

SERCO News

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>

Issued:

Release: 2 September 1997

Contact: see below

SERCO GROUP plc

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30TH JUNE 1997

ACHIEVEMENT HIGHLIGHTS

- Turnover - £244.4m (1996 - £187.6m)
- Profit before tax up 21% to £10.6m (1996 - £8.8m)
- Earnings per share - 11.5p (1996 - 8.6p)
- Dividend up 18% to 2.00p net per ordinary share (1996 - 1.70p)

George Gray, Chairman, stated:

“Customers are showing an increasing demand for management and technical services. Serco is well resourced and positioned to supply such services because of its established track record.”

- 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:

Dr George Gray - Chairman
Richard White - Chief Executive
Kevin Beeston - Director, Finance

Serco Group plc - Tel: +44 (0)1932 755900
Serco Group plc - Tel: +44 (0)1932 755900
Serco Group plc - Tel: +44 (0)1932 755900

SERCO GROUP plc
CHAIRMAN'S STATEMENT
RESULTS FOR THE SIX MONTHS ENDED 30TH JUNE 1997

The first half of 1997 has been a further period of significant growth for the Serco Group in both the United Kingdom (UK) and overseas. Customers are showing an increasing demand for management and technical services where competence and competitive pricing can be demonstrated. In some cases, the transfer of both the operation and the financing of major facilities to the private sector as in the Private Finance Initiative (PFI) in the UK is required. I am pleased to report that Serco's emphasis on long term customer relationships and continued service product development has positioned the Company well to respond to this challenging market.

Serco's portfolio of contracts has been sustained by a number of successful re-bids and expanded by the addition of new contracts and new customers. During the period, a small number of strategic acquisitions have been made. These transactions, together with the marketing and equity investment in PFI projects for the UK public sector, have resulted in an increase in the working capital requirements for the Group. These investments will be financed within current debt facilities.

During 1996, the Group introduced another Share Save Scheme for all staff and a Long-Term Incentive Scheme (LTIS) for senior staff with the intention of further aligning the interests of staff with those of the shareholders. As a result of a change in the accounting treatment of benefits granted under the LTIS, a substantial charge has had to be made to the profit and loss account. Alternative approaches which minimise the future costs to the Company while maintaining the strategy are being investigated.

Results

Financial performance continues to be satisfactory. Turnover in the first six months of 1997 has increased by £56.8 million in comparison with the first half of 1996 to £244.4 million and the Group's profit before taxation has advanced by 21% to £10.6 million.

Earnings per share of 11.5 pence represents an increase of 34% over the same period last year.

Interim Dividend

The interim dividend for the six months to 30th June 1997 of 2 pence net per ordinary share will be paid on 10th October 1997 to shareholders on the register at the close of business on the 12th September 1997. The interim dividend for 1996 was 1.7 pence net per ordinary share.

Business Development

The Group has continued to develop its business in the defence and other public and private sector markets. Serco's experience in the management of large and complex tasks has particularly fitted it for the PFI market. In the UK, the Group and its partners now have three PFI projects under way (Lowdham Grange Prison, the Defence Helicopter Flying School and Manchester Metrolink), is the preferred bidder on five others and further projects are being pursued.

A major achievement has been the nomination as preferred bidder of a consortium comprising Serco and John Laing plc for the construction and operation, under a PFI contract, of the new Joint Services Command and Staff College for the UK Armed Services.

Also in consortium with John Laing plc, Serco has been shortlisted for the provision of new laboratory facilities at the National Physical Laboratory (NPL) at Teddington which is currently operated on behalf of the Department of Trade and Industry by Serco. This PFI contract includes a major construction project linked to a facilities management contract.

As part of a joint venture with CAE plc and Vega Group plc, Serco has achieved preferred bidder status for a contract to undertake the design, construction, management and financing of the Medium Support Helicopter Aircrew Training Facility to be established at RAF Benson. The contract involves the development of Puma, Merlin and Chinook helicopter simulators by CAE in Canada in association with Vega. Serco will be responsible for carrying out training delivery, building maintenance and management of the simulator facility. This contract will complement

the project for the Defence Helicopter Flying School awarded to a partnership between Serco, FR Aviation and Bristow Helicopter Group Limited in 1996 and started in April 1997.

