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SERCO GROUP PLC

PRELIMINARY RESULTS FOR THE YEAR ENDED 31 DECEMBER 1999

ACHIEVEMENT HIGHLIGHTS

- Turnover* up 17.4% to £807.5m (1998 - £687.8m)
- Profit before tax (pre FRS 10) up 18.8% to £31.4m (1998 - £26.4m)
- Earnings per share (pre FRS 10) up 17.8% to 33.8p (1998 – 28.7p)
- Dividend per share up 15.5% to 8.55p per ordinary share (1998 – 7.4p)

* Including joint ventures

Richard White, Executive Chairman, stated:

“With our global reach and ability to handle operations on the scale of the UK’s Atomic Weapons Establishment, we are a highly credible contender for very large challenges such as the UK’s National Air Traffic Services Public Private Partnership and the many large Private Finance Initiatives currently under discussion. These large opportunities are not confined to the UK: they exist in Asia Pacific and North America. Looking further ahead, we are also seeking opportunities in Japan in association with the Itochu Corporation. Meanwhile, we should not lose sight of the continuing strong growth in our traditional business, across all our regional markets. It is this underlying strength that makes us confident of delivering continued progress in 2000 and beyond.”

- 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.

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Richard White - Executive Chairman
Kevin Beeston - Chief Executive
Christopher Hyman - Finance Director

The Serco Group plc Annual Review and Accounts is available from 2 March 2000 on our internet site at www.serco.com



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SERCO GROUP PLC

RESULTS FOR THE YEAR ENDED 31 DECEMBER 1999

For the eleventh successive year since Serco's flotation, our sales, profit and cash flow performance has fully met expectations.

In 1999, sales grew by 17.4% to £807.5 million. Pre-tax profits rose 18.8% to £31.4 million pre FRS 10 (Goodwill and Intangible Assets) and by 14.5% to £29.3 million after FRS 10. Earnings per share before and after FRS 10 rose 17.8% and 11.7% respectively. The recommended final dividend of 5.9p per share makes a total of 8.55p for the year – an increase of 15.5%.

The Group can look forward to continued strong growth this year. We have been winning new business at an increasing rate, retaining over 90% of our contracts as they come up for renewal and growing successfully across all our markets. We were particularly pleased to be part of the consortium that won the contract, worth at least £2.2 billion, to manage the UK's Atomic Weapons Establishment. This is a milestone for us, not just in its size and complexity but because of the confidence it displays in Serco's capability and responsibility. It gives us a platform for pursuing the larger opportunities that are emerging worldwide – while continuing to grow in our traditional markets, which still have immense potential.

Serco is in many ways a 21st century business. Our devolved structure and minimal hierarchy owe little to 20th century models and our function is to help customers modernise their own activities. We use advanced technology to share ideas and information freely worldwide – we are making further substantial investments in new information technology systems this year – but we never forget that the technology exists purely to support our people.

Business Review

Sales growth continues worldwide

In the UK, the largest contract win of the year – in fact, our largest ever – was for the management of the UK's Atomic Weapons Establishment at Aldermaston. The contract includes a 25-year Public Private Partnership (PPP) option to add private finance to accelerate development of the site. This is in addition to the 10 other Private Finance Initiative (PFI) opportunities that we are currently pursuing. We were shortlisted for the STEPS programme, under which the contractor will assume ownership of the entire Inland Revenue and HM Customs & Excise property portfolios and provide office facilities to meet both organisations' requirements. We also made a breakthrough into infrastructure maintenance for Railtrack. As the first new entrant to this market we believe we have opened the door to an area with considerable potential. These are all exciting developments, but they should not overshadow the strong underlying growth that we achieved in our traditional business.

In Continental Europe we built on a well established base in Italy, France, Belgium, the Netherlands and Sweden. We are also making our mark in Germany, and in 1999 we acquired Elekluft Elektronik und Luftfahrtgeräte GmbH, a German company providing engineering and facilities management services to military, aerospace and other commercial customers. This business has now been renamed Serco GmbH & Co. KG.

