

Serco Group plc

**Interim Results
Presentation 2004**

01:04 to 06:04

Agenda

Introduction

Financial results

Business performance

Looking forward

Agenda

01:04 to 06:04

Introduction

Kevin Beeston
Executive Chairman

Introduction

01:04 to 06:04

2004 Interim results - highlights

Turnover	£804.5m	up 11.3%
Profit before tax - pre goodwill	£36.5m	up 16.5%
Earnings per share - pre goodwill	6.09p	up 18.2%
Dividend per share	0.81p	up 12.5%
Free cash flow	£23.5m	up 65.5%

Company highlights

- Strong increases in sales and profits
- Strong organic growth
- Further improved cash performance
- High visibility of future earnings
- Substantial range of future opportunities
- Order book of £10.3bn

Financial results

Profit and loss

Cash flow

Net debt

Pension funding

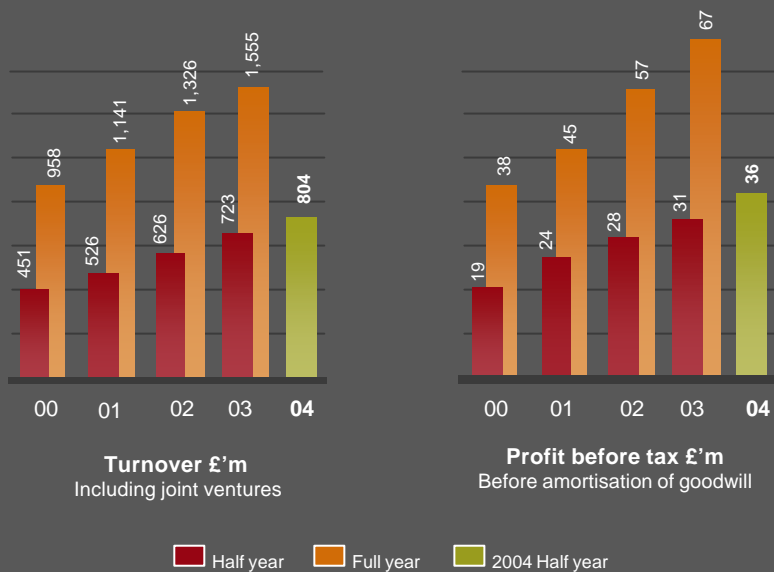
International Financial Reporting
Standards

Andrew Jenner
Finance Director

Financial results

01:04 to 06:04

Profit and loss



Profit and loss

	2004	2003	
Six months to 30 June	£m	£m	Increase
Total turnover	804.5	722.6	11.3%
Group turnover	684.1	608.6	
Joint venture turnover	120.4	114.0	
Gross profit	94.6	83.2	13.8%
Administrative expenses	(68.9)	(61.8)	
Exceptional items (net)	-	(0.5)	
Joint venture profit	11.8	11.8	
Net group interest	(1.0)	(1.4)	
Profit before goodwill and tax	36.5	31.3	16.5%
Goodwill amortisation	(8.4)	(4.3)	
Profit before tax	28.1	27.0	4.1%
Effective tax rate	36.1%	34.0%	
Earnings per share before goodwill	6.09p	5.15p	18.2%
Dividend per share	0.81p	0.72p	12.5%

Cash flow highlights

- Free cash inflow of £23.5m (2003: £14.2m)
- 70% of group EBITDA converted into operating cash (2003: 58%)
- Continued working capital efficiency: 2004 increase £11m (2003 increase £11m)

Free cash flow

Six months to 30 June	2004 £m	2003 £m
Group EBITDA	37.1	26.7
Working capital movement	(11.1)	(11.3)
Operating cashflow	26.0	15.4
Dividends from joint ventures	6.2	4.6
Interest and taxation	3.0	(5.1)
Capital expenditure	(8.0)	(12.5)
Disposal of assets	-	4.9
GSR sale and leaseback	-	5.8
Other items	(3.7)	1.1
Free cashflow	23.5	14.2

