



bringing service to life

Serco Group plc

Interim results for the six months ended 30 June 2005

Business Review

The Business Review sets out Serco's contract wins and operational performance during the first half of 2005, along with developments in our markets. Separately today, we have announced our interim results and released further details of our transition to International Financial Reporting Standards. Copies of these documents are available on our website, www.serco.com.

OVERVIEW

Serco's vision is to be the leading service company in its chosen markets. The group's strategy is to build a balanced, international contract portfolio through organic growth, achieved by delivering great service and building long term relationships.

That focus on long term relationships, where we can help clients achieve their ambitions through continuous improvement, organisational change and assured service delivery, is reflected in our strong first half performance in delivering growth across markets, notable business wins and high levels of service.

In the period to end-June, we signed new contracts valued at more than £700m and were appointed preferred bidder on contracts valued at a further £1.5bn.

The first few weeks of the second half have seen further strong performance.

So far this year, we have signed, or been appointed preferred bidder, for significant contracts valued at more than £1.15bn with the UK Ministry of Defence ('MoD') – Serco's longest standing client.

Our health services business became preferred bidder for a £1.2bn private finance initiative ('PFI') contract to improve services at three hospitals in Leicester, UK, and our transport division was appointed preferred bidder to operate and maintain a rapid rail transit link in Canada, valued at up to C\$600m to Serco.

In addition, Serco won or extended more than 100 small and medium sized contracts during the first half, including business process management and IT services valued at over £100m.

The first half of 2005 also saw the acquisitions of ITNET plc ('ITNET') and RCI Holding Corporation ('RCI') completed and the integration processes begun. Both organisations have been reorganised and renamed, and they are increasingly working with colleagues across the group in developing opportunities and improving performance.

news release

Quality service delivery is the foundation of our growth and in the first half we saw a strong operational performance across the businesses, particularly in rail where our management of the UK's Northern Rail, Docklands Light Railway and Merseyrail has improved train punctuality and availability. In Australia, The Ghan train service has further increased passenger numbers and is looking to increase the frequency of this iconic train journey through the heart of the country.

In the US employees of our federal air traffic control teams once again received a prestigious national award for their services.

Government inspectors found that our education teams in Bradford, UK, had made significant progress in improving the opportunities for children through better delivery of the education service. Inspectors also recommended that further public sector investment would be needed in Bradford to sustain these levels of improvement.

Our environmental service teams serving the people of Woking, UK, have achieved their highest ever satisfaction ratings.

All around the world, people are experiencing a quality of service that makes a difference to their lives. Expectations are met and often surpassed because Serco's public service ethos encourages our people in bringing service to life – which in turn develops our long term relationships and increases the scope and scale of the work we do.

CIVIL GOVERNMENT

The civil government sector remains our largest market. Revenue grew by 31% in the first half, representing 37% of our first half revenue.

Home Affairs

UK

Serco's remit in home affairs covers four segments: homeland security, law enforcement, offender management and immigration control. Our contract base ranges from managing prisons and operating electronic monitoring programmes to developing IT systems for the police and criminal intelligence agencies.

We support the UK Home Office and its associated agencies in their search for integrated, cost-effective and innovative solutions. These customers are spending significant sums. The Home Office and its associated agencies are budgeted to spend over £12bn in 2005/6. During this period, the Home Office will spend more than £600m on crime reduction and community safety. The National Offender Management Service ('NOMS') has a central budget of almost £300m and is responsible for prison and probation budgets of over £2.4bn and £900m respectively, while immigration control and management costs the UK around £1.7bn annually.

The combination of our Premier Custodial Group and Justice divisions into one business – Serco Home Affairs – offers customers the unique combination of a strong service ethic underpinned by a depth of technology capability. The creation of this business gives us the scale and breadth of capability we need to compete for the major opportunities we see ahead of us. At the end of the first half, there were several significant contracts in the pipeline, notably in the areas of border control and homeland security, where our technology and security capabilities give us a significant advantage. We are confident of positive news on bids which would be valued at over £180m to us.

