **19.0** | **45.9** |
| Charged to income statement | 0.9 | - | - | 0.9 | 1.8 |
| Released to income statement | - | - | (0.5) | - | (0.5) |
| Utilised during the period | (0.3) | (0.6) | (0.3) | (0.8) | (2.0) |
| Exchange differences | (0.3) | (1.1) | (0.9) | (2.4) | (4.7) |
| **At 30 June 2009 – restated (unaudited)** | **6.2** | **8.1** | **9.5** | **16.7** | **40.5** |
| Charged to income statement | 1.5 | - | 0.9 | 1.0 | 3.4 |
| Utilised during the period | (0.3) | (0.6) | (0.4) | (2.0) | (3.3) |
| Unwinding of discount | - | 0.4 | 0.3 | - | 0.7 |
| Exchange differences | 0.3 | 0.1 | 0.1 | 0.5 | 1.0 |
| **At 31 December 2009 (audited)** | **7.7** | **8.0** | **10.4** | **16.2** | **42.3** |
| Charged to income statement | **1.1** | **-** | **0.2** | **-** | **1.3** |
| Released to income statement | **-** | **(0.6)** | **(0.9)** | **(0.1)** | **(1.6)** |
| Utilised during the period | **(0.3)** | **(0.5)** | **(0.5)** | **(2.5)** | **(3.8)** |
| Unwinding of discount | **-** | **0.2** | **0.1** | **-** | **0.3** |
| Exchange differences | **0.3** | **0.5** | **0.5** | **1.2** | **2.5** |
| **At 30 June 2010 (unaudited)** | **8.8** | **7.6** | **9.8** | **14.8** | **41.0** |

## 10. Joint ventures

The Group's interest in joint ventures is reported in the condensed consolidated financial statements using the proportionate consolidation method. The effect of the Group's joint ventures on the condensed consolidated income statement is as follows:

| | **6 months to 30 June 2010 (unaudited) £m** | 6 months to 30 June 2009 (unaudited) £m | Year ended 31 December 2009 (audited) £m |
|---|---|---|---|
| Revenue | **407.5** | 378.1 | 786.0 |
| Operating profit* | **27.7** | 28.1 | 61.5 |
| Profit before tax | **28.6** | 28.4 | 62.0 |
| Tax | **(8.1)** | (5.9) | (14.9) |
| **Share of post-tax results of joint ventures** | **20.5** | 22.5 | 47.1 |

* Operating profit is after allocating £0.7m of costs incurred by Group (30 June 2009: £1.4m, 31 December 2009: £2.8m) and £4.2m of goodwill impairment.

## 11. Related party transactions

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

| | **6 months to 30 June 2010 (unaudited) £m** | 6 months to 30 June 2009 (unaudited) £m | Year ended 31 December 2009 (audited) £m |
|---|---|---|---|
| Royalties and management fees receivable | **1.0** | 0.1 | 1.6 |
| Dividends receivable | **26.0** | 19.4 | 46.3 |
| | **27.0** | 19.5 | 47.9 |

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

| | **At 30 June 2010 (unaudited) £m** | At 30 June 2009 (unaudited) £m | At 31 December 2009 (audited) £m |
|---|---|---|---|
| **Current:** | | | |
| Loans | **0.1** | 1.4 | 0.6 |
| **Non-current:** | | | |
| Loans | **3.3** | 6.1 | 2.2 |

## 12. Share-based payments

In accordance with IFRS 2, a charge of £4.5m (30 June 2009: £4.0m, 31 December 2009: £7.2m) relating to the fair value of share-based schemes granted since 7 November 2002, has been charged to the income statement.

## 13. Defined benefit 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 method. An analysis of the Group's net pension liability and related assets together with the amounts included within the SOCI are presented in the tables below.

| | **At 30 June 2010 (unaudited) £m** | At 30 June 2009 (unaudited) £m | At 31 December 2009 (audited) £m |
|---|---|---|---|
| **Net pension liabilities:** | | | |
| Group scheme – non contract specific | **(124.5)** | (73.8) | (120.0) |
| Contract schemes specific: | | | |
| Reimbursable | **(165.3)** | (110.5) | (144.3) |
| Not certain to be reimbursable | **(29.8)** | (25.7) | (29.9) |
| **Net pension liability** | **(319.6)** | (210.0) | (294.2) |
| | | | |
| **Related assets:** | | | |
| Intangible assets arising from rights to operate franchises and contracts | **10.1** | 12.9 | 11.4 |
| Reimbursable rights debtor | **165.3** | 110.5 | 144.3 |
| | **175.4** | 123.4 | 155.7 |

| | **At 30 June 2010 (unaudited) £m** | At 30 June 2009 (unaudited) £m | At 31 December 2009 (audited) £m |
|---|---|---|---|
| Actual return on scheme assets | **37.9** | (33.6) | 141.7 |
| Less: expected return on scheme assets | **(44.7)** | (34.3) | (68.5) |
| | **(6.8)** | (67.9) | 73.2 |
| Other actuarial losses | **(51.7)** | (80.7) | (332.2) |
| **Actuarial losses recognised in the SOCI** | **(58.5)** | (148.6) | (259.0) |
| | | | |
| Change in paragraph 58(b) limit | **(0.6)** | (2.4) | 0.1 |
| Change in franchise adjustment | **18.1** | 27.3 | 39.3 |
| Change in members' share | **4.8** | 12.8 | 18.5 |
| Movement in reimbursable rights | **21.2** | 23.1 | 59.2 |
| Actuarial gains on reimbursable rights | **43.5** | 60.8 | 117.1 |
| Total pension cost recognised in the SOCI | **(15.0)** | (87.8) | (141.9) |

The net pension liability at 30 June 2010 has been calculated on a year to date basis. The main assumptions adopted in valuing the schemes are as follows.

| | **At 30 June 2010 (unaudited) %** | At 30 June 2009 (unaudited) % | At 31 December 2009 (audited) % |
|---|---|---|---|
| Rate of salary increases | **3.40** | 2.75-3.70 | 3.70 |
| Rate of increase in pensions in payment | **3.00** | 3.20 | 3.30 |
| Rate of increase in deferred pensions | **3.00** | 3.20 | 3.30 |
| Inflation assumption | **3.00** | 3.20 | 3.30 |
| Discount rate | **5.40** | 6.40 | 5.80 |

## 13. Defined benefit schemes (continued)

| | **At 30 June 2010 (unaudited) Years** | At 30 June 2009 (unaudited) Years | At 31 December 2009 (audited) Years |
|---|---|---|---|
| **Post retirement mortality:** | | | |
| Current pensioners at 65 - male | **20.8** | 20.3 | 20.3 |
| Current pensioners at 65 - female | **23.3** | 23.2 | 23.2 |
| Future pensioners at 65 - male | **22.8** | 21.6 | 21.6 |
| Future pensioners at 65 - female | **25.0** | 24.4 | 24.4 |