

Bringing service to life

A stylized world map in a dark green color, showing the outlines of continents. It is positioned in the background, partially obscured by a red banner and the text.

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

Serco Group plc

Full Year Results  
28<sup>th</sup> February 2012

# Agenda

- Overview – Chris Hyman
- Financial review – Andrew Jenner
- Business review – Chris Hyman
- Positioning for growth – Chris Hyman
- Q & A

# Strong financial result delivered by global portfolio

	2011	2010	Change
Revenue	£4,646m	£4,327m	+7.4%
Adjusted operating profit	£290m	£259m	+12.1%
Adjusted profit before tax	£262m	£231m	+13.4%
Adjusted earnings per share	39.59p	34.69p	+14.1%
Dividend per share	8.40p	7.35p	+14.3%
Group free cash flow	£168m	£186m	(£18m)

# Winning significant new business; increased order book

- Signed and selected for new business valued at £5.1bn
- Supported by many small and medium sized wins
- Maintained win rate at 1:2 for new bids; 90% for rebids and extensions
- Order book increased to £17.9bn at the end of 2011



# Operational excellence

## ■ Home Affairs

- Acacia and Lowdham Grange prisons performance praised by independent inspectors

## ■ UK Welfare to Work

- Flexible New Deal: over 25,000 unemployed people into sustainable work
- Work Programme: top performing for percentage of people supported

## ■ Transport

- Dubai Metro: availability and punctuality above 99%. Ridership tripled
- Merseyrail: one of UK's most punctual rail operations
- DLR: improvement in customer satisfaction and service reliability

## ■ US Federal

- Boeing's Supplier of the Year in technology category
- One of the 10 Best Corporations for Veteran-Owned Businesses to work with

# Successful integration of acquisitions

- Acquired and successfully transitioned three leading companies in the global business process outsourcing market
  - The Listening Company
  - Intelenet
  - Excelior
- Domain expertise developed in front, middle & back office service delivery
- Blue chip customers in private sector across India, US, UK and Australia
- Strong pipeline of opportunities
- Creation of global BPO division

# High visibility of forward revenues

Order book	Rebids and extensions	Preferred bidder
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42%	27%	1%
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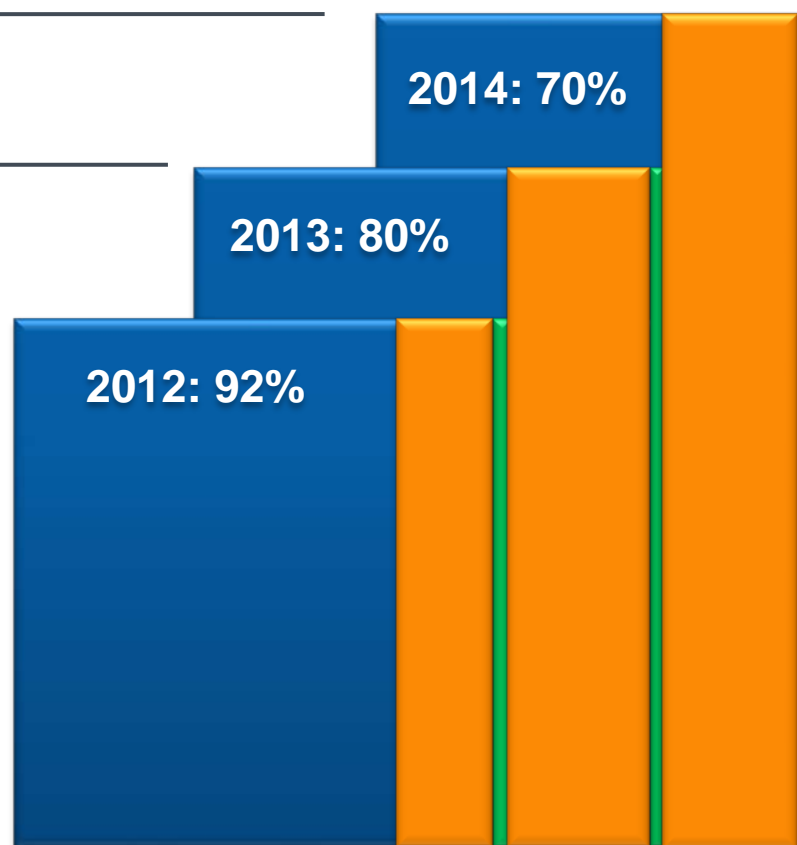
56%	22%	2%
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76%	14%	2%
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At 31 December 2011