In Asia Pacific business was buoyant, particularly in the Australian and New Zealand defence sectors. We also had significant wins in the transport sector and acquired the remaining 50.8% of shares in Great Southern Railway, which operates three interstate passenger rail services in Australia.



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We made good headway in North America, where state and local governments are becoming increasingly alert to the value of outsourcing and new large-scale strategic opportunities are emerging.

Central and local government

We continued to make good progress in PPP and PFI projects. In the UK the contract for a new prison in Staffordshire brought our total signed contracts to 12: our share of the total operating turnover will amount to more than £80 million a year.

The new contract is for an 800-bed unit which will be the UK's first private-sector prison to incorporate a therapeutic community. It is the fifth PFI contract won by Premier Prison Services (PPS), our joint venture with Wackenhut Corrections, to design, construct, manage and finance custodial facilities. In addition to the five PFI projects, PPS manages HM Prison and Young Offenders Institution, Doncaster (where we have been awarded preferred bidder status of a further 10-year contract), has two prisoner escort contracts handling 250,000 prisoners a year, manages two of the UK's four electronic tagging contracts and provides over 60% of the equipment for electronic tagging used in the UK.

In the UK the Central Computer and Telecommunications Agency chose Serco for a framework agreement to provide a range of live and automated call handling services including call centres, linked to client or Serco operated databases. This could be a key contract, as the government wants it to be possible for 25% of public dealings with government departments to be made electronically by 2002 – rising to 50% in 2005 and 100% in 2008. We also won a two-year extension of our call centre contract with the Driver and Vehicle Licensing Agency – the first time this contract has been extended in partnership in this way. The Aqua Vale swimming complex – our third PPP to develop new public leisure facilities – confirmed our strength in this growth market. We are also developing a promising position in professional services for property portfolios, having been awarded preferred bidder status on our second contract in this field from a UK local authority.

The National Physical Laboratory (NPL) won over £15 million of commercially competed business in 1999, from clients as diverse as BP Amoco and the Greek Government. NPL is developing a growing portfolio of innovation-related management contracts for governments – including for example, a contract to carry out initial appraisal of year 2000 innovation applications for the Queen's Awards for Enterprise. During 1999 the members of the Metre Convention signed a Mutual Recognition Agreement, which NPL expects will create new opportunities in the international market for calibration and measurement services.

We were one of 33 companies that signed an outline agreement with the German defence ministry, which is a first step to opening up the market for government services in Germany.

In North America, the Federal Aviation Administration recognised our excellence in air traffic control (ATC) by adding 13 towers to our existing contract. We renewed parking enforcement contracts in California and Maryland and won another in Chicago. The Serco operated Hopewell Rocks site in New Brunswick, Canada won a British Airways award as one of the best tourist destinations in North America.

In the Middle East we renewed our contracts at Dubai International Airport and the United Arab Emirates Air Traffic Control Centre. We also won our first contract in Lebanon, managing part of the American University of Beirut.



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Defence

We maintained our growth in the UK, partly by extending the scope of existing contracts – for example at the Royal Navy's two major Fleet Air Arm bases, where we added significant new responsibilities. We also won a Ministry of Defence contract to manage the procurement and building of seven auxiliary passenger vessels for the existing port services contracts supporting RN Naval Bases.

In Asia Pacific we made strong gains in support services for the Australian and New Zealand military. We continue to extend our reach into the most remote parts of the world with the award of preferred contractor status at the New Zealand Antarctic base. Added to our existing US Antarctic ATC contract, this means we will have over 60 staff based on the ice in Antarctica.

International agencies

In Belgium we won our first two contracts from Eurocontrol, the European organisation for air navigation safety, and a support contract for the European Commission's Data Centre.

