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Contact: see below

SERCO GROUP plc PRELIMINARY RESULTS FOR THE YEAR ENDED 31 DECEMBER 1998

ACHIEVEMENT HIGHLIGHTS

- Group turnover up 17.4% to £574.3m (1997 - £489m)
- Profit before tax (pre FRS 10) up 20% to £26.4m (1997 - £22m)
- Profit before tax (post FRS 10) up 16.4% to £25.6m (1997 - £22m)
- Earnings per share (pre FRS 10) up 20.1% to 28.7p (1997 - 23.9p)
- Earnings per share (post FRS 10) up 14.6% to 27.4p (1997 - 23.9p)
- Dividend up 15.6% to 7.4p net per ordinary share (1997 - 6.4p)

George Gray, Chairman, stated:

"The Group's enthusiasm for new styles of service delivery and new task content will result in further strong growth."

- 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 - Chief Executive
Kevin Beeston - Director, Finance

Serco Group plc - Tel: +44 (0)1932 755900
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SERCO GROUP plc
CHAIRMAN'S STATEMENT
RESULTS FOR THE YEAR ENDED 31 DECEMBER 1998

Serco's tenth anniversary as a publicly quoted company was reached on 12 May 1998. Over these ten years the Group has achieved notable records of growth including an increase in earnings per share of over 400%. Meanwhile, Serco's strategy to diversify its customer base in the United Kingdom and to develop as an international business has been successful. This, coupled with a consistent emphasis on retaining contracts through a high standard of operational delivery, has provided the platform for such growth.

1998 has seen continued evolution of customer requirements and expectations along with the emergence of opportunities to apply the Group's skills in new ways. Serco's markets point towards larger, more complex contracts coupled with the convergence of facilities management, systems engineering and innovative financing products. In the UK, the Group has embraced enthusiastically the Private Finance Initiative (PFI) by tendering for a number of contracts involving both significant long-term operating activities together with the provision of project management and financing skills. This strategy has resulted in the award of eleven such contracts with a further one at preferred bidder status. These contracts encompass five distinct areas of public sector procurement namely defence, health, prisons, scientific research and transport. The publication by the UK Government of strategic defence and transport reviews has made clear its commitment to Public Private Partnerships including PFIs. A large number of such contracts being addressed by the Group will continue to provide good growth opportunities for the foreseeable future.

The Group's international business developed well during 1998. Australia's outsourcing market continues to develop vigorously and Serco has built further on its position as the primary provider of such services. In particular, activities with Australian federal and state governments have expanded to include the management of airports at Adelaide, Parafield and the Gold Coast and the award of a number of new, large multi-activity contracts with the Department of Defence. Investment in developing the North American business continued with the acquisition of JL Associates (JLA), a company providing a range of services to federal, state and local government throughout the United States. JLA is in the process of being integrated with Serco's other North American activities and has recently been awarded contracts in Washington DC and Dayton, Ohio.

The longer term strategy to develop business in Europe moved on during the year with the acquisition of both Tecnodata, a company providing technical services in Italy, Belgium, Germany and The Netherlands with the European Commission as a major customer, and the acquisition of the remaining 50% of the Swedish joint venture, Serco Newsec AB. Both businesses are performing well and have been awarded additional contracts. Further development in France was marked by the award of a contract with Oracle, and Ireland has seen the expansion of contracts with IBM and Boots The Chemists.

Serco staff have been outstanding in their commitment to deliver a high quality service, working with customers to ensure that added value and innovation are provided. As a result, the Group has once again enjoyed substantial success in retaining business, winning over 90% of contracts re-competed during the year. Amongst the successes was the retention, for a further three year period, of the information technology infrastructure services contract for the European Space Agency across its four principal sites in Europe. This contract has been run by

Serco since 1980 and, together with our other activities in continental Europe, positions the Group well for further opportunities which are beginning to emerge in that region.