In two further PFI projects for the UK National Health Service (NHS), the Group is involved with partnerships which have been selected as preferred bidders for the construction and operation of hospitals for the Law Hospital NHS Trust in Scotland and the Norfolk and Norwich Health Care NHS Trust.

Serco now operates and manages an integrated telephone sales facility on behalf of the UK Driver and Vehicle Licensing Agency for the sale of personalised and cherished number plates.

The Group's interests in rail operations continues to expand and now encompasses the operation and maintenance of the Manchester Metrolink, the city's tram system and of the Docklands Light Railway in London as 50% owner of Docklands Railway Management Limited. The integration of Railtest, acquired at the beginning of 1997, proceeds satisfactorily.

Serco has been successful in the re-bid for the maintenance of the Channel Navigation Information Service for Her Majesty's Coastguard. This task involves maintenance of radar and vessel tracking systems, microwave links, signal processing and display equipment at Dover. Also as the result of a successful re-bid, Serco will continue to maintain nearly half of London's traffic signals on behalf of the Corporation of London, a task that has been undertaken continuously for over 15 years.

In partnership with P&O Australia Limited, Serco has been nominated as preferred bidder for the provision of port services and support craft to the Royal Australian Navy (RAN). A new joint venture company, Defence Maritime Services Pty Limited, has been formed to manage the contract. The ten year contract includes operation and management of all non-combat vessels providing support to the RAN and harbour services at bases in Sydney, Fremantle and Darwin. This is similar in scope to the contract awarded to Serco Denholm in 1996 for the provision of harbour services at the Royal Navy bases at Portsmouth, Devonport and the Clyde.

Following the award by the Royal Air Force (RAF) during 1996 of four Multi-Activity Contracts at Ascension Island, Henlow, Halton and a group of four UK Air Defence Ground Environment sites, Serco has continued its success in securing contracts at the RAF Logistics Command Headquarters at Brampton and Wyton and the RAF Personnel and Training Command Headquarters at Innsworth. The phase-in of all these contracts, together with the two Multi-Activity Contracts at RAF Brize Norton and RAF Cosford awarded at the end of 1996 to FRA Serco, a joint venture company with FR Aviation, in association with the RAF in-house teams, has recently been completed. Serco now provides a full range of services at these sites including transport, domestic support, general engineering, supply, administration and fire and crash rescue support.

FRA Serco successfully re-bid the support contract at RAF Northolt. This expanded Multi-Activity Contract is for three years and includes the provision of aircraft engineering support for No. 32 (The Royal) Squadron. FRA Serco has also recently been awarded a contract to provide pilots and aircrew instructors to assist in the training of observers at Royal Naval Air Station Culdrose together with related aircraft maintenance support. This three year contract further strengthens the Company's position in naval aviation.

Other significant successes include contracts for the maintenance of public buildings in Sydney, street cleansing for Auckland City Council and the acquisition of 50% of Franklin Works Limited, the municipal service organisation of Franklin District Council in New Zealand.

In collaboration with two French companies, Gerard Perrier Industrie SA and GTMH SA, Serco has been awarded a contract by the European Laboratory for Particle Physics (CERN) near Geneva for work on components of CERN's particle accelerators and high energy physics experiments. The contract covers the provision of a full range of technical support services encompassing electrical, mechanical and associated electronic activities.

In the Middle East, Serco successfully re-negotiated a two year contract with the United Arab Emirates (UAE) Federal General Civil Aviation Authority for the provision of Air Traffic Control (ATC) services for the UAE Flight Information Region. The first two year contract was won in 1985 and this is the sixth occasion that Serco has successfully re-bid. The contract involves the phasing-in of the new UAE Air Traffic Control Centre which will double the existing number of staff providing ATC, engineering and support services. In Abu Dhabi, and against strong international competition, the Company has also been re-awarded the aeronautical services contract for the provision of air traffic control, engineering, meteorological and support services for the Emirate's three airports, a contract that was first awarded in 1962.

The first half of 1997 saw Serco make several advances in its North American aviation, defence and state government businesses. The acquisition of Barton ATC and Barton ATC International was completed in January 1997 and several air traffic control contracts employing over 200 professional air traffic control staff were added to the business portfolio. The most significant contract involves the provision of ATC services for the Federal Aviation Administration and Serco is currently responsible for air traffic services at 40 ATC towers located in the Western United States and the Pacific.

