

Bringing service to life



2005 Preliminary Results

Presented by
Serco Group plc

1st March 2006

Agenda

Overview

Kevin Beeston

Financial results

Andrew Jenner

Business performance

Chris Hyman

Summary and outlook

Kevin Beeston

Q&A

2005 Preliminary Results - Highlights

	2005	Increase	Organic Growth
Revenue	£2,260.3m	38.1%	19.4%
Profit before tax*	£91.5m	28.5%	13.1%
Earnings per share*	14.09p	22.9%	
Dividend per share	2.97p	12.9%	
Group free cash flow	£73.8m	32.3%	

*before amortisation of intangible assets

Service Driving Growth

- Strong organic growth continues → 19.4% organic revenue increase
- Substantial new contract wins → £5.0bn signed/ preferred bidder
- Continued good group cash conversion → 90%
- ITNET and RCI performing on target → £23.6m profit pre-funding costs
- Record forward order book → £13.4bn
- High visibility of future revenues → 91% 2006, 77% of 07 and 64% of 08
- Robust bid pipeline → £2.7bn of bids under consideration

None of top ten largest contracts due for rebid before end 2010

£21bn of identified opportunities

Financial Results

Andrew Jenner – Finance Director

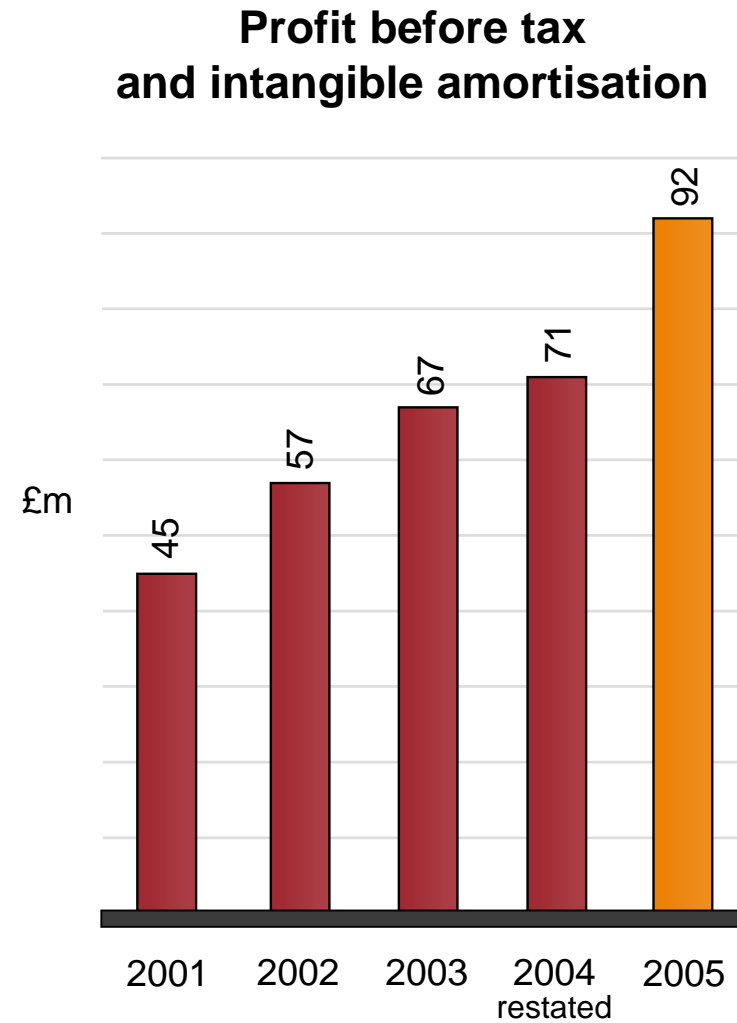