Cash flow

Six months to 30 June	2004	2003
	£m	£m
Free cash flow	23.5	14.2
Disposals/(acquisitions)	3.6	(5.3)
Other financing	(10.0)	(1.5)
Dividends paid	(7.0)	(6.2)
Non-recourse debt financed assets	(12.7)	-
Net cash flow	(2.6)	1.2

Net debt

As at	30 06 04	31 12 03
	£m	£m
Closing cash	168.3	170.9
Long term loans	(164.1)	(165.3)
Other loans and finance leases	(21.8)	(27.9)
Recourse net debt	(17.6)	(22.3)
Non-recourse debt	(346.5)	(357.0)
Total net debt	(364.1)	(379.3)

Pensions

- Continue to adopt transitional rules of FRS 17 Retirement Benefits
- At 30 June 2004 market value (FRS 17) net deficit estimated to have marginally reduced from 31 December 2003 (£70m)
- Long term employer contributions increased in 2003 by approximately £9m per annum and maintained in 2004

International Financial Reporting Standards (IFRS)

- Applicable to accounting periods beginning on or after 1 January 2005
- Preparation began over 12 months ago
- Areas of difference to UK GAAP include: goodwill, financial instruments, pensions, share based payments, joint ventures and taxation
- Underlying performance of business unaffected
- Further briefing before the end of the year

Business Performance

Strong operational performance

Premier Custodial Group

Disposals

Contract examples

Building to last

Christopher Hyman
Chief Executive

Business Performance

01:04 to 06:04

Highlights

- UK major contributor to growth
- Significant success with key rebids
- Meaningful progress in long term markets
- Focussed management on cash and bid costs
- PCG acquisition and Asia Pacific disposals on track

Strong operational performance

- 66% of turnover growth from existing contracts
- Rebid win rate maintained at over 90%
- Continuing to win 1 out of 2 new bids
- £5.3bn bids submitted and under evaluation
- Order book at 30 June 04 stands at £10.3bn
- Over £16bn of potential future opportunities identified

Premier Custodial Group

- Significant growth under Serco's ownership
- Added £35m to sales in the first half
- Continued expansion of the contract base
 - Colnbrook
 - HMP & YOI Ashfield
 - Prisoner Escort and Custody Services
- Wide range of future opportunities
- Catalyst for a broader home affairs and security business

Disposals

- Portfolio kept under constant review to ensure focus on areas with greatest growth potential and profitability
 - Disposed of a number of contracts in Australia and New Zealand
 - Rail maintenance contract exited
 - Swedish business sold in 2003
- Annualised impact on turnover is £140m

Organic growth examples

Contract name	Years	Contract value	Country
Fylingdales SSPAR	8	£31.3m	UK
Eastbourne Leisure	15	£20m	UK
Eastbourne – Building Maintenance	3	£30m	UK
NACMAC – Yeovilton and Culdrose	3	£40.2m	UK
RAF Northolt and Uxbridge	5	£55m	UK
Melbourne City Open Space Management	10	AUS\$16m	AUS
Whyalla One Steel	7	AUS\$10m	AUS
UK ASACS	2.5	£14m	UK
Montgomery County Parking Enforcement	2	\$2.1m	USA
Railtest – rail grinding and monitoring	3	£85m	UK
Abu Dhabi & Al Ain Aeronautical Services	5	DHS220m	UAE
ESA	2	€4.6m	IT
Bahrain ATC	1	BHD12.1m	UAE
Ashfield re role	25	£80m	UK
Nuclear propulsion technical support	5	£50m	UK
Yorkshire Link Limited	5	£5.5m	UK
Oracle Facilities Management	3	€6m	FR
North District Hospital	2	HKD23m	HK



RAF Fylingdales

SSPAR

Contract Value:

£31.3m

Contract Duration:

8 Years

- Solid State Phased Array Radar (SSPAR)
- Partner of choice since 1963 – over 40 years
- Only contractor to have been successful in 10 rebids
- Covers the operation, maintenance and repair of the SSPAR



RAF Northolt and Uxbridge

Contract Value:

£55m

Contract Duration:

5 Years

- Multi -activity contract
- Responsible for No 32 (The Royal) Squadron, also known as the Queen's Flight
- Maintenance and associated support for the aircraft of the squadron
- Royal VVIP and VIP flying of senior military and government officials



Abu Dhabi & Al Ain Aeronautical Services

Contract Value:

DHS 220m

Contract Duration:

5 Years

- Provision of air traffic, electronic engineering and aviation meteorological services
- Abu Dhabi is to undergo extensive development during the next contract period with a significant increase in traffic movements
- Employs 190 staff



Nuclear Propulsion Technical Support

Contract Value:

£50m

Contract Duration:

5 Years

- Contract with the MOD Defence Procurement Agency
- Independent nuclear safety assessment for the Naval Nuclear Propulsion IPT
- Regulatory support to the Naval Nuclear Regulatory Panel
- Places Serco in a unique position as independent safety consultants to the MOD's nuclear power programme

New contract examples

Contract name	Years	Contract value	Country
Exelon (PECO)	3	\$15m	USA
Electronic Management of Abnormal Loads (ESDAL)	4	£8m	UK
Microsoft	4	£4m	EIRE
EUMETSAT Polar Systems Operations	6	€4.2m	DE
Schools Monheim	5	€3.8m	DE
Mycroft - IND	5	£20.6m	UK
Hong Kong Shenzhen Western Corridor	2.5	HKD41.3m	HK
CERN – Desktop Computing Support	5	€3.5m	CH
Prisoner Escort and Custody Services	7	£300m	UK
Transit New Zealand	2	£2m	NZ
Crown Justice Centre Nuneaton	2.75	£1.4m	UK
The Palm Jumeirah – Nakheel JV	2.75	DHS7.9m	UAE
US Department of Agriculture	5	\$30m	USA
Northern rail franchise (preferred bidder)	8.75	£2bn	UK



PECO

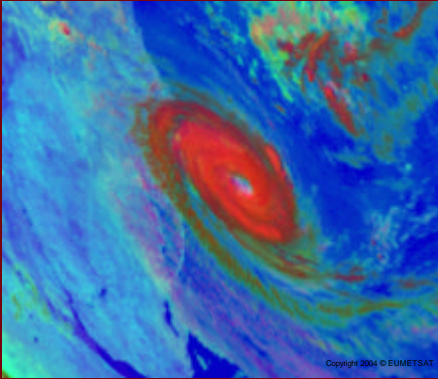
Contract Value:

\$15m

Contract Duration:

3 Years

- PECO is a natural gas and electric utility in Pennsylvania, USA
- Preferred supplier of fleet management services to Exelon, PECO's parent
- Fleet maintenance over 10 sites
- Covers a fleet of 1,500 vehicles



EUMETSAT (Polar System) Operations

Contract Value:

€4.2m

Contract Duration:

6 Years

- Control centre located in Darmstadt, Germany
- Provision of satellite controllers and analysts
- Satellites provide meteorological information, including temperature and moisture profiles



Prisoner Escort and Custody Services

Contract Value:

£300m

Contract Duration:

7 Years

- Started on 29 August 2004
- Significant expansion of the original contract - 40% increase in volume
- Premier will now be responsible for 25% of the market in England and Wales - previously was 17%
- Covers the secure and safe transportation of prisoners from prison and police cells to courts



Mycroft

Contract Value:

£40m

Contract Duration:

5 Years

- Builds on our National Crime Squad contract
- Secure networked IT system for the Immigration and Nationality Directorate (IND)
- Infrastructure provision, including highly secure workstations
- First Mycroft users are scheduled to go live in December, before roll-out across the UK
- The system will be used for all IND intelligence-led work



