

Serco Group plc
Dolphin House
Windmill Road
Sunbury on Thames
Middlesex TW16 7HT
United Kingdom
Telephone +44 (0)1932 755900
Facsimile +44 (0)1932 755854
Internet <http://www.serco.com>

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Contact: **See Below**

SERCO GROUP plc

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 1999

ACHIEVEMENT HIGHLIGHTS

- Turnover up 14.8% to £391.5m (1998 - £341.0m)
- Profit before tax (pre FRS 10) up 20.1% to £15.6m (1998 - £13.0m)
- Basic earnings per share (pre FRS 10) up 16.9% at 16.6p (1998 - 14.2p)
- Dividend up 15.2% to 2.65p net per ordinary share (1998 - 2.3p)

Richard White, Executive Chairman, Serco Group plc, stated:

"The first half of the year has shown the same high level of performance that has characterised our business for many years. With the strong market in the UK, significant growth opportunities internationally and the market demanding the application of the products and skills in which we excel, I look forward to continued strong performance in the remaining six months of the year."

- Ends -

Notes to Editors

Serco Group plc is an international task management contractor to government and industry, providing comprehensive engineering and support services across a wide range of applications.

For further information please contact:

Richard White - Executive Chairman, Serco Group plc
Kevin Beeston - Chief Executive, Serco Group plc
Chris Hyman - Finance Director, Serco Group plc

Tel: +44 (0)1932 755900
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SERCO GROUP plc**INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 1999****CHAIRMAN'S STATEMENT**

The company's past success has been attributable to a clear strategy intended to produce consistent growth. This will continue to be the cornerstone of our business in the future. There are four main elements to this strategy. Firstly, to maintain a high quality of service to our existing customers, to ensure that we have a firm foundation on which to base future growth. To create the environment to attract and retain a highly committed, flexible and professional team. To replicate our existing management processes in overseas markets. Finally, to capitalise on our growing capability by addressing more complex requirements.

In the first half of the year we have renewed or had extended over 90% of contracts reaching the end of their term. This success rate reflects the high level of customer satisfaction which has been confirmed in a recent worldwide customer survey.

This consistent record reflects the quality and dedication of the people that make up Serco. It is our intention to increase investment in our staff, through continued training and development, together with investment in technology to enable us to use our considerable corporate knowledge more effectively.

Our strategy to replicate our existing management processes has been successful with over 40% of our operating profits now earned outside the UK. This has been achieved through the organic growth of our existing regional companies as well as increasing opportunities to enter into strong local partnerships in countries outside the UK. This will help develop existing markets as well as open up new ones. Growth has been further enhanced by two strategic acquisitions in the United States and Italy and by the recently announced acquisition of Elekluft Elektronik und Luftfahrtgeräte GmbH (Elekluft) in Germany.

We continue to use our growing capability to address larger and more complex opportunities, an ever widening range of Private Finance Initiatives (PFIs) and a new generation of opportunities to enter into Public Private Partnerships (PPPs) with the UK and other Governments. An example is the recently announced proposed sale of a significant share holding in the National Air Traffic Service (NATS). These opportunities all demand the ongoing development of our service products in which we continue to make a significant investment through our operating companies and the Serco Institute.

The company's strategy has continued successfully in the first half of 1999. Turnover of £392 million was £51 million higher than the first six months of 1998. Pre-tax profits before FRS 10 (Goodwill amortisation) increased by 20.1% to £15.6 million and by 17.3% to £14.9 million after FRS 10. This results in a growth in basic earnings per share before and after FRS 10 of 16.9% and 12.2% respectively. The tax rate for the first half of 1999 has increased to 32.5%, reflecting the reduction in tax losses available.

The interim dividend for the six months to 30 June 1999 of 2.65 pence net per ordinary share will be paid on 15 October 1999 to shareholders on the register at the close of business on 17 September 1999. The interim dividend for 1998 was 2.3 pence net per ordinary share.

In the UK we have now signed eleven PFI contracts with a total operating turnover in excess of £80 million per annum. One PFI contract, Her Majesty's Prison Moreton Lane, is at the preferred bidder stage, whilst twelve further projects are being actively pursued and a significant number of future prospects are being investigated. The current target projects include a hospital and a number of defence facilities, as well as new areas, such as the provision of Traffic Control Centres for The Highways Agency. We already have substantial experience in supplying the Agency with major traffic control systems, for example the Motorway Incident Detection and Automatic Signalling System on the M25 London Orbital Motorway.

The remaining business has shown good growth across all areas with significant additions to existing contracts. These include more than £9 million worth of external business won by NPL Management Ltd at the National Physical Laboratory and a requirement from the UK Ministry of Defence to procure a further seven passenger vessels for our existing port services contracts covering Portsmouth, Devonport and the Clyde. Our staff were recently involved in a high profile operation, on behalf of the Imperial War Museum, to manage the refit of HMS Belfast, the Second World War cruiser moored near Tower Bridge in London. We provided project management for the move and refit, together with the provision of five tugs and several support craft. We were awarded an additional contract, by the Defence Evaluation and Research Agency, to manage, operate and assist in marketing its seagoing research vessel, the Colonel Templer, for a period of five years.