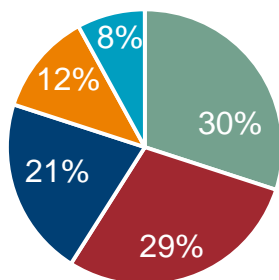
At 31 December 2010

2011: 92%, 2012: 77%, 2013: 66%



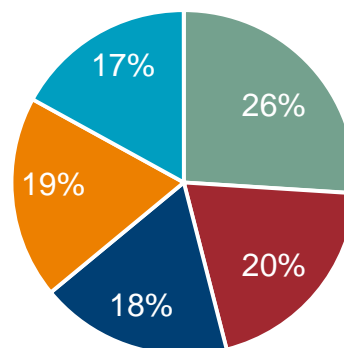
# Increasing portfolio breadth

**2006**  
**£2,548m**

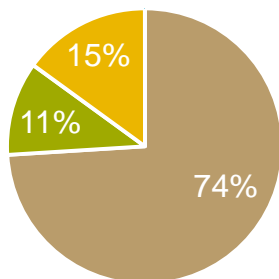


**Revenue  
by market**

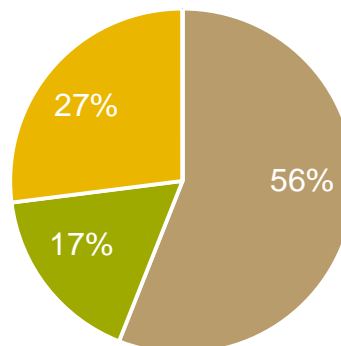
**2011**  
**£4,646m**



- Civil Government
- Defence, Science & Nuclear
- Local Government & Commercial
- Americas
- AMEAA



**Revenue  
by geography**



- United Kingdom
- United States
- Other countries



# Responding effectively to changing environment

- Strong focus on operations
- Launch of global BPO division
- Review of UK structure and wider cost base
- Accelerated entry into new markets

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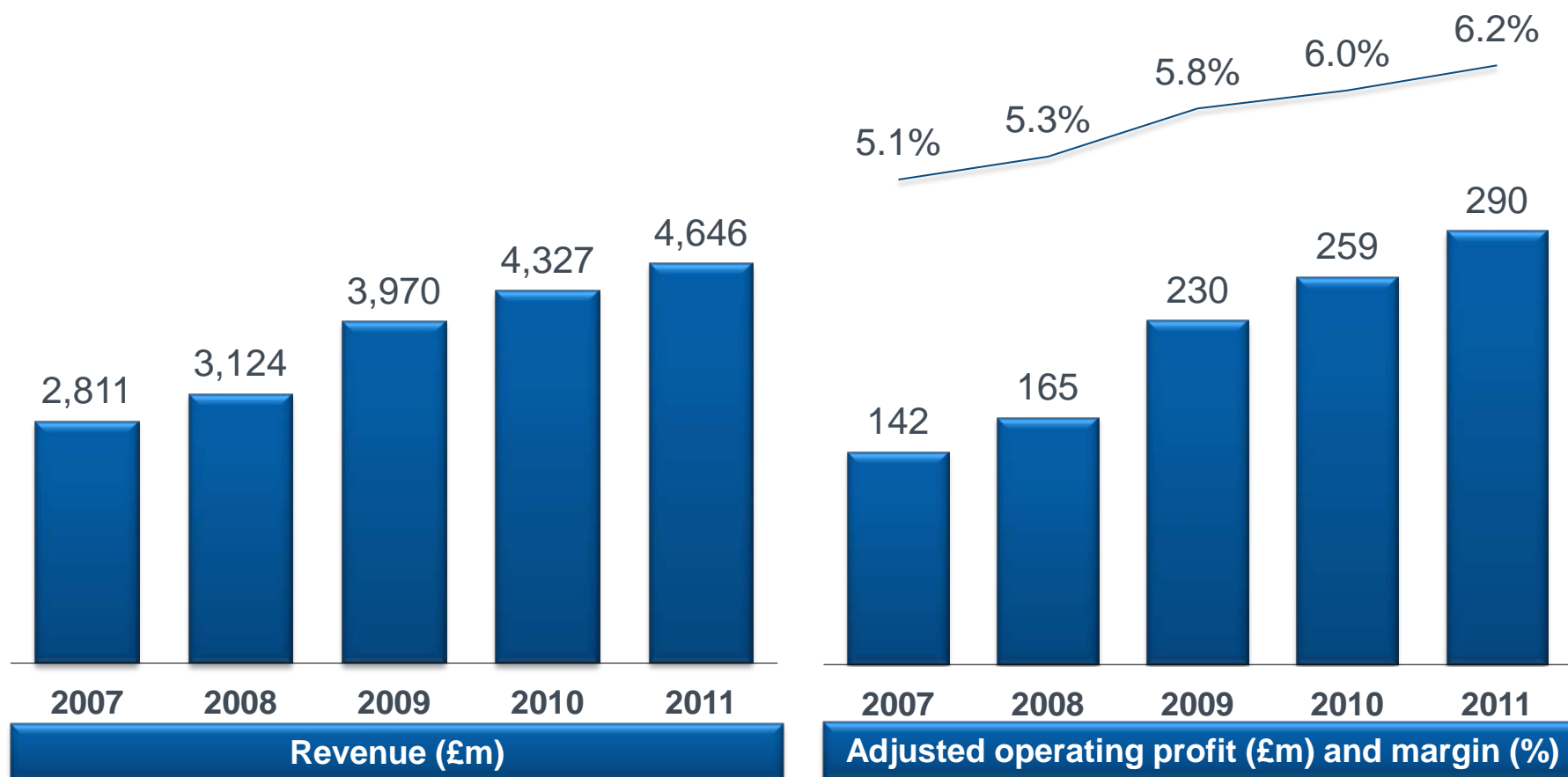
# Financial review