Electronic monitoring is established as an integral part of the UK justice system as an effective means of monitoring curfew compliance. In April, having been successful at rebid, we began two key electronic monitoring contracts with the Home Office, covering Greater London and East Anglia, and West Midlands and Wales. The contracts are for five years each with the possibility of extensions of up to a further two years and together are valued at approximately £18m per annum.

We are also currently participating in the use of voice verification and satellite tracking initiatives and interest has been shown by other government departments such as the Immigration and Nationality Directorate ('IND') and the police.

The government's decision to defer market testing of three publicly run prisons on the Isle of Sheppey was a less encouraging development. Instead, the public sector has been invited to submit proposals on how it would manage the prisons. Separately, the government is expected to announce how it plans to progress its prison contestability agenda. A forum to be chaired by the Home Secretary will be held in October and we remain confident of further opportunities in this area.

Our reputation in immigration control has been reinforced by the opening of the 334-bed Colnbrook Immigration Removal Centre and Short-term Holding Centre in August 2004. The Home Office has publicly commended Serco's 'high level of commitment and motivation'. We anticipate further opportunities in this area.

Serco's relationship with the National Crime Squad ('NCS') continues to thrive, with several enabling projects nearing completion as preparations for the launch of the Serious Organised Crime Agency, in April 2006, continue on schedule. This new body will be formed through the merger of NCS and the National Criminal Intelligence Service, along with elements of HM Revenue & Customs ('HMRC') and the IND. We are confident that our track record with these departments will open up new opportunities in this area.

Elsewhere, Serco continues to foster strong links with law enforcement agencies across the UK, engaging new audiences in the debate over the value of private sector provision of essential support services.

Mainland Europe

Last year, Serco won Germany's first major prison contract at Hünfeld in Hessen. Preparations for this contract are progressing on schedule. Serco will provide all non-custodial services within the prison, including psychological, medical and educational care of the prisoners. Serco will also provide industrial work for approximately 220 prisoners. German law requires the state to retain control of custodial services.

North America

Developments in local and civic government are creating an increasingly robust pipeline of opportunities. We see emerging opportunities for homeland security projects across virtually all of our chosen state and local markets including analytical, technical and training services. For example, we are bidding for contracts to help local authorities develop, coordinate and conduct emergency preparedness training. Such work includes the development and conduct of bioterrorism tabletop and full scale exercises for hospitals. Participants will include hospital staff, Regional Counter Terrorism Task Forces, emergency medical services, emergency management agencies and local first responders. Additionally, Serco is looking to provide further systems engineering support for the Customs and Border patrol in California.

Education

Education is one of the largest and fastest growing areas of government spending in the UK. In 2005/6, the cost to the public sector is expected to be £70bn, an increase of 8% on the previous year. We estimate our current addressable market at around £4bn. Market growth drivers include the pressure to increase children's educational achievement, the need for improved efficiency following the Gershon review, and investment in infrastructure – in particular under the Building Schools for the Future ('BSF') programme. There are also emerging opportunities in children's services.

Serco has established a sound track record in the UK education sector, and the improvements our management teams have achieved in the schools of Walsall and Bradford have been significant. Earlier this year, the Office for Standards in Education ('Ofsted') declared the performance of Bradford's schools 'satisfactory'. Once among the UK's poorest performing local education authorities, it is now among the most improved in the country. Meanwhile, the children of Walsall continue to benefit from the passionate commitment of our school management professionals.

We remain actively involved with the UK Government's BSF programme. Over the next 15 years, this programme will deliver around £40bn of capital investment to rebuild or refurbish 3,500

schools. We are working in partnership with IBM to provide a complete information and communication technology ('ICT') solution to several consortia preparing BSF bids. We are also providing educational advice and guidance to a number of other bid leaders.

Our schools software continues to penetrate the education sector, attracting praise from a growing number of schools. Facility – our innovative information management solution – is also providing vital support to teachers at other schools across the country, reducing their administrative workload and enabling them to focus on their work with pupils.

Meanwhile, we continue to raise our profile in the children's services market, where the number of opportunities is rising. This follows government moves to align education and other child support services more closely, focusing them around schools. This is likely to provide a range of opportunities including the integration of ICT databases and systems, working with the newly formed Children's Services Directorates to help them integrate their services and cultures, as well as helping to improve poorly performing elements within these more widely based organisations.

