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SERCO GROUP plc

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30TH JUNE 1998

ACHIEVEMENT HIGHLIGHTS

- Turnover up 17% to £285.6m (1997 - £244.4m)
- Profit before tax up 20% to £12.7m (1997 - £10.6m)
- Earnings per share – before FRS 10, up 23% to 14.2p
– after FRS 10, up 21% to 13.9p
- Dividend up 15% to 2.3p net per ordinary share (1997 – 2.00p)

George Gray, Chairman, stated:

“The continued success in private finance projects and the further expansion in the defence and transport markets worldwide, provide confidence that the Group will continue to grow satisfactorily in the foreseeable future.”

- 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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**SERCO GROUP plc
CHAIRMAN'S STATEMENT
RESULTS FOR THE SIX MONTHS ENDED 30TH JUNE 1998**

The first half of 1998 has seen the Group continue the strategies developed in prior periods and successfully achieve landmarks in a number of these areas. Most notably, the period has seen significant progress in the development of the Group's international business and continuing success in Public Private Partnerships with United Kingdom (UK) government customers. Achievements include organic growth and new contract awards within the existing facilities management and systems engineering businesses, signature of four further Private Finance Initiative (PFI) contracts in the UK and three overseas acquisitions.

In June, reflecting the Group's long term strategy to realise a profit on the sale of PFI investments, Serco sold the majority of its shareholding in FBS Limited to FR Aviation Limited and Bristow Helicopter Group, its partners in the joint venture which was formed to procure and manage a fleet of helicopters for the Defence Helicopter Flying School. FRA Serco will continue to operate the sub-contract at RAF Shawbury and RAF Valley for a further thirteen years. This first sale of a PFI investment generated a profit of £4.5 million, and demonstrates the maturing of the Group's PFI strategy. Such profits will form an integral part of the Group's future earnings.

In June, the acquisition of 100% of the share capital of JL Associates, Inc (JLA) for a cash consideration of US\$12.5 million (£7.7 million) was completed. JLA provides a comprehensive range of support services to federal, state and local governments as well as private industry throughout the United States. The acquisition of JLA will complement Serco's existing business within North America and will further expand the business base from which the company can grow within the US marketplace.

Tecnodata Italia Srl and Tecnodata Computer Services (UK) Limited, companies providing technical services in Italy, Belgium, Germany and the Netherlands, were acquired in February and their integration into Serco's existing operations in Europe has been achieved successfully with a number of new opportunities being pursued. In July, Serco acquired the remaining 50% of the shares in its Swedish joint ventures Serco Newsec and Serco Newsec Service from its partner Newsec AB for a cash consideration of £3.5 million. This acquisition closely followed the announcement of a substantial contract awarded to a joint venture between Serco and L M Ericsson Fastigheter AB (REM) by Ericsson Microwave Systems AB for the provision of full facilities management services at its plant in Gothenburg, Sweden.

Following the agreed sale of the Group's principal office site in Southall (UK) in December 1997, the planned relocation of operating companies was completed in March. Although the dispersal has resulted in an additional expenditure of £3 million in 1998, this relocation to separate premises will ensure that the Group is well positioned to address further opportunities for expansion whilst retaining its culture of customer-focused management groupings.

In line with the announcement made in the 1997 Annual Review and Accounts, the Group has introduced a new share option scheme during the period. The scheme replaces the previous Long Term Incentive Scheme with a more cost-effective and appropriate scheme and has been extended to cover more than 600 senior staff.

Results

The financial results for the first six months of 1998 are in line with expectations with a turnover of £286 million, £42 million higher than the first six months of 1997, and profit before tax has increased by 20% to £12.7 million. The tax rate for the first half of 1998 has reduced to 31%, reflecting the general reduction in UK Corporation Tax and the utilisation of capital losses brought forward. The recently introduced Financial Reporting Standard (FRS) 10

requires that the calculation of profit before tax includes the amortisation of goodwill acquired during the period. Earnings per share have been stated both before and after FRS 10 and show a growth of 23% and 21% respectively over the comparable figures for the same period last year.

In view of continued expansion plans and as part of future financing requirements the Group issued 3 million new ordinary shares in March, raising approximately £33 million.

Interim Dividend

The interim dividend for the six months to 30 June 1998 of 2.3 pence net per ordinary share will be paid on 16 October 1998 to shareholders on the register at the close of business on 18 September 1998. The interim dividend for 1997 was 2.0 pence net per ordinary share.