Andrew Jenner

# Financial review

- Income statement
- Cash flow
- Net debt
- Pensions
- Acquisitions
- Funding
- Financial outlook and assumptions

# Strong five-year record of revenue and profit growth



Notes: All figures at reported exchange rates

Adjusted operating profit is profit before amortisation of acquired intangibles and acquisition-related costs

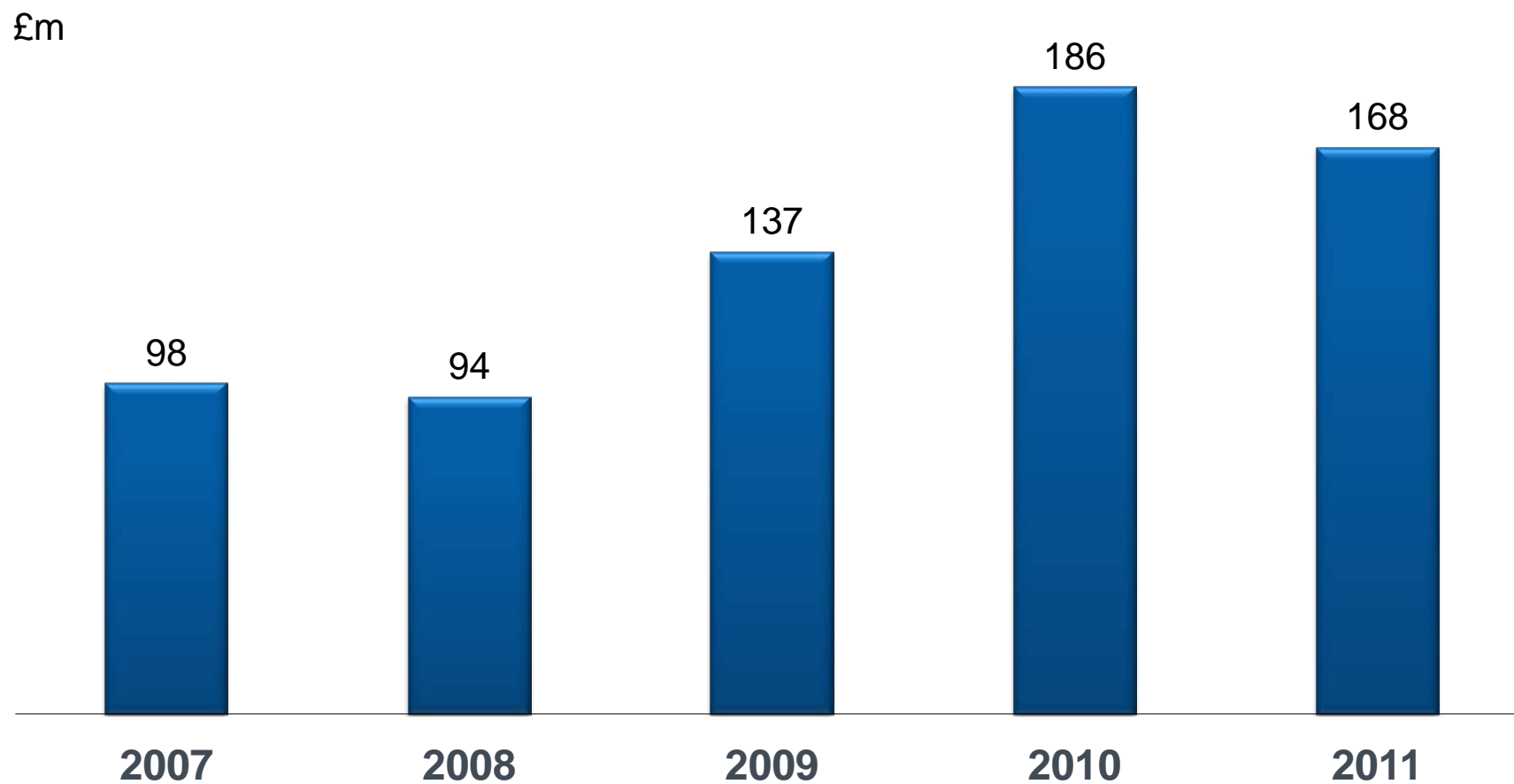
# Income statement

£m Year ended 31 December	2011	2010	Increase	Increase excluding currency
Revenue	4,646.4	4,326.7	7.4%	7.4%
<i>Organic growth</i>			3.6%	3.5%
<b>Adjusted operating profit</b>	<b>290.1</b>	<b>258.7</b>	<b>12.1%</b>	<b>12.4%</b>
<i>Adjusted operating margin</i>	6.2%	6.0%	26bps	28bps
Investment revenue and finance costs	(27.9)	(27.4)		
<b>Adjusted profit before tax</b>	<b>262.2</b>	<b>231.3</b>	<b>13.4%</b>	<b>13.4%</b>
Amortisation of acquired intangibles	(20.0)	(17.4)		
Acquisition-related costs	(3.9)	-		
Profit before tax	238.3	213.9	11.4%	11.3%