Turning to the Group's financial performance, turnover for 1998 grew by 17.4% to £574.3 million. Pre-tax profits on a like for like basis (before FRS 10 - Goodwill and Intangible Assets), increased by 20% to £26.4 million and by 16.4% to £25.6 million after FRS 10. Basic earnings per share before and after FRS 10 show growth of 20.1% and 14.6% respectively. The Group produced positive operating cash flow of £30 million during the year resulting in cash net of overdrafts (at 31 December 1998) of £44 million and, when offset against bank debt, net cash of £2.6 million. The recommended final dividend of 5.1 pence (net) per share, makes a total of 7.4 pence for the year, an increase of 15.6% over the 1997 dividend.

The beginning of 1999 has seen further developments for the Group including an agreement with Nomura International plc by which up to £1 billion will be made available for equity investments in existing public infrastructure around the world. In addition to the income streams derived from managing these activities, investment income and capital gains will result from the application of Serco's change management skills and Nomura's financial skills. Such returns will complement the Group's strategy for realising profits from PFI investments.

Board of Directors

A number of changes to the Group's Board of Directors will occur during 1999. For my own part, having been with Serco for thirty-five years, with the last twelve as Chairman and having reached sixty-one years of age, I have decided to retire on 1 April. After twelve years of very good growth since the management buy-out, during which the business has expanded twelvefold in turnover, Serco has the size, reputation and market position to respond to the large, diverse opportunities for further growth now emerging in existing and new markets around the world. I am confident that the new Chairman, Richard White, new Chief Executive, Kevin Beeston, along with the other Directors will continue to provide strong and reliable leadership to the Group and to its excellent staff. Richard White has been Chief Executive for the last twelve years and Kevin Beeston, currently Group Finance Director, has been with the Group for thirteen years. One new appointment to the Board will be made with Christopher Hyman, currently Group Company Secretary, becoming Group Finance Director. Chris has been with Serco for five years and on behalf of all my colleagues I welcome Chris to the Board. After eight years of service, Everton Bryan will be leaving Serco. We wish him well in the future. It is intended to implement these changes at the Annual General Meeting on 1 April 1999.

Outlook

Serco is uniquely placed to take advantage of current market developments and has the management and staff in place to capitalise on successes to date. It is confidently expected that the outsourcing market will continue to expand in many countries where Serco is active. Customer requirements will also continue to evolve. The Group's enthusiasm for new styles of service delivery and new task content will result in further strong growth.

George Gray
Chairman

3 March 1999

Summary Financial Statement

Explanatory Notes to the Summary Consolidated Profit and Loss Account

Introduction

During 1998 there have been a number of new Financial Reporting Standards (FRS) issued, which have resulted in significant changes to the presentation of the 1998 Consolidated Profit and Loss Account, the key aspects of which are noted below:-

Turnover

In accordance with FRS 9 - Associates and Joint Ventures, the Group's share of turnover from joint venture activities has been reported in addition to turnover from subsidiaries. The Group turnover of £574 million (1997 - £489 million) is stated excluding £113 million (1997 - £83 million) relating to the Group's share of joint ventures.

Goodwill amortisation

In accordance with FRS 10 - Goodwill and Intangible Assets, goodwill arising on acquisitions is to be amortised over 20 years. Goodwill amortised of £823,000, on acquisitions made in 1998, has been charged to profit. There was no comparable charge in 1997. Profit before tax and earnings per share figures have been stated before and after the application of FRS 10 in order to provide a like for like comparison with prior periods.

Share of operating profit and interest in joint ventures

Total profit earned from joint ventures is now disclosed gross, in accordance with FRS 9, by the addition of the "share of operating profit in joint ventures" and the "share of interest payable/receivable in joint ventures". "Share of interest payable in joint ventures" represents Serco's share of the interest payable by the joint venture on its debt. Such debt is largely the result of Private Finance Initiative (PFI) activities and is non-recourse to Serco Group plc and the resulting interest charge is excluded from the definition of interest cover which prevails in the Group's banking covenants. Group interest cover in 1998 was 14.7 times, excluding the effects of goodwill amortisation and net share of interest payable in joint ventures.