Business Review

In the UK, PFI projects continue to play a major part in business development activities within the public sector. The recent signing of four contracts brings the total of PFI projects where Serco is to be the service provider to nine and in the majority of cases, Serco also has an equity stake in the joint venture company contracted to undertake the project. Two further projects are at preferred bidder status and a number of further PFI bids are at varying stages of evaluation.

The contract for the construction and operation of the new Joint Services Command and Staff College was awarded to Defence Management (Watchfield) Limited, a joint venture between Serco and John Laing plc, in June. Construction at the site has now commenced and the college is due to open in September 2000.

The signing of a contract in early January by the Octagon Consortium with the Norfolk and Norwich Health Care NHS Trust for the new 809 bed hospital in Norwich was announced in the 1997 Annual Review. This success has been followed by the recent signing of a contract with Summit Healthcare, a special purpose company comprising Sir Robert McAlpine, The British Linen Bank and Edison Capital, for the new 633 in-patient bed District General Hospital for the Law Hospital NHS Trust in Scotland. In both cases, Serco will be providing non-clinical facilities management services. In Hong Kong, the joint venture between Serco and Guardian was successful in its bid to provide domestic and transportation services at the 730 bed and day-places North District Hospital.

The construction of Premier Prison Services first privately financed prison, Lowdham Grange, was completed in February and the construction of the 500 cell prison at Kilmarnock for the Scottish Prison Service has commenced and is progressing well. A further contract to design, build, finance and operate Her Majesty's Young Offenders Institute, Pucklechurch was signed in June 1998. Premier Prison Services, which is a joint venture with Wackenhut Corrections (UK) Limited, is also actively pursuing a number of further bids for the Prison Service and the Home Office.

At the end of July, a consortium comprising Serco and John Laing plc signed the PFI contract for the provision and management of the new laboratory facilities at the National Physical Laboratory (NPL) for the Department of Trade and Industry. The consortium will provide accommodation and support services for the new laboratory at the existing Teddington site.

The phase-in of the multi-activity support contract at Royal Air Force (RAF) Uxbridge, awarded in November 1997, was completed in March. This contract, together with the similar contracts at ten other RAF stations awarded over the last eighteen months, demonstrates Serco's capability in the provision of complete task management services in the defence market. In Australia, Serco, through its joint venture Serco Gardner Merchant, has been

awarded a support services contract at the Royal Australian Air Force Base Williamtown in New South Wales. This success has been further enhanced by the selection as preferred bidder of Serco Gardner Merchant to provide garrison support services in four Australian Defence Forces regions in South Queensland.

RAF Strike Command has re-awarded a contract to Serco for the operation of the RAF's Southern Air Weapons Ranges with an extended scope of work. These ranges are used for the training of aircrew in bombing and ground attack roles and Serco provides support services covering targetry, air traffic control assistance and the operation and maintenance of range equipment. The support services contract at the Canadian Forces Base, Goose Bay completed its phase-in during July 1998 and Serco is now supporting the NATO low level flying training activities and commercial aviation services at the base.

FRA Serco, the joint venture with FR Aviation, has been awarded further contracts to provide second line aircraft engineering support at the Royal Naval Air Stations at Culdrose, Portland and Yeovilton and in May 1998, FRA Serco acquired Ace Aviation Services, a supplier of contract manpower for aircraft maintenance.

Following the finalisation of the Australian Federal Government's privatisation process to lease airports formerly operated by the Federal Airports Corporation, Serco has been awarded contracts to operate Adelaide International Airport, Coolangatta Airport and the general aviation airport at Parafield. These contracts are significant awards for Serco's Asia Pacific business, having a total turnover of approximately A\$25 million per year.

The European Space Agency (ESA) has awarded a contract to Serco to provide support to the development, training and promotion of European Cooperation for Space Standardization, the aim of which is to develop a set of standards to improve efficiency and

competitiveness. Staff from Serco's wholly owned subsidiary NPL Management Limited, which operates the National Physical Laboratory (NPL), will be contributing their specialist expertise in international standards.

Serco was successful in bidding for the Satellite Operations Support IT Services contract for ESA, in partnership with Science Systems Limited. The contract provides 24 hour critical operations support, computer hardware support, operational support, servicing of the local area networks and associated engineering services at the European Space Operations Centre in Darmstadt, Germany. In two separate re-bids for EUMETSAT, the European meteorological satellite agency, Serco will continue to provide spacecraft and ground segment operations for the METEOSAT Transition Programme (MTP) in partnership with Alcatel Space Industries and the MTP Meteorological Archive and Retrieval Facility operations team. A number of new support contracts for EUMETSAT covering Internet graphics design and library services have also been won recently.