# Income statement

£m Year ended 31 December	2011	2010	Increase	Increase excluding currency
Adjusted effective tax rate	25.9%	26.2%		
Adjusted earnings after tax	194.2	170.5	13.9%	14.0%
<b>Adjusted earnings per share</b>	<b>39.59p</b>	<b>34.69p</b>	<b>14.1%</b>	<b>14.2%</b>
Effective tax rate	26.5%	26.7%		
Profit after tax	175.2	156.8	11.7%	11.6%
Earnings per share	35.70p	31.88p	12.0%	11.8%
Average shares in issue	490.5m	491.5m		
<b>Dividend per share</b>	<b>8.40p</b>	<b>7.35p</b>	<b>14.3%</b>	

# Group free cash flow



Note: Group free cash flow is free cash flow from subsidiaries and dividends received from joint ventures

# Group free cash flow

£m		
Year ended 31 December	2011	2010
Adjusted operating profit excluding joint ventures	208.5	194.1
Non-cash items	64.2	61.8
Adjusted EBITDA excluding joint ventures	272.7	255.9
Working capital movement	(32.3)	(30.6)
Operating cash flow excluding joint ventures	240.4	225.3
Interest	(32.7)	(25.2)
Tax	(32.2)	(24.0)
Net expenditure on tangible and intangible assets	(71.5)	(41.8)
Dividends from joint ventures	64.3	51.5
<b>Group free cash flow</b>	<b>168.3</b>	<b>185.8</b>



# Group free cash flow to movement in recourse net debt

£m		
Year ended 31 December	2011	2010
Group free cash flow	168.3	185.8
Acquisition of subsidiaries (including acquired debt)	(398.6)	(2.3)
Acquisition-related costs	(3.7)	-
Net purchase of share capital	(6.7)	(14.7)
Special pension contribution	(40.0)	(20.0)
Dividends paid	(37.3)	(32.3)
New and acquired finance leases	(30.4)	(10.0)
Increase in security deposits	(8.2)	-
Repayment of non recourse debt	(7.9)	(7.6)
Foreign exchange movements	(1.7)	(14.6)
<b>(Increase)/reduction in Group recourse net debt</b>	<b>(366.2)</b>	<b>84.1</b>

# Net debt

£m		
Year ended 31 December	2011	2010
Group – cash and cash equivalents	194.6	204.0
Group – loans	(819.4)	(482.6)
Group – obligations under finance leases	(45.0)	(25.0)
<b>Group recourse net debt</b>	<b>(669.8)</b>	<b>(303.6)</b>
Joint venture – net cash and cash equivalents	51.4	66.1
Total recourse net debt	(618.4)	(237.5)
Group non recourse debt	(15.5)	(23.7)
<b>Total net debt</b>	<b>(633.9)</b>	<b>(261.2)</b>

# Pensions

- Total net balance sheet assets of £17m (2010: liabilities of £83m) on asset base on £1.7bn (2010: £1.5bn)
- Contract specific schemes have limited commercial risk
- Non contract specific schemes
  - Special contribution into main Group Scheme completed in January 2011
  - Main Group scheme balance sheet accounting position improved to a surplus of £122m (2010: deficit of £16m); estimated actuarial deficit of £27m (2010: deficit £93m)
  - Improvement reflects the special contribution, market conditions on investment returns and the net impact of a decrease in inflation assumptions offset by a decrease in the applicable discount rate

# Acquisitions

- 2011 acquisition spend of £399m (including acquired debt)
  - Intelenet £336m
  - Smaller acquisitions £63m in aggregate (The Listening Company, Excelior, JBI Properties Services, Philips Collection Services, and Braintree Clinical Services)
- Fair value of contingent deferred consideration of £44m
  - Intelenet £24m (maximum £50m)
  - Smaller acquisitions £20m in aggregate

- Integration into Serco largely complete
- Serco's existing India BPO operations fully incorporated
- Financial performance since integration
  - £84m of revenue consolidated since July
  - Organic constant currency growth of 6%
  - Adjusted operating profit of £10.7m, margin of 12.8%
- Previously stated medium-term income and return expectations remain
  - Organic growth of 10-15% pa
  - Maintaining margins at c12%, pre cost synergies
  - Group cost of capital in third full year (FY2014)

# Funding

- Financial covenant leverage ratio, based on consolidated total net borrowings to EBITDA, 2.0 times as at 31 Dec 2011 (2010: 1.1 times)
- Strong funding position with committed facilities of c£1.2bn
- Two successful private placement issues in 2011, raising c£400m
- Greater diversification, c50:50 mix between bank and other debt funding
- Increased maturity profile, extending out to 2023 and averaging over four years
- Early refinancing of our committed syndicated bank facilities planned for 2012

# Financial outlook

- For 2012 financial year, forecasting
  - Another year of strong total revenue growth
  - Includes further good organic growth
  - Contribution from acquisitions completed to date of c3.5%
  - Challenging conditions to remain in the US, some further improvement in the UK markets and another strong performance in AMEAA
  - Adjusted operating margin increase similar to 2011
- Into the medium term
  - Anticipate a modest improvement in rate of organic growth in 2013 and further improvement into the medium term
  - Supports the continued delivery of strong financial performance