Finally, in the UK, Serco's continuing commitment to the Rail industry has been further rewarded with the securing of a contract valued in excess of £48 million to operate and maintain Railtrack's new fleet of 25 multi-purpose vehicles. These vehicles will provide a number of services including improving rail adhesion, vegetation control and de-icing. The opportunity also exists to exploit the vehicles commercially for other activities.

We have had a significant presence in Continental Europe for many years through contracts with international agencies such as the European Space Agency (ESA). More recently we have been expanding this presence in a number of selected markets such as Italy, France and Sweden. We believe the time is right for further growth and we have recently announced an agreement to acquire Elekluft. Elekluft is a German service company with whom we have had a long association through joint contracts with ESA. The company was formed in 1961 to provide installation of, and support to, German air defence radar systems. Today, the company provides engineering services to German military and aerospace customers, as well as facilities management services including business process outsourcing, administrative and technical documentation services to a range of commercial organisations. This follows our acquisition of the Italian-based service company Tecnodata last year, which has helped us substantially expand our business with international agencies across Europe. As a result of the Tecnodata acquisition we have added over 60 further positions for staff to work with organisations such as the European Commission, Eurocontrol and the European Patents Office.

Our business in the Asia Pacific region is operating in a buoyant market, particularly in Australia and New Zealand where the Defence sector is very active. We have won a further two garrison support contracts, one for the Northern Territory which is strategically significant for the Defence Forces in Australia and the other in Central Sydney. Three other bids in this market sector are under evaluation. In New Zealand we have seen the same pattern of additions to our existing contracts. The Trentham Army Base contract, which provides warehousing, distribution and maintenance services, has been significantly expanded to include base workshop and repairs, ration pack production and for the New Zealand Police the provision of warehousing services. A recently awarded contract with the New Zealand Antarctic Division requires Serco to provide infrastructure support services to the New Zealand Antarctic base. This latter task, together with our US Navy air traffic control contract means we will have some 47 staff, based on the ice, in the Antarctic.

In the Transport sector we have seen a number of high profile contracts including one for the design, supply and maintenance of an advanced traffic management system for a portion of the Auckland motorway network. A further contract associated with the Olympic Games in Sydney, has been awarded by the Roads and Traffic Authority for New South Wales, involving the design and supply of intelligent roadside vehicle detector and control equipment. We were, however, disappointed at being unsuccessful in the competition for the first tranche of tram and train franchises which were put out to tender by the State of Victoria. As with our experience of early PFI opportunities in the UK, we have continued our cautious approach to growing the business, particularly where it demands the identification and management of new risks.

There are many growth prospects across the region. The Hong Kong government, with whom we have worked for the last fifteen years, has commenced a systematic review of all departments to establish those additional operations which might be transferred to the private sector. These include transport infrastructure, where we already have an involvement with the operation of certain tunnels, as well as driver and vehicle licensing functions. We also believe that Japan will offer opportunities in the longer term and we are moving towards a closer strategic alliance with the ITOCHU Corporation with the opening of a joint marketing office in Tokyo. The trigger for this move has been an increasing interest in PFIs in Japan. The Ministry of International Trade and Industry, the Ministry of Health and Welfare and the Ministry of Transport are promoting PFIs as a key element in Japan's economic recovery. Draft legislation enabling PFIs to be introduced has recently passed through the Japanese Parliament.

In North America the State and Local Government market is offering excellent opportunities. We signed a contract in August to provide maintenance for 1,470 vehicles belonging to the Washington DC Metropolitan Police Department. This follows a similar contract started in January for Dayton Power and Light. In the Aviation sector the Federal Aviation Authority, as part of the re-bid of some of our existing air traffic control contracts, announced that additional towers will be offered for operation by the private sector. In Defence, the market is offering further large opportunities, but continues to be price sensitive as evidenced by the recent loss of the joint venture contract with the US Navy for operational support on Diego Garcia. Our aim in developing a presence in the North American market was to introduce some of the third and fourth generation service contracts that we operate in the UK and there is growing evidence in the market of the US government moving in this direction.

The first half of the year has shown the same high level of performance that has characterised our business for many years. With the strong market in the UK, significant growth opportunities internationally and the market demanding the application of the products and skills in which we excel, I look forward to continued strong performance in the remaining six months of the year.