Northern Rail (preferred bidder)

Contract Value:

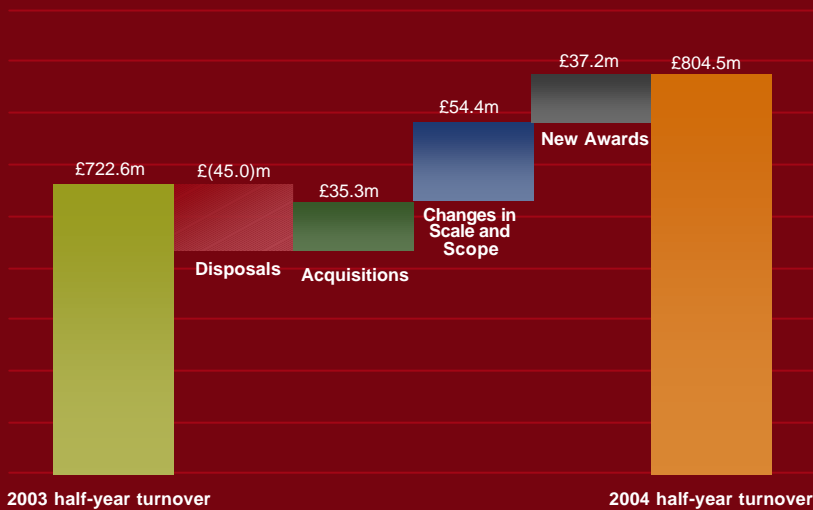
Serco's share £2bn

Contract Duration:

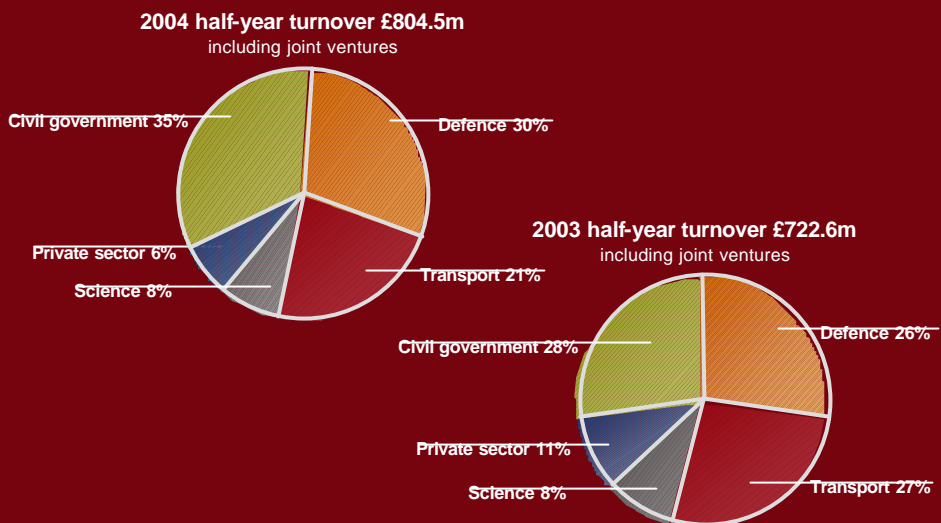
8 Years, 9 Months

- 50:50 joint venture with NedRailways
- Will provide inter-urban commuter and rural services throughout the North of England
- Northern Rail's train services will operate over 1,675 miles of the national rail network
- Over 4,000 employees will transfer to Serco-NedRailways
- Over 475 stations covered by the contract
- High subsidy and low capital investment