# 2012 – detailed financial assumptions

- Revenue
  - Organic growth weighted to second half
  - Contribution from completed acquisitions weighted to first half
- Adjusted operating margin
  - Organisational changes impact expected to be broadly neutral for the full year
  - Timing of costs, currently estimated at c£15m, likely to more than offset the underlying improvement in H1
- Investment revenue and finance costs
  - Total net finance costs expected to increase to c£45m (2011:£28m)
  - Increase reflects annualisation of acquisition spend that was H2-weighted in 2011, together with c.£3m of costs relating to early refinancing
- Adjusted effective tax rate to remain c26%



## 2012 – new divisional structure

- As a result of the organisational changes, we expect to move to four reporting segments from 2012
- New Global Services division, comprising
  - Intelenet, Serco BPO, Excelior, etc from AMEAA
  - IT-enabled BPO services, The Listening Company, etc from LG&C
  - Other BPO operations e.g. from Americas
- Three frontline service divisions by region – UK & Europe, AMEAA, Americas
- Restated 2011 comparables to be provided in advance of H1 2012 reporting

# Summary

- Strong financial result for 2011
- Good organic growth, contribution from acquisitions and margin improvement
- Cash flow conversion remains strong
- Robust funding and pension positions
- Good financial performance forecast for 2012 and remain confident beyond

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# Business review and positioning for growth

Chris Hyman

# Business review

- UK and Europe:
  - Civil Government
  - Defence, Science and Nuclear
  - Local Government and Commercial
- Americas
- AMEAA
- Market developments
- Positioning for growth
- Summary

# UK market

- Signs of improvement in UK markets have started
- Better H2 performance
- Further signs of markets opening up
- Austerity measures mean some risks remain



# UK & Europe: Civil Government

- Revenue increased 6% to £1,199m (2010: £1,127m)
- 26% of group revenue
- Growth driven by new services coming on stream and contract expansions
- Adjusted operating profit\* increased 20% to £79.7m; margin increased to 6.6%



\*Segmental result before corporate expenses

## UK & Europe: Civil Government (cont)

- Doncaster prison payment by results contract - £250m, 15 years
- Prisoner Escort and Custody Services contract - £420m, 10 years
- Yarl's Wood IRC extended and expanded - £25m, 2 years
- Prime contractor for UK Border Agency e-Borders system - £29m, 2 years
- Barclays Cycle Hire Scheme expanded - £50m, 4 years
- Braintree Community hospital - £60m, 4 years
- Renewed NHS Cornwall and Isles of Scilly GP service - £32m, 5 years



# UK & Europe: Defence, Science and Nuclear

- Revenue growth 3% to £939m (2010: £911m)
- 20% of group revenue
- Strong performance at AWE and a number of smaller value contract awards
- Adjusted operating profit\* growth 3% to £79.9m; margin held at 8.5%



\*Segmental result before corporate expenses

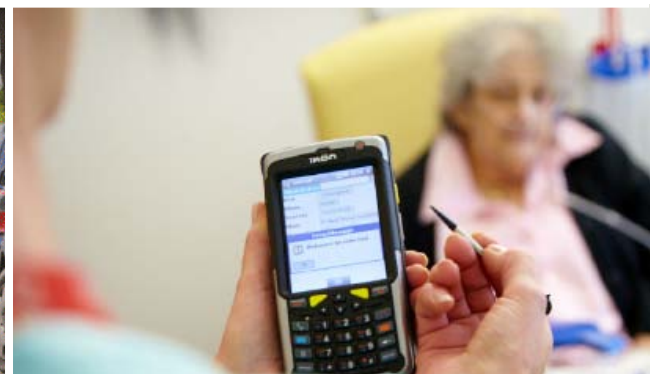


## UK & Europe: Defence, Science and Nuclear (cont)

- Renewed RAF Culdrose helicopter support services - £33m, 5 years
- Expanded support to the Defence Science and Technology Laboratory - £80m, 5 years
- Won new multi activity contract at RAF Valley - £20m, 5 years
- Extended Cranfield Airport air traffic control and support services - £3.5m, 5 years
- Renewed Woolwich Ferry operations contract - £14m, 2 years

# UK & Europe: Local Government and Commercial

- Revenue grew 1% to £860m (2010: £854m)
- Organic growth declined 7%
- Represents 18% of Group
- Reductions due to cuts in Business Link services, redirection of education funding and delays in discretionary projects
- Adjusted operating profit\* reduced 6% to £52.4m; margin declined to 6.1%



## UK & Europe: Local Government and Commercial (cont)

- Peterborough City Council strategic partnership - £100m, 10 years
- Scope of Glasgow Access joint venture expanded to include education ICT - £19m, 7 years
- Acquisition of UK customer contact operator The Listening Company led to new wins:
  - West Sussex County Council contact centre
  - 9 major UK contact centres supporting a wide range of UK based organisations

# Americas

- Revenues declined 9% to £868m (2010: £954m)
- Constant currency decline of 6%
- 19% of group revenue
- Impact of US government spending delays and cancellations
- Adjusted operating profit\* declined 6% to £73.0m; margin slightly increased to 8.4%