The Group's rail activities have continued to perform well. Docklands Light Railway, acquired in December 1997, has seen increased passenger levels during the first half and a new contract to provide passenger information and ticketing for ScotRail has been awarded to the Group.

Further successes in systems engineering projects include contract awards for the provision of motorway incident management systems for motorways in England and Australia and a public transport location and passenger information system for the City of Sheffield. The provision of transportable, high definition large screen television displays for major outdoor events is a new market currently being developed by Serco, having invested in a number of new technology screens. Screens were deployed at the concert in aid of the memorial fund for Diana, Princess of Wales held in Althorp Park and at the 'Party in the Park' concert in Hyde Park, London in aid of the Prince's Trust.

Year 2000

By the third quarter of 1999, Serco Group plc plans to achieve Year 2000 compliance (as defined by British Standards Institute DISC PD2000-1). To this end, a review team was established in 1997 to ensure that appropriate Year 2000 impact analysis and project plans are in place throughout the organisation. In some areas, Serco is dependent on other organisations who also need to achieve Year 2000 compliance and we are working closely with both our customers and suppliers to achieve appropriate compliance.

Outlook

The continued success in PFI projects in the UK, the further expansion in the Australian defence and transport markets and the development of new opportunities with the acquisitions of Tecnodata and JLA provides confidence that the Group will continue to grow satisfactorily in the foreseeable future.

George Gray
Chairman

2 September 1998

**SERCO GROUP plc
1998 INTERIM RESULTS**

Consolidated Profit & Loss Account	6 Months to 30.6.98 £'000	6 Months to 30.6.97 £'000	Year to 31.12.97 £'000
Turnover	285,625	244,444	489,018
Profit before taxation	12,740	10,617	22,012
Taxation on profit on ordinary activities	(3,949)	(3,610)	(7,479)
Profit after taxation	8,791	7,007	14,533
Dividends	(1,612)	(1,212)	(3,910)
Pence per share net	2.30p	2.00p	6.40p
Retained profit	7,179	5,795	10,623
Basic earnings per share net basis, after amortisation of goodwill (pence)	13.9p	11.5p	23.9p
Basic earnings per share net basis, before amortisation of goodwill (pence)	14.2p	11.5p	23.9p

Consolidated Balance Sheet	6 Months to 30.6.98 £'000	6 Months to 30.6.97 £'000	Year to 31.12.97 £'000
Tangible Assets	24,594	29,648	28,994
Investments	13,380	10,214	8,813
Goodwill	16,664	0	0
Total Fixed Assets	54,638	39,862	37,807
Stock	8,412	4,277	8,099
Debtors	161,473	115,790	136,514
Cash (net of overdraft)	11,494	(15,824)	17,609
Trade and Other Creditors	(69,256)	(62,264)	(74,494)
Accruals and Deferred Income	(47,441)	(40,900)	(45,113)
Net Current Assets	64,682	1,079	42,615
Long term creditors	(48,315)	(9,325)	(49,020)
Provisions for liabilities and charges	(3,429)	(5,449)	(4,722)
Shareholders' Funds	67,576	26,167	26,680

Consolidated Cash Flow Statement	6 Months to 30.6.98 £'000	6 Months to 30.6.97 £'000	Year to 31.12.97 £'000
Operating profit	14,016	11,087	23,960
Add depreciation	3,679	2,875	7,039
Adjusted profit	17,695	13,962	30,999
Changes in working capital	(32,715)	(12,248)	8,332
Acquisitions and disposals	(19,277)	(17,624)	(15,623)
Interest paid	(1,276)	(470)	(1,948)
Tax paid	(1,124)	(799)	(4,409)
Dividend paid	(2,828)	(2,310)	(3,527)
Issue of ordinary share capital	33,410	17	137
Increase/(decrease) in cash	(6,115)	(19,472)	13,961
Opening cash balance	17,609	3,648	3,648
Increase/(decrease) in cash	(6,115)	(19,472)	13,961
Closing cash balance	11,494	(15,824)	17,609

NOTES**1. Earnings Per Share**

The calculation of earnings per ordinary share is based on profits after taxation of £8,791,000 (1997 £7,007,000) and the weighted average number of ordinary shares of 2p each in issue during the period.

The interim financial statements have been prepared in accordance with Financial Reporting Standard 10, which requires goodwill to be capitalised on the balance sheet. For comparative purposes, profits after tax has been adjusted by £207,000 for goodwill amortised during the period. Basic earnings per ordinary share before goodwill is based on profits after taxation (adjusted for the effect of goodwill) of £8,998,000, 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 1998 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 1997 and 1998 are unaudited whilst those for the 1997 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:

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