Health

Total health spending by the UK Government is expected to be nearly £90bn in 2005/6, some 9% higher than the previous year. Of this, we estimate that around £10bn is accessible to Serco. Market drivers include the need to reduce waiting lists, investment in new facilities – including through PFI – and payment by results.

In March, our joint venture with Equion Ltd, a division of John Laing plc, was named preferred bidder on the Leicester Pathway PFI project. This programme involves the extensive modernisation and refurbishment of three hospitals for the University Hospitals of Leicester NHS Trust. Financial close is expected in 2006.

Serco will support the new facilities and manage the transition process. When the five-year development phase is finished, we will provide support services to the trust for a further three decades. In total, the operating contract is valued at around £1.2bn to Serco over the 35 years. This contract builds on the facilities management contract that Serco has managed at Leicester Royal Infirmary ('LRI') since August 1996. For the past four years, the Serco team has enabled the LRI to achieve green star rating, the highest rating in the Patient Environment Action Team evaluation. This covers areas such as cleaning, catering and the environment.

We will continue to bid selectively for hospital PFIs that allow us to secure attractive long term operating contracts, with near-term opportunities arising at the Forth Valley Primary Care NHS Trust and Nottingham City Hospital NHS Trust.

Serco has consistently delivered strong results at the Norfolk and Norwich University Hospital, frequently achieving satisfaction levels over 92%. The quality of our performance recently helped the hospital to improve its NHS star rating from one star to two stars in the national scheme. Our contract at Wishaw General Hospital continues to deliver strong performance, increasing the use and integration of technology to support and improve service delivery. Our performance at Wishaw positions us well for emerging health contracts in Scotland.

Our specialist health consultancy provides strategic advice to all levels of the NHS. In the first half it achieved sustained growth, after a strong 2004. Its clinical focus and expertise, client access and market knowledge ensure our health strategy is appropriately targeted. Throughout the first half, we continued to explore new opportunities across the health sector, diversifying into new areas such as the management of chronic diseases.

Regional and local government services

We finished the half with a number of important wins under our belt, as we built on our strong reputation among UK local authorities for IT services and business process management. Among other agreements with local authorities, we signed a two-year, £11m contract extension with Southwark. Our existing contracts with Ealing and Richmond grew organically by more than £3m in total.

Towards the end of the half, we announced our selection by IBM as sub-contractor to manage key IT platforms and services for Bradford Council. This contract covers helpdesks, network management, desktop services, application management and server management. The award is part of a wider business transformation programme led by IBM, with a total contract valued at almost £160m to the consortium.

In April, our streetscene and environmental services partnership with Breckland District Council commenced. The partnership is valued at £3m a year over 20 years, and a number of high-profile cleanup initiatives are already delivering real improvements to the local environment.

Demand for our services within the local government market remains strong, with councils pursuing a wide range of strategic partnership opportunities in environmental services, housing repairs and improvements, and streetscene. Our current pipeline for these services is over £500m over the next 12 months, based on bids in progress.

Consulting

Serco Consulting aims to raise awareness of and enhance Serco's reputation with potential and existing customers by providing high value advisory services. It is also an attractive and profitable business in its own right, which will generate revenue of around £16m this year and employs around 80 consultants.

Our consulting capabilities have been enhanced by specialist management and technology business French Thornton, which was formerly owned by ITNET and which provides services to the government and private sector. Its addition has widened the scope of our opportunities whilst enhancing the quality of our consulting bids.

During the first half of 2005, Consulting recorded a number of business wins including assignments at the BBC associated with TV licensing and property, and a programme management assignment in the commercial directorate of the Department of Health, as well as new projects at the Financial Services Authority, HBOS plc and Arla Foods UK. Continuing long-term assignments include the Office of the Deputy Prime Minister and HMRC.

In North America, Serco employs numerous consultants who are engaged in workforce planning and business process reengineering projects with several US Federal agencies.

Other government services

Middle East

As Gulf states such as the United Arab Emirates ('UAE'), Bahrain and Qatar continue to boom, our Dubai-based businesses are strongly positioned to capitalise on the unprecedented proliferation of opportunities in the region, most notably in the construction sector.