## Americas (cont)

- Indefinite Delivery, Indefinite Quantity vehicles contributing to growth
  - US Navy SPAWAR IDIQ, ceiling value \$1.4bn over five years
    - task orders totalling \$31m
  - US Air Force Space Command C4IT2SR IDIQ ceiling value \$800m
    - task orders totalling \$115m
  - US Army HR Solutions IDIQs, combined ceiling value \$4.2bn
    - task orders totalling \$169m
- New IDIQ frameworks include training services to the US Army's MCOE
- Other wins
  - Department of Veterans Affairs
  - MyArmyBenefits
  - National Military Medical Centers
  - Intelligence agencies

# AMEAA

- Reported growth of 62% to £780m (2010: £481m)
- Organic constant currency growth of 37%
- 17% of group
- Very strong growth in migration and offender management
- Adjusted operating profit\* growth of 70% to £55.4m; margin slightly increased to 7.1%



# AMEAA - Home affairs

- New court escort contract with Western Australian Department of Corrective Service - A\$210m, 5 years
- Renewed and expanded Acacia Prison contract - A\$310m, 5 years
- New contract to run South Queensland Correctional Centre - A\$100m, 5 years
- New contract to manage New Zealand Mount Eden Corrections Facility - NZ\$300m, 10 years



# AMEAA – Defence, Health and Transport

- Expanded DMS Maritime joint venture - A\$50m, 17 years
- New Australian Defence Force logistics and base support contract - A\$50m, 2 years
- Non-clinical support services at Fiona Stanley Hospital - A\$1.3bn (approximately £850m), 10 years
- Green line opened on Dubai Metro
- New and renewed air traffic control contracts at 3 airports and both UAE and Iraq civil aviation authorities



# Intelenet

## Successful integration, growing order book and pipeline

- Intelenet BPO acquisition and integration
  - won new business valued at over £50m
  - order book now valued at £600m
  - opened new delivery centres in Lucknow in India and Dubai
- Successful bid to operate the Anglia Support Partnership in UK



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## Market developments

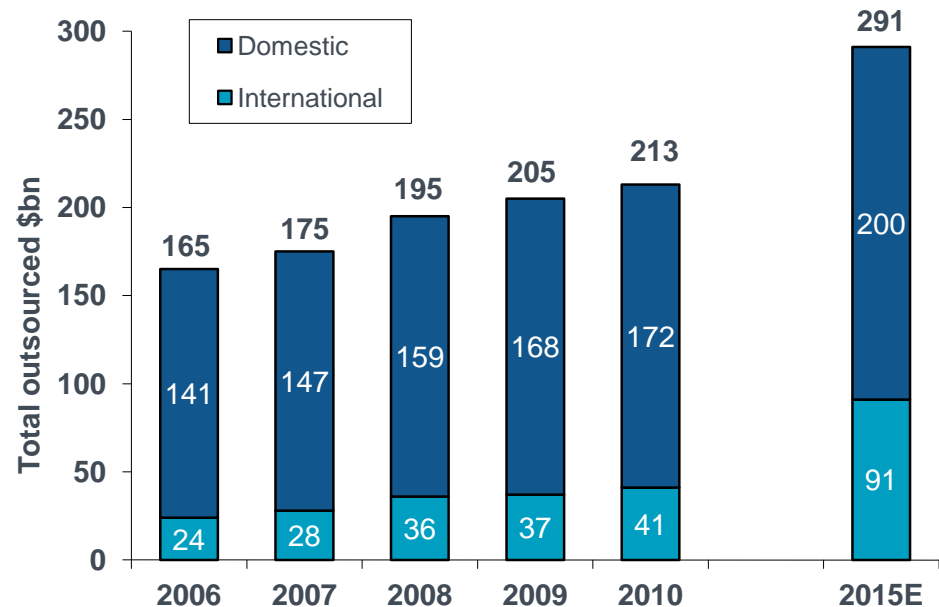
# Ongoing demand for efficient, high quality services

- Public and private sector customers seeking
  - Depth of capability
  - Integration of middle and back office services with front line services
- Changing shape of business to address opportunities
  - Strengthening core markets
  - Expanding into new markets