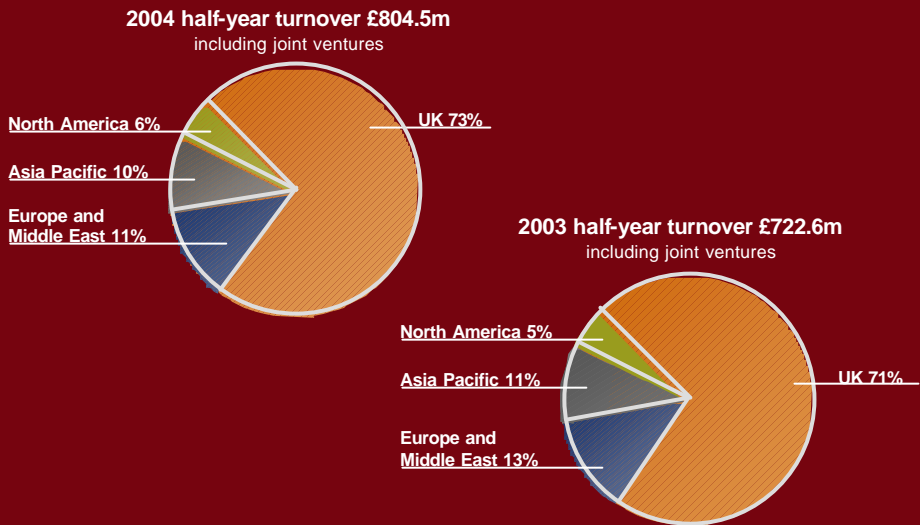
2004 Turnover growth



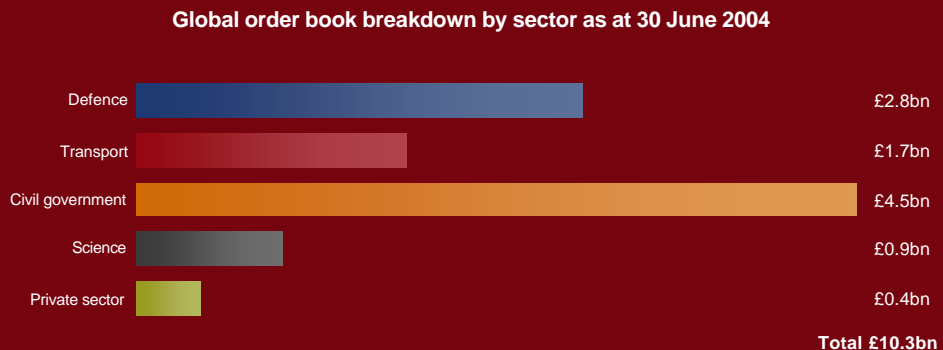
Market sector analysis



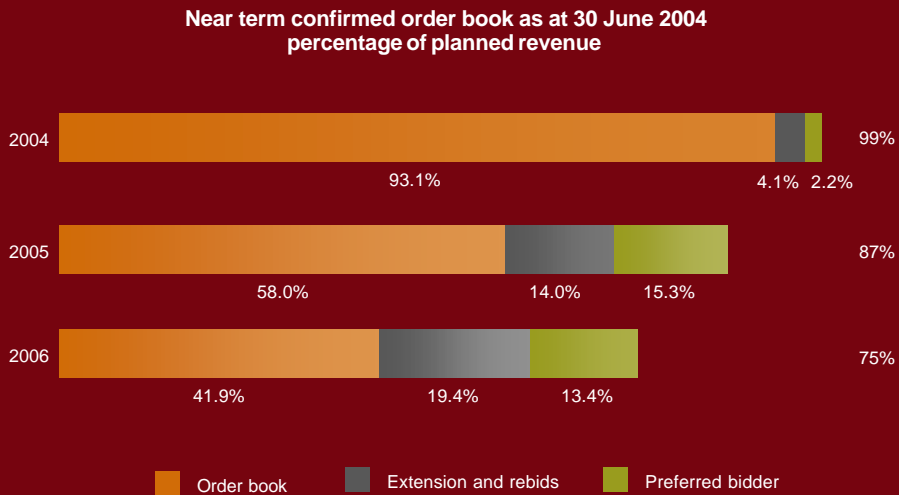
Geographical analysis



Continued high visibility of earnings



Continued high visibility of earnings



Building to last

- Serco Management System underpins the business
- Reinforcement of our systems and processes
- Communication of our governing principles
- People and leadership development
- Knowledge management system development
- Performance measurement
- Portfolio re-balancing