Serco is already emerging as the Gulf's leading facilities management specialist, providing strategic consultancy support on two iconic construction projects in Dubai: Palm Island and the Burj Dubai tower.

In January, we signed an agreement with Mubadala Development Company to form a joint venture to provide facilities management services for the proposed new 19,000 student UAE University at Al Ain, which will be complete in 2010. Our consultancy team is already very much involved in the design of the new complex. The first buildings come on stream in 2006 and the contract is for a period of 14 years.

Mubadala is an investment arm of the Abu Dhabi government and this contract indicates an increasing interest in partnering between the public and private sectors within the region.

Asia Pacific

In February, our New Zealand joint venture Serco Project Engineering Ltd delivered the first four of seven fire-fighting trucks to the Australian Capital Territory ('ACT') Government. These vehicles – built as part of a contract worth NZ\$2.4m – carry state-of-the-art compressed air foam systems. They are designed to strengthen the ACT's defences against the bush fires that are prevalent across Australia.

TRANSPORT

Transport revenue grew by 61% in the first half, representing 25% of our first-half revenue.

Rail

UK

Serco has achieved strong growth in the UK rail market since we began operating our first franchise – Merseyrail – in 2003. We see good opportunities in this area as franchises are remapped, reducing the number from 21 to 16. The proposed break-up of the Central franchise may benefit us, and we anticipate being given the opportunity to tender for services that border our Northern Rail franchise. We will also consider bidding for other franchises as they come up for renewal in the next few years. Our experience further positions us well to take our proposition overseas, in particular to Germany, the market most advanced in tendering after the UK.

Northern Rail – which started in December 2004 as a joint venture with NedRailways – is our largest contract to date. Over eight years nine months, it will be worth around £2bn to Serco. During the first half, we consistently exceeded service performance targets, delivering real improvements for the thousands of passengers who use the network daily. As the consolidation of the old North East and North West franchises into the new Northern organisation continues on schedule, we expect to achieve further performance and customer service enhancements while delivering efficiencies.

Our Merseyrail network runs a greater proportion of trains on time than any other UK rail network. While the national punctuality level averages 86.2%, Merseyrail's management and staff achieved a score of 94.7% in the first quarter of 2005. Passenger numbers have risen by 5.5% in the past year.

Merseytravel was the first local transport authority to assume responsibility for a network from the Strategic Rail Authority. Merseytravel now wishes to extend its responsibility to include the infrastructure currently managed by Network Rail. This is currently planned for transfer to Merseytravel in 2006 and we would then be responsible for all infrastructure maintenance and operations on the Merseyrail network.

Asia Pacific

Following the success of The Ghan train's weekly return service between Adelaide and Darwin, our Great Southern Railways business launched a second weekly service for the three-month peak tourist season. This additional capacity has been fully sold. In July 2005, The Ghan carried 10,000 passengers in a single month on its legendary two-day transcontinental journey between Adelaide and Darwin. This is twice the volume carried in the same period in 2003 on this service, which previously operated on the shorter route between Adelaide and Alice Springs. Plans for a further expansion of services in 2006 are at an advanced stage.

Urban Transportation

In the UK and other developed economies, policy is increasingly shifting towards integration of different modes of transport as governments battle with increasing congestion and its social and economic costs. In the UK, for example, there is a trend towards the development of integrated transport plans to support investment in major projects.

In response to these trends, we have combined our light rail and road operations to position us as an urban transportation integrator. Our capabilities cover the broad range of transport operation and technology services required by major conurbations, including light rail, passenger information systems, bus lane design and traffic control centres. The breadth and depth of our experience allows us to integrate one or more of these services into a client's existing framework. We believe this puts us in a very strong position to capitalise on growth in these markets.

UK

Serco is the UK's largest light railway operator, carrying 45% of the country's light railway passengers when measured by passenger kilometres.

In the first quarter of the year, the Serco-operated Docklands Light Railway continued its highly successful record of service reliability by equaling its best ever performance of 97.3%. During the half, we submitted a rebid to maintain and operate this record-breaking service for a further seven or nine years, to be determined by the client. We are pleased to have been shortlisted to the final two bidders. The contract award decision is expected towards the end of this year.