Realisation of PFI investment and reorganisation expenses

In accordance with FRS 3 - Reporting Financial Performance, the following items have been highlighted:-

Realisation of PFI investment The sale of the Group's equity holding in FBS Limited, a Special Purpose Company established to procure helicopters for the Defence Helicopter Flying School, realised a profit of £4.6 million in the year.

Reorganisation expenses The reorganisation expenses of £4.4 million relate to redundancy and dispersal costs, and costs of non-renewal of certain contracts resulting from significant restructuring of the Group's business.

SERCO GROUP plc

Summary Consolidated Profit and Loss Account	1998	Restated
	£'000	1997
	Audited	£'000
		Audited
Turnover: Group and share of joint ventures	687,760	571,636
Less: Share of joint ventures	(113,471)	(82,618)
Group turnover	574,289	489,018
Cost of sales	(499,052)	(426,424)
Gross profit	75,237	62,594
Administrative expenses	(51,865)	(44,515)
Amortisation of goodwill (FRS 10)	(823)	-
Other administrative expenses	(51,042)	(44,515)
Operating profit - continuing operations	23,372	18,079
Share of operating profit in joint ventures	6,315	6,556
Realisation of PFI investment	4,602	-
Reorganisation expenses	(4,440)	-
Interest (net)		
Group	(2,088)	(1,948)
Share of joint ventures	(2,142)	(675)
Profit on ordinary activities before taxation	25,619	22,012
Taxation on profit on ordinary activities	(8,199)	(7,479)
Profit on ordinary activities after taxation	17,420	14,533
Dividends	(4,888)	(3,910)
Retained profit for the financial year	12,532	10,623
Earnings per Ordinary Share of 2p each:		
Basic earnings per share after amortisation of goodwill	27.4p	23.9p
Basic earnings per share before amortisation of goodwill	28.7p	23.9p
Fully diluted earnings per share after amortisation of goodwill	27.0p	23.7p
Fully diluted earnings per share before amortisation of goodwill	28.3p	23.7p
Dividend per share:		
Interim dividend	2.3p	2.0p
Proposed final dividend	5.1p	4.4p
(to be paid on 16 April 1999 to shareholders on the register at the close of business on 19 March 1999)		

SERCO GROUP plc

Summary Consolidated Balance Sheet	1998	Restated
	£'000	1997
	Audited	£'000
		Audited
Fixed assets		
Intangible asset: Goodwill	23,332	-
Tangible assets	23,962	28,994
Investments in joint ventures	10,617	8,813
Total fixed assets	57,911	37,807
Current assets/(liabilities)		
Stocks	9,127	8,099
Debtors	157,365	136,514
Cash (net of overdraft)	43,991	17,609
Trade and other creditors	(85,381)	(74,494)
Accruals and deferred income	(58,137)	(45,113)
Net current assets	66,965	42,615
Long term creditors	(48,957)	(49,020)
Provisions for liabilities and charges	(3,726)	(4,722)
Equity shareholders' funds	72,193	26,680

SERCO GROUP plc

Summary Consolidated Cash Flow Statement	1998 £'000 Audited	Restated 1997 £'000 Audited
Net cash inflow from operating activities	30,032	6,229
Dividends received from joint ventures	1,023	1,210
Returns on investments and servicing of finance	(2,088)	(1,948)
Taxation	(4,404)	(4,409)
Capital expenditure and financial investment	(9,329)	(9,535)
Acquisitions and disposals	(15,857)	(10,294)
Equity dividends paid	(4,302)	(3,527)
Net cash outflow before financing	(4,925)	(22,274)
Financing	31,307	36,235
Increase in cash	26,382	13,961
Balance at 1 January	17,609	3,648
Balance at 31 December	43,991	17,609

NOTES

1. The preliminary results for the year ended 31 December 1998 are an abridged statement of the full Group accounts.
2. Copies of the 1998 Annual Review and Summary Financial Statement, and 1998 Annual Accounts are being sent to shareholders of Serco Group plc as applicable. 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.

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