Looking forward

Market context

Sercos positioning

Strategy

Outlook

Kevin Beeston
Executive Chairman

Looking forward

01:04 to 06:04

Looking forward

World market context

- Increasing opportunities worldwide, driven by need to improve efficiency and quality of public services
- UK - Gershon Efficiency Review, Comprehensive Spending Review, Local Government Public Service Agreements
- US - President's Management Agenda
- Germany – PPP pilot programmes
- Japan – Market Testing public services

Looking forward



Looking forward

UK market context

- Gershon Efficiency Review
 - Savings of £20bn per annum by 2007/08
 - Creates outsourcing and consulting opportunities
 - Improvement in procurement processes
 - Savings embedded in Comprehensive Spending Review
 - Increasing performance targets
- Comprehensive Spending Review
 - Spending increases of 4-7% in real terms for education, health, transport, Home Office and DTI
 - Real growth in spending in local government, defence and science

Looking forward

Serco's positioning - UK

Defence

- Defence spending up 1.4% p.a. in real terms
- Spending remains tight but efficiency drive expected to lead to more outsourcing
- Opportunities in equipment support, training and communication technology

Transport

- Public transport spending up 4.5% p.a. in real terms
- Commitment to TOCs under larger franchises
- Increased regionalisation
- Use of new technology to enhance efficiency

Looking forward

Serco's positioning - UK

Justice

- Home Office and justice real spending up 4% p.a.
- 15% overall crime reduction targeted
- Formation of SOCA and NOMS
- 12% per annum increase in spending across departments on counter-terrorism and civil resilience

Education

- Real spending growth of 4.4% per annum
- Additional £2.2bn in 2005/06 on school improvements
- 30% increase in efficiency in schools, colleges and higher education through investment in ICT and other areas

Looking forward

Serco's positioning - UK

Health

- NHS spending up 7% p.a. in real terms
- Additional hospital PFIs create new opportunities

Science

- Ten year framework for science and innovation, looking to increase R&D spending to 2.5% of GDP
- Increased funding for science in DfES and DTI spending allocations
- Formation of Nuclear Decommissioning Authority

Serco's UK expertise - a springboard for overseas growth

Looking forward



North America

Looking forward

Serco's positioning - North America

- US budget deficits are key driver
- Potential US outsourcing market estimated at \$675bn
- Increasing opportunities with US federal and some state governments
- Major US FAA supplier
- First A76 contract for US Forest Service
- Expanding presence in utilities sector
- Increasing Canadian Provincial PPP programmes

Looking forward



**Mainland Europe
and the Middle East**

Looking forward

Serco's positioning - Mainland Europe and Middle East

- Nation by nation approach
- Presence across a range of sectors
- Transferring expertise from other markets e.g. PFI
- German Army's Combat Training Centre - first total service outsource contract
- Developing German bus, rail and justice opportunities
- Middle East
 - Renewed longstanding Abu Dhabi contract
 - Oman relationship building
 - New contracts in a fast expanding Dubai

Looking forward



Looking forward

Serco's positioning - Asia Pacific

- Focus on defence and transport in Australia
- Bid submitted for Royal Australian Navy Patrol Boats
- Favourable markets emerging for outsourced public services in Singapore and Hong Kong

Looking forward

Strategy

- Focus on UK public sector
- Selected overseas markets
- Total managed solutions
- Controlled growth
- Increasing returns

Looking forward

Outlook

- Strong track record and reputation on which to build
- Market conditions remain encouraging
- Continued focus on delivering value for money and service quality
- Further strong and profitable growth in the second half and the longer term

Questions and Answers

01:04 to 06:04

Serco Group plc

**Interim Results
Presentation 2004**

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