While we were disappointed at the cancellation of the Lorry Road User Charge project, for which we had been shortlisted, the UK government has stated its intention to introduce general road pricing and has made funding available for local charging schemes. We believe that there is still significant potential in the UK market.

Serco is a leading supplier of traffic management systems and services and has a strong track record in Stockholm, Sydney, London and Hong Kong.

In England, we also operate the National Traffic Control Centre which is helping travellers plan and complete their journeys by providing real time traffic information, including alternative routing advice, direct to the media and the public via a website and interactive phone service as well as on roadside variable message signs. Achieving full implementation has taken longer than envisaged and we are working with our client, the Highways Agency, to complete the implementation phase.

Our expertise in the area of traffic management information has led to further opportunities overseas.

North America

Serco has established an office to enter the North American integrated transportation market. The primary focus will include technical and service-based solutions for transportation agencies. Technological solutions which are well established within the UK will be positioned for US market entry. With the recent passing of the US highway appropriation bill, this market will see an increasing focus on private sector involvement in new initiatives. This is a large and exciting market, where we can leverage many of our existing relationships. Initial studies have revealed a robust pipeline of short, medium and long term opportunities.

We are currently bidding for the operation and management of Hampton Roads Smart Traffic Center, Virginia. We have identified a number of traffic management center opportunities throughout the major metropolitan areas of North America. State and local transportation agencies are increasingly looking to private sector solutions.

In addition, Serco is actively developing the market in several large US cities for the deployment of the smart meter parking management system, which we have successfully installed in San Francisco.

In March, Serco was appointed preferred bidder for its first ever rail operation contract in North America. Its joint venture with SNC-Lavalin was commissioned to provide a fully automated, driverless train system connecting Vancouver, Richmond and Vancouver International airport. Construction is planned to commence in August 2005 with completion scheduled in time for the 2010 Winter Olympics. After the five-year construction period, the joint venture will operate and maintain the line under a 30-year agreement, worth between C\$16m and C\$20m per annum to Serco.

Asia Pacific

In June, we signed a contract with the Roads and Traffic Authority ('RTA') of New South Wales to deliver a system that will monitor bus punctuality and provide traffic signal priority. The contract requires Serco to work closely with RTA staff to develop and maintain the client's existing bus management and priority system while delivering design improvements. The contract is valued at AUS\$6.7m over three years, which includes a system trial on 270 buses. Depending on the trial's success, Serco will have an opportunity to participate in the expansion of the system, which is planned to cover a further 5,000 buses.

Air

Middle East

The construction boom across the Middle East is driving growth in other areas of the region's economy, notably aviation, where we are building on our outstanding track record. In April, we signed yet another extension to our air traffic control ('ATC') contract with Dubai Civil Aviation, which has been a Serco client for the last 45 years. The latest two-year agreement is worth around £12m in total.

We also signed a one-year extension worth £2m to our ATC contract at Bahrain airport, which is planning a major expansion in response to massive growth in aircraft and passenger numbers.

North America

During the half, Serco was awarded the prestigious Willie F Card Federal Aviation Administration Federal Contract Tower Service Award for the third successive time since its inauguration three years ago. Given public concerns over air traffic control issues since 9/11, this achievement is significant and acknowledges Serco's excellent safety and service record there.

DEFENCE

Our defence business grew by 29% in the first half of 2005 and accounted for 23% of Group revenue.

UK

The MoD is recognised as leading the world in the use of the private sector to support its vision. With new threats materialising, new methodologies requiring new support arrangements and little increase in UK defence spending, the MoD is focusing resources and seeking cost savings. This presents Serco with opportunities for growth. We expect our addressable market in the UK to double to £8bn by 2010.

Our success in winning new business with the MoD reflects our skill as an integrator capable of delivering bespoke solutions based on innovation and flexibility. This integration capability is demonstrated by the award of one of our most significant defence contracts, the £400m Defence Academy Campus Integrator ('DACI') at Shrivenham, Wiltshire. For the next 23 years, we will deliver support services to this world-class academic centre of excellence for senior MoD commanders and staff.