Richard D White
Executive Chairman

1 September 1999

Summary Consolidated Profit and Loss Account

For the six months ended 30 June 1999

	6 Months to 30.6.99 £'000	Restated 6 Months to 30.6.98 £'000	Year to 31.12.98 £'000
Turnover: Group and share of joint ventures - continuing operations	391,546	340,955	687,760
Less: Share of joint ventures	(69,154)	(55,330)	(113,471)
Group turnover	322,392	285,625	574,289
Cost of sales	(280,159)	(250,246)	(499,052)
Gross profit	42,233	35,379	75,237
Administrative expenses	(29,839)	(24,057)	(51,042)
Amortisation of goodwill	(615)	(207)	(823)
Operating profit - continuing operations	11,779	11,115	23,372
Share of operating profit in joint ventures	5,684	4,077	6,315
Gross operating profit	17,463	15,192	29,687
Net exceptional items	-	162	162
Net interest			
Group	(1,172)	(1,276)	(2,088)
Share of joint ventures	(1,353)	(1,338)	(2,142)
Profit on ordinary activities before taxation	14,938	12,740	25,619
Taxation on profit on ordinary activities	(4,855)	(3,949)	(8,199)
Profit on ordinary activities after taxation	10,083	8,791	17,420
Dividends	(1,738)	(1,612)	(4,888)
Retained profit	8,345	7,179	12,532
Earnings per Ordinary Share of 2p each:			
Basic earnings per share, after amortisation of goodwill	15.6p	13.9p	27.4p
Basic earnings per share, before amortisation of goodwill	16.6p	14.2p	28.7p
Fully diluted earnings per share, after amortisation of goodwill	15.5p	13.8p	27.0p
Fully diluted earnings per share, before amortisation of goodwill	16.4p	14.1p	28.3p
Dividend per share	2.65p	2.30p	7.40p

Joint ventures

The interim financial statements have been prepared in accordance with Financial Reporting Standard 9 - Associates and Joint Ventures, which requires turnover, operating profit and interest from joint ventures to be disclosed separately on the face of the Profit and Loss Account. For comparative purposes the 1998 interim results have been restated accordingly.

Earnings per share

The calculation of basic and fully diluted earnings per Ordinary Share after goodwill is based on profits of £10,083,000 for the six months ended 30 June 1999 (1998 - £8,791,000) and the weighted average number of Ordinary Shares of 2p each in issue during the period.

The calculation of basic and fully diluted earnings per Ordinary Share before goodwill is based on profits of £10,698,000 for the six months ended 30 June 1999 (1998 - £8,998,000) and the weighted average number of Ordinary Shares of 2p each in issue during the period.

Exceptional items

Exceptional items in 1998 have been netted off in the Summary Consolidated Profit and Loss Account, but are disclosed fully in the 1998 Annual Accounts. The results for the six months ended 30 June 1998 have been similarly disclosed.

Summary Consolidated Balance Sheet

As at 30 June 1999

	As at 30.6.99 £'000	As at 30.6.98 £'000	As at 31.12.98 £'000
Fixed assets			
Intangible asset: Goodwill	25,989	16,664	23,332
Tangible assets	26,043	24,594	23,962
Investments in joint ventures	12,464	13,380	10,617
Total fixed assets	64,496	54,638	57,911
Current assets/(liabilities)			
Stocks	9,328	8,412	9,127
Debtors	176,986	161,473	157,365
Cash (net of overdraft)	26,836	11,494	43,991
Trade and other creditors	(84,321)	(69,256)	(85,381)
Accruals and deferred income	(59,024)	(47,441)	(58,137)
Net current assets	69,805	64,682	66,965
Long term creditors	(47,903)	(48,315)	(48,957)
Provisions for liabilities and charges	(3,805)	(3,429)	(3,726)
Equity shareholders' funds	82,593	67,576	72,193

Summary Consolidated Cash Flow Statement

For the six months ended 30 June 1999

	6 Months to 30.6.99 £'000	Restated 6 Months to 30.6.98 £'000	Year to 31.12.98 £'000
Net cash inflow/(outflow) from operating activities	1,360	(13,900)	30,032
Dividends received from joint ventures	874	282	1,023
Returns on investments and servicing of finance	(1,624)	(1,276)	(2,088)
Taxation	(1,002)	(1,124)	(4,404)
Capital expenditure and financial investment	(10,809)	(7,580)	(9,329)
Acquisitions and disposals	(914)	(13,129)	(15,857)
Equity dividends paid	(3,299)	(2,828)	(4,302)
Net cash outflow before financing	(15,414)	(39,555)	(4,925)
Financing	(1,741)	33,440	31,307
(Decrease)/increase in cash	(17,155)	(6,115)	26,382
Opening balance	43,991	17,609	17,609
Closing balance	26,836	11,494	43,991

Interim Report

As required by Section 255 of the Companies Act 1985, notification is hereby given that the accounting information contained in the Interim Report for 1999 does not comprise a full set of accounts and that no full accounts have been delivered to the Registrar of Companies. The interim results for both 1998 and 1999 are unaudited whilst the results for the 1998 full year were audited, and an unqualified audit report was made. The 1998 full year accounts have been delivered to the Registrar of Companies.

Distribution of Report

Copies of the Report are being sent to all shareholders of Serco Group plc. Copies can be obtained on request from the Registered Office:

Serco Group plc
 Dolphin House
 Windmill Road
 Sunbury-on-Thames
 Middlesex TW16 7HT
 United Kingdom