Our relationship with the European Meteorological Satellite Agency (EUMETSAT) continued to develop during the year: we won a new contract for data archive and retrieval services and, in partnership with Alcatel, a substantial increase in our existing contract for the provision of spacecraft operations analysts and operators for existing and future missions.

Transport

In a good year for new rail business we won our first contract for infrastructure maintenance, a market with great potential. Although we already have a broad range of engineering and maintenance contracts with Railtrack, this infrastructure contract is a breakthrough – making us the first new player in UK track maintenance since the rail network was privatised. This contract involves the transfer to Serco of some 700 staff from the existing contractor. It followed another contract worth over £48 million to operate and maintain Railtrack's new fleet of multi-purpose vehicles for traction improvement, de-icing and vegetation control.

We also entered new geographical territory – winning a contract to mobilise and operate the highly automated Copenhagen Metro, opening in 2002, and our first US rail contract, to supply Amtrak with testing services.

We made good progress in traffic management systems in Asia Pacific and Europe, using increasingly sophisticated technology. HM Customs & Excise ordered our automatic number plate recognition equipment in the UK and we saw growing demand for Gatsometer speed and red light cameras in Ireland and the UK.

Among several new aircraft maintenance contracts, we began a promising relationship with MAS Aerotechnologies, which is a wholly-owned subsidiary of Malaysian Airlines. MAS Aerotechnologies is building a substantial aircraft maintenance operation based in Kuala Lumpur. We are providing licensed engineers and consultants (when they are not locally available) to support their current maintenance operations and help build new maintenance businesses on aircraft types which are outside their current capabilities. We anticipate significant opportunities to build on this contract, both by increasing our contribution to MAS Aerotechnologies and by providing similar services to other customers. In the UK we enlarged our contracts with Inflight Engineering Services at Stansted Airport and Marshall Aerospace.

On the European mainland we began a new relationship with the Belgian airport authorities with a contract to support technical operations at Zaventem, the country's national airport. Our International Fire Training Centre at Teesside, UK, won a contract from the Hellenic Civil Aviation Authority.



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Commerce and industry

We saw an increase in opportunities for facilities management which should continue through 2000, winning contracts from blue-chip customers such as Boots The Chemists, Ericsson, IBM and Microsoft.

Our online services operation benefited from the continuing growth of call centre and e-commerce business. And our consultancy operation experienced overwhelming demand for its advice on the usability of information systems and new developments in e-commerce and interactive TV. Despite taking on additional consultants it was unable to keep pace with demand and expects to continue rapid growth in 2000.

Managing the business

As we grow, it becomes increasingly important to check – both formally and informally – that we are still living up to our customers' and our own expectations.

In 1999 we commissioned the Serco Institute to conduct a worldwide customer survey. This confirmed general satisfaction with our approach and performance – as our contract renewal rate of over 90% continues to confirm. We are encouraged by the positive overall response, but not complacent. We are using the findings to improve our service wherever we can: for example, although our communication was considered good, some respondents wanted us to pay more attention to discussing their future requirements, particularly the skills they need.

We believe that much of our success stems from a strong culture based on clear values. To formalise the way we monitor these, we asked Arthur Andersen to evaluate the application of our values across senior management in January 2000. The review concluded that Serco is clearly differentiated by its culture, particularly in the way it values people, devolves responsibility, and shows commitment to straightforwardness in dealings with staff and customers.

We apply effective risk management to all our activities and have had a risk manager reporting directly to the group chief executive since August 1998. Risks and proposed responses are regularly reviewed at all levels and, as part of this process, we will be continuing to review and audit the effectiveness of internal controls in 2000.

Our non-executive directors play an important role in monitoring our performance from an independent perspective. We are pleased to announce the appointment of a third non-executive director, Ralph Hodge, with effect from 5 April 2000. A distinguished engineer with a keen interest in management education, Ralph was formerly chief executive of ICI Chemicals and Polymers, a non-executive director of Halifax Plc and chairman of Enron Europe Limited. He also chaired the committee that created the ISO 9000 quality standard. He is currently chairman of the Water Research Council, deputy chairman of Azurix International Limited, a director of Wessex Water Services Limited and a non-executive chairman of the Addis Group.