The DACI contract builds upon the long-term relationship and spirit of partnership we have established with the MoD. The agreement followed our success at designing, building and managing the MoD's Joint Services Command and Staff College ('JSCSC'), an achievement that has been praised by the National Audit Office as 'a textbook PFI'. In turn, the JSCSC contract was instrumental to Serco winning the Middle East's first PFI, to build a joint technical training college for Oman's Ministry of Defence, currently at preferred bidder status.

Similarly, our expertise in developing and managing science facilities has contributed to Serco being appointed preferred bidder for a strategic partnership with the Defence Science and Technology Laboratory ('Dstl'). Valued at around £400m to us over 15 years, this contract will see us manage the design and build of new facilities for Dstl, the migration of 1,600 scientists to these facilities, and provide support services ranging from laboratory set-up to travel management across the entire Dstl estate.

Over the last six months, stronger links with the Royal Navy, one of our key customers, have helped us secure several significant contracts, including the Waterfront Training and Education Centres ('WTEC') contract.

The strategically significant WTEC contract involves delivering a wide range of e-learning, web-based learning and computer-based training at Her Majesty's Naval Bases at Devonport, Faslane and Portsmouth. The centres are being set up as part of the Royal Navy's Rebalancing Life initiative which has driven the development of training provision at the waterfront to enable Navy

personnel to balance operational commitments and family life. Scheduled to start in August 2005, the WTEC service follows a successful pilot at Devonport in 2004.

Our respect for the Royal Navy's heritage, our understanding of the MoD's values and our dedication to bringing service to life proved instrumental to the success of the celebrations that marked the 200th anniversary of the Battle of Trafalgar on June 29. Among other essential marine services, Serco personnel handled 1,000 ship movements in 12 days on behalf of the Royal Navy. Without their contribution, it would not have been possible to re-enact the battle or complete the naval review.

Skynet 5, one of the largest-ever defence PFI contracts, is designed to guarantee Britain's armed forces with secure communications whenever and wherever required. Since February, this service now enables the MoD to receive more imported information services on platforms such as ships with IP data services. Skynet 5 – worth £220m to Serco in a contract extending to 2018 – is also on target for the next milestone in early 2007. By then, the first Skynet 5 spacecraft will have been launched to provide the MoD with a new generation of satellite communication.

Middle East

Serco and its joint venture partner Bahwan Group were chosen in 2004 as the preferred bidder for a 30-year, \$1.4bn PFI contract to design, build and operate a joint technical training college for Oman's Ministry of Defence. Contract negotiations are proceeding. The college will eventually accommodate up to 2,000 students, both military and civilian.

North America

The acquisition of RCI was completed in March and has been well received by our clients, demonstrated by the continuing flow of task orders arising from the various multi-award contract vehicles in the portfolio. The most significant indicator was our successful rebid for the US Army's Career and Alumni Program, which helps retiring US Army soldiers, civilian family members and their families transition successfully from federal service. This win will extend our unbroken support to this important program to more than 17 years – an exceptional achievement in US defense contracting. We have also been selected as one of the successful contractors on a multi-award basis for the support of the Pentagon's information management centre. In total, we are in line to bid for 200-300 employee years of work under this agreement.

The US Department of Defense recently announced it was realigning and closing a number of bases and reassigning troops around the world. These initiatives create substantial near-term and long-term opportunities for Serco based on our involvement in supporting soldier activities affected by reassignment to other bases. Serco is also well positioned to benefit from changing base support and infrastructure requirements driven by these changes.

Our ability to win new business with the US military has been greatly enhanced by the success of our Price Fighter contract with the US Department of Defense. Under this agreement, we provide the engineering and analytical expertise that the department needs to measure whether it is paying an appropriate price to third-party suppliers and contractors.

Following the completion of the RCI acquisition, Serco has been nominated for a prestigious Federal Contractor of the Year award in the medium business category.

Over the coming months, we hope to explore innovative ways of leveraging the expertise and experience we have gained in the US defense sector to further strengthen our relationship with defence authorities elsewhere, notably in the UK.

Asia Pacific

In May, Serco Sodexo Defence – our joint venture with Sodexo – was named preferred bidder to provide the Australian Department of Defence with garrison support services in the Sydney West South region of New South Wales. Partly a new bid and partly a re-tender, this contract, signed in August, is substantially larger than the original contract, valued at around AUS\$200m to Serco over a term of up to nine years.