# Global BPO – new markets with strong potential

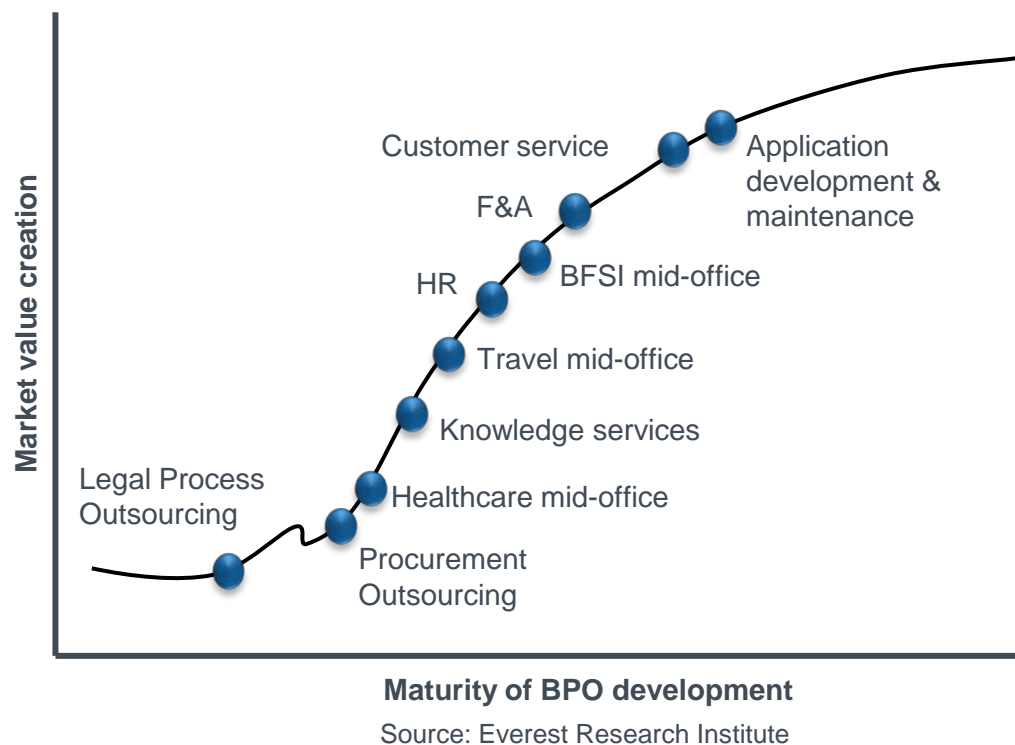
## ■ Large and growing market

- Addressable global BPO market of c\$500bn
- Currently outsourced c\$200bn
- Global market expected to grow at up to 7%pa
- Fastest growth expected in International BPO
- Domestic markets; emerging economies such as India also expected to expand rapidly



CAGR %	Historic growth	Expected growth
Total	5 – 7	5 – 7
Global domestic	5	<5
International	10-15	15+

# Market offers strong growth, sustainable margins



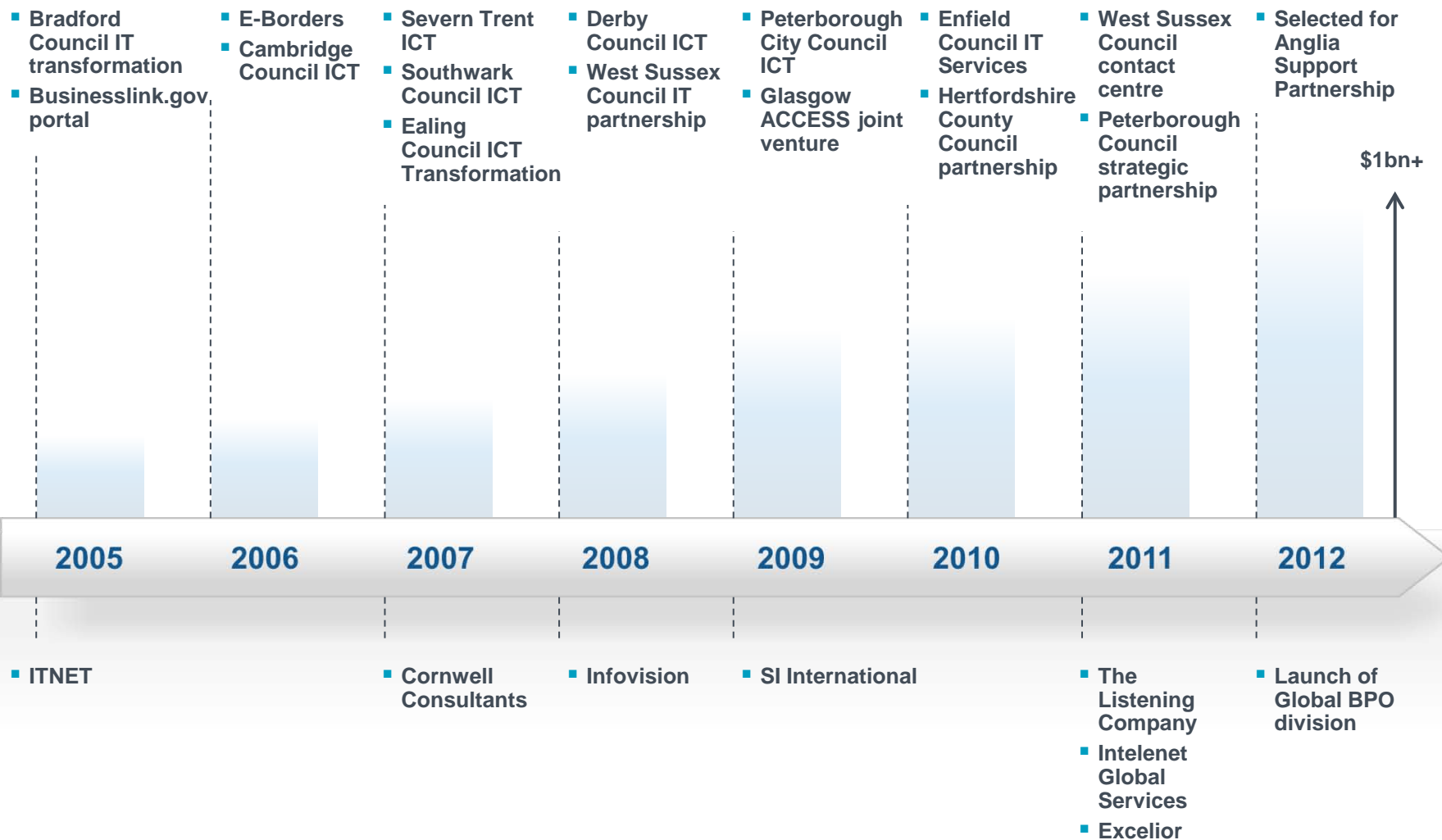
## ■ BPO moving up the value chain

- Beyond a simple tool for cost reduction
- Life cycle of services has evolved
- Increased ownership and risk transfer
- Preferred vendors capable to address markets across the world for global clients