Serco also took an important step in furthering its United States (US) defence contracting business with the award of the vehicle operations and maintenance contract at Wright-Patterson Air Force Base. As part of a joint venture with Baker Support Services Inc., Serco will provide vehicle maintenance, shuttle bus and taxi services for one of the US Air Force's largest military bases. In a similar contract in Australia, Serco will be operating the Federal Government's motor vehicle fleet of over 16,000 vehicles on behalf of Macquarie Fleet Leasing Pty Limited who own the government's leasing, fleet management and rental organisation.

In Canada, six leisure and recreation management contracts involving a full range of park, ice arena, pool and exercise activities for cities and municipalities in the provinces of Alberta, Ontario and Saskatchewan were awarded. Over 400 full and part-time staff transferred as a result of these contract awards and Serco has now established a strong position as a major private sector operator of municipal recreational facilities in Canada.

Serco's transport systems engineering business continued to grow in 1997 with two further contract awards. In Australia, the New South Wales Roads and Traffic Authority placed a contract for the design, supply and installation of the State's central traffic management computer system to meet the demands of the Olympic Games to be held in Sydney in the year 2000. In Sweden, the Swedish National Road Administration has awarded Serco a contract to provide the traffic management system for the road network in the Stockholm region which is due for delivery in stages from 1999.

In the defence systems sector, the Company has been awarded a contract for the design and development of two computer-based systems for the training of Royal Navy sonar operators. The systems will make use of software originally developed by Serco under contract to the Royal Australian Navy. Serco has also been contracted to provide the Royal Navy with a new generation of mobile underwater targets to support the testing of underwater systems and crew training. The contract involves the supply of three Autonomous Mobile Underwater Targets together with a support package. The targets, manufactured by Northrop Grumman Corporation, will supplement the current Mobile Underwater Targets which Serco has supported since they entered service some 10 years ago.

Outlook

Opportunities for the provision of facilities management and systems engineering continue to expand. Serco is well resourced and positioned to supply such services because of its established track record in the management of change and in the management of large complex tasks. As a result, I expect that the business will continue to grow at a satisfactory rate in the UK and internationally.

George Gray
Chairman

2nd September 1997

SERCO GROUP plc
1997 INTERIM RESULTS

Consolidated Profit & Loss Account	6 Months to 30.6.97 £'000	6 Months to 30.6.96 £'000	Year to 31.12.96 £'000
Turnover	244,444	187,610	397,043
Profit before taxation	10,617	8,805	18,276
Taxation on profit on ordinary activities	(3,610)	(3,636)	(6,954)
Profit after taxation	7,007	5,169	11,322
Dividends	(1,212)	(1,029)	(3,340)
Pence per share net	2.00p	1.70p	5.50p
Retained profit	5,795	4,140	7,982
Basic earnings per share net basis (pence)	11.5p	8.6p	18.8p
Consolidated Balance Sheet	6 Months to 30.6.97 £'000	6 Months to 30.6.96 £'000	Year to 31.12.96 £'000
Tangible assets	29,648	26,694	27,974
Investments	10,214	4,035	4,748
Total fixed assets	39,862	30,729	32,722
Stock	4,277	4,898	4,393
Debtors	115,790	91,996	96,350
Cash (net of overdraft)	(15,824)	(4,376)	3,648
Trade and Other Creditors	(62,264)	(54,394)	(57,308)
Accruals and Deferred Income	(40,900)	(32,542)	(37,326)
Net current assets	1,079	5,582	9,757
Long term creditors	(9,325)	(6,304)	(9,302)
Provisions for liabilities and charges	(5,449)	(6,900)	(6,902)
Shareholders' funds	26,167	23,107	26,275

NOTES

1. EARNINGS PER SHARE

The calculation of earnings per ordinary share is based on profits after taxation of £7,007,000 (1996 - £5,169,000) and the weighted average number of ordinary shares of 2p each in issue during the period.

2. 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 1997 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 1996 and 1997 are unaudited whilst those for the 1996 full year were audited, an unqualified report made, and were delivered to the Registrar of Companies.

3. DISTRIBUTION OF REPORT

Copies of this 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