Also in May, Defence Maritime Services – our joint venture with P&O Maritime – delivered the first of 12 Armidale class patrol boats to the Australian Navy. After successful sea trials, HMAS Armidale was officially commissioned in June in its new home port of Darwin. In the period, Defence Maritime Services also signed a contract with Australian Customs Services, valued at AUS\$36m over six years, to maintain eight patrol boats.

SCIENCE

Serco's science sector revenue grew by 13% in the first half, representing 15% of our first-half revenue.

UK

Science and technology remain at the top of the UK political agenda as drivers of wealth creation and improvements in healthcare and the environment. Serco is now an established part of the UK's technical community, creating public-private partnerships to maximise the impact of science and turn government policy into results.

Serco, together with our joint venture partners BNFL and Lockheed Martin, has signed an amendment significantly increasing the scale of our contract with the MoD to operate the Atomic Weapons Establishment ('AWE'). The increased government investment is valued at £350m to Serco over the next three years. We will deliver a programme of investment in key skills and facilities at AWE. Our experience at AWE and our capabilities elsewhere within our science business – such as the provision of safety advice to nuclear power generators and the Royal Navy's nuclear submarine fleet – have positioned us as a key player in the nuclear industry. We have secured a contract to develop safety case scenarios and environmental impact assessments for Urenco's nuclear enrichment plant at Capenhurst, near Chester. This one-year contract – critical in terms of health and environmental protection – is worth £400,000.

Serco also continues to play an important role in national security. In May, Serco successfully bid for a £5m contract under the MoD's nuclear propulsion critical technology research programme, applying our unique knowledge of materials performance and applied physics.

Serco has also secured a £13m contract to supply the MoD's Integrated Sensor Management System, an intelligent network of sensors designed to detect chemical, biological or nuclear attacks on field installations. Ultimately, we plan to transfer the leading-edge technology developed on this project to harness new opportunities in the civil sector.

Drawing on our nuclear expertise and Serco's market leadership in applying the Government Owned Contractor Operated model, we are positioning ourselves to win a significant share of the UK's emerging £2bn per annum nuclear clean up market, following the establishment of the Nuclear Decommissioning Authority in April 2005. The first competition for management of a UK site is expected in early 2006.

Our Science division operates the UK's National Physical Laboratory ('NPL'), which continues to win funding for new programmes. Towards the end of the half, the Department of Trade and Industry ('DTI') awarded NPL contracts valued at £4m to develop innovative services in micro-nanotechnology (technology measured in millionths and billionths of a metre) working in partnership with, amongst others, QinetiQ, Taylor Hobson, Imperial College and University College London. NPL also won a contract valued at £1.2m to provide on-line support to DTI's new Technology Networks.

Applying this knowledge base to environmental challenges, NPL won a research contract with the Department for Food, Environment and Rural Affairs to assess nano-particulates in the atmosphere. It could improve life for millions of people by helping to improve the way that the UK's air quality is monitored and managed.

Increasingly, innovation support is being delivered on a regional basis. Regional Development Agencies and devolved administrations around the UK are investing in innovation and technology centres and Serco has established a portfolio of contracts and opportunities in this market. We have teamed up with the University of Wales to manage the Centre for Advanced Software

Technology, under an £8m programme to develop a cluster of innovative software businesses in North Wales.

We are closely engaged in projects that will transform the way society benefits from global positioning technology. NPL has won a prestigious three-year contract to provide the time for Europe's ambitious Galileo constellation of 30 global navigation satellites. Galileo is due to start operating from 2008 and will provide a guaranteed global positioning service under civilian control, with accuracy to within a metre on the ground.

NPL is part of a core consortium of nine European organisations developing the Galileo Time Service Provider. This will support a range of time-dependent applications such as telephone networks, digital broadcasting and the Internet, as well as giving everyone access to a reliable source of time for everyday needs.

Mainland Europe

Elsewhere, Serco successfully rebid a contract in Italy worth €14m over three years to provide services to the European Space Agency's ('ESA') earth observation programme. The service makes remote-sensing data available to scientific users once it is captured by satellite. This contract is part of a larger agreement worth €41m over three years to a Serco-led consortium of 24 companies. This involves completing a comprehensive cost reduction programme while harmonising the delivery of services across all of ESA's earth observation activities.