## ■ Significant pipeline of opportunities

- Private sector outsourcing
- Local Authority strategic partnerships

# Development of global BPO business



# Positioning for growth in UK and Europe

- UK public sector
  - Showing signs of potential improvement
  - Managing supplier relationships in a joined up manner, with operational management at a local level
  - Looking at a wider range of services delivered by the public, private and voluntary sectors working together
- Combining capabilities and streamlining the management of the three UK divisions into one single UK and Europe division, focused on frontline service delivery
- Developing our internal shared service operation
- Able to deliver cost competitiveness, enhance targeting of opportunities and ensure portfolio properly focused

# Positioning for growth in Americas

- Expect ongoing delays and cancellations in US Federal market
- Many US Federal segments increasingly price focused
- Continue to win and be appointed to new work, attrition remains unusually high
- \$125bn addressable market, attractive medium and longer-term growth opportunities
- Portfolio focusing on markets less susceptible to pressures:
  - Data migration
  - C4ISR (Command, Control, Communications, Computer, Intelligence, Surveillance and Reconnaissance)
  - Space and cyber security
  - Human capital management services



# Positioning for growth in AMEAA

- Experiencing the fastest growth
- Economies of Australia, the Middle East and India continue to grow
- Australia and New Zealand opportunities in Justice including new-build and existing prisons and court escorting markets
- Middle East opportunities emerging in healthcare and integrated FM
- India opportunities emerging in transport, healthcare and education
- Exploring other growing economies

# Summary

- 2011 a defining year
  - Resilient portfolio, strong financial result
  - Challenging conditions in US and UK
  - Developed new markets and geographies
  - Increased order book and extensive pipeline of opportunities
- Creating new global BPO division and new UK & Europe division to address substantial opportunities
- Expect further good organic growth in 2012 and anticipate modestly improving rate into medium term
- Confidence for the future

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Q&A



Advise | Design | Integrate | Deliver



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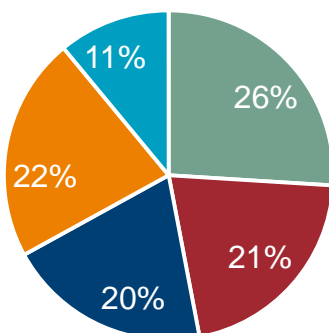


# Appendix



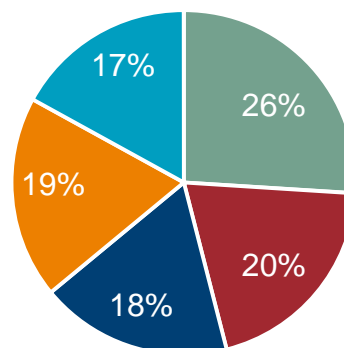
# Summary

**2010**  
**£4,327m**

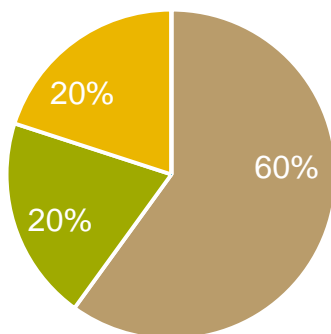


**Revenue  
by market**

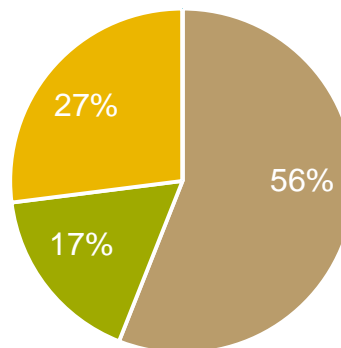
**2011**  
**£4,646m**



- Civil Government
- Local Government & Commercial
- AMEAA
- Defence, Science & Nuclear
- Americas



**Revenue  
by geography**



- United Kingdom
- United States
- Other

# Currency rates

## Full year average rates

	FY 2011	FY 2010
£:US\$	1.60	1.54
£:Aus\$	1.54	1.58
£:Eur	1.15	1.16
£:INR	74.48	70.50

## Half year average rates

	1H 2011	1 H 2010
£:US\$	1.61	1.52
£:Aus\$	1.55	1.70
£:Eur	1.15	1.15
£:INR	72.43	70.50

## Closing rates

	31 Dec 2011	30 Jun 2011	31 Dec 2010
£:US\$	1.55	1.61	1.57
£:Aus\$	1.52	1.50	1.53
£:Eur	1.20	1.11	1.17
£:INR	82.53	71.78	70.01