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Summary Consolidated Profit and Loss Account

For the year ended 31 December 1999

	1999 £'000	1998 £'000
Turnover: Group and share of joint ventures - continuing operations	807,544	687,760
Less: share of joint ventures	(138,982)	(113,471)
Group turnover	668,562	574,289
Cost of sales	(580,586)	(499,052)
Gross profit	87,976	75,237
Administrative expenses	(63,824)	(51,865)
Amortisation of goodwill	(2,092)	(823)
Other administrative expenses	(61,732)	(51,042)
Operating profit - continuing operations	24,152	23,372
Share of operating profit in joint ventures	11,121	6,315
Gross operating profit	35,273	29,687
Net exceptional items	-	162
Interest (net)		
Group	(2,643)	(2,088)
Share of joint ventures	(3,298)	(2,142)
Profit on ordinary activities before taxation	29,332	25,619
Taxation on profit on ordinary activities	(9,538)	(8,199)
Profit on ordinary activities after taxation	19,794	17,420
Dividends	(5,593)	(4,888)
Retained profit for the financial year	14,201	12,532
Earnings per Ordinary Share of 2p each:		
Basic earnings per share, after amortisation of goodwill	30.6p	27.4p
Basic earnings per share, before amortisation of goodwill	33.8p	28.7p
Diluted earnings per share, after amortisation of goodwill	30.4p	27.0p
Diluted earnings per share, before amortisation of goodwill	33.6p	28.3p
Dividend per share:		
Interim dividend	2.65p	2.30p
Proposed final dividend	5.90p	5.10p



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Summary Consolidated Balance Sheet

At 31 December 1999

	1999 £'000	1998 £'000
Fixed assets		
Intangible asset	66,854	23,332
Tangible assets	36,508	23,962
Investments in joint ventures	18,022	10,617
Total fixed assets	121,384	57,911
Current assets/(liabilities)		
Stocks	26,830	9,127
Debtors	161,900	157,365
Cash (net of overdraft)	35,187	43,991
Trade and other creditors	(105,565)	(85,381)
Accruals and deferred income	(74,970)	(58,137)
Net current assets	43,382	66,965
Long term creditors	(47,232)	(48,957)
Provisions for liabilities and charges	(25,906)	(3,726)
Equity shareholders' funds	91,628	72,193

The financial information set out on pages 5 to 7 do not constitute the Company's statutory accounts for the years ended 31 December 1999 or 1998, but are derived from those accounts. Statutory accounts for 1998 have been delivered to the Register of Companies and those for 1999 will be delivered following the Company's Annual General Meeting. The auditors have reported on those accounts; their reports were unqualified and did not contain statements under s237(2) or (3) of the Companies Act 1985.



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Summary Consolidated Cash Flow Statement

For the year ended 31 December 1999

	1999 £'000	1998 £'000
Net cash inflow from operating activities	36,818	30,032
Dividends received from joint ventures	2,156	1,023
Returns on investment and servicing of finance	(3,482)	(2,088)
Taxation	(7,279)	(4,404)
Capital expenditure and financial investment	(4,627)	(9,329)
Acquisitions and disposals	(26,288)	(15,857)
Equity dividends paid	(5,018)	(4,302)
Net cash outflow before financing	(7,720)	(4,925)
Financing	(1,084)	31,307
(Decrease)/increase in cash	(8,804)	26,382
Balance at 1 January	43,991	17,609
Balance at 31 December	35,187	43,991

Distribution of Annual Review and Accounts

Copies of the Annual Review and Accounts, or where appropriate, Annual Review and Summary Financial Statements are being sent to all shareholders of Serco Group plc. Copies are available on 2 March 2000 from either our internet site at www.serco.com or on request from the Registered Office:

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