We also successfully rebid our contract for engineering support at ESA's technology centre, ESTEC, in the Netherlands. The roots of this support work can be traced back over 30 years and include spacecraft design, laboratory maintenance and operation, mission simulation and scientific research. The contract is worth over €4m per annum and has an anticipated duration of five years.

PRIVATE SECTOR

Serco has traditionally approached the private sector on an opportunistic basis, building up a portfolio of blue-chip clients, such as Microsoft, GlaxoSmithKline, Airbus and The Boots Company. The acquisition of ITNET has increased our presence in this sector and it is now a strategic focus for us. With commercial clients increasingly concentrating on their core activities and facing strong international competition, they are moving from single service providers to fully integrated service providers such as Serco. This allows us to grow organically by selectively bidding for new contracts and expanding the range of services we provide to each client.

We are focusing on those areas within the private sector which will benefit from the provision of a wide scale, single supplier approach for support services and information services. This approach builds upon our traditional focus of manufacturing, transport, utilities, financial services and hospitality.

UK and Europe

We have continued to build our relationships with key customers in food and drinks manufacturing. At Coca Cola Enterprises Ltd, our IT services have been extended for a further three years. Cadbury Schweppes has implemented an enterprise resource planning solution within the UK which is hosted within our dual data centres in Birmingham. Food services provider 3663 chose Serco Solutions to introduce a new service regime which will provide a common IT delivery platform within each of the company's 43 sites and will help it increase the efficiency of distribution.

In Wales & West Utilities, Serco helped to implement a 20-week business process reorganisation and SAP implementation for the regional gas distribution network. Despite very tight deadlines, the project went live successfully on 1 June, and the relationship with Wales & West Utilities continued to strengthen. The overall project was managed by Macquarie Bank, with which Serco is developing an ongoing relationship.

Our focus on and knowledge of our customers is providing us with the opportunity to expand our services in the information technology sector into wider support services that embrace the full end-to-end capability of Serco.

Our relationship with Microsoft has developed from providing traditional facilities management services to the provision of multi-activity integrated services. We now operate Microsoft's Global Shared Services from its European Operations Centre in Dublin, processing some 300,000 invoices every year from Microsoft suppliers in 17 European countries. In addition, we provide licensing, processing, documentation control, revenue and rebate recognition services and in February, we were awarded a prestigious contract for the provision of administration and personal assistant services to Microsoft senior management and directors.

We renewed our contract with Airbus UK for the provision of integrated services to its manufacturing facility in Filton, UK, valued at £25m over a further five year period. Serco already provides a fire and rescue service to Airbus, and in April we were awarded the "Top Airport Fire Service Award" by the Civil Aviation Authority.

The Starwood Group Hotels & Resorts Worldwide Inc is one of the leading hotel and leisure companies in the world. Our relationship with them is developing. In 2004, we commenced with the provision of engineering and security services to their 5* Westin Hotel in Dublin. In February of this year, due to the success in Dublin, we were awarded a contract for the provision of maintenance and property-related services to the Westin Turnberry resort in Ayrshire and Sheraton Grand Hotel and Spa in Edinburgh.

In May we were awarded a contract to provide facilities management services to the Bank of Ireland's property portfolio in Northern Ireland. This covers its branch network of 44 properties and five administration properties, including its prestigious new Northern Ireland Head Office in Belfast.

North America

Serco continues to grow its fleet and power distribution business with US utilities such as Dayton, Power & Light, Exelon Energy and various other smaller utilities.

At PECO Energy, a natural gas and electric utility in Pennsylvania, we have completed the first year of contract operations where we provide fleet management services to support over 10 sites involving some 1500 vehicles. At the end of the first year, Serco exceeded contract performance requirements while delivering a 20% reduction in cost of services to PECO. This is the first contract arising from our appointment as preferred supplier of fleet management services to Exelon, PECO's parent group and one of the largest US electricity generators and energy distributors.

We continue to win work to provide computer-aided facilities management services in the commercial sector to add to our existing portfolio of Fannie Mae, a lending institution; Capital One, a financial services company; and the University of Maryland.

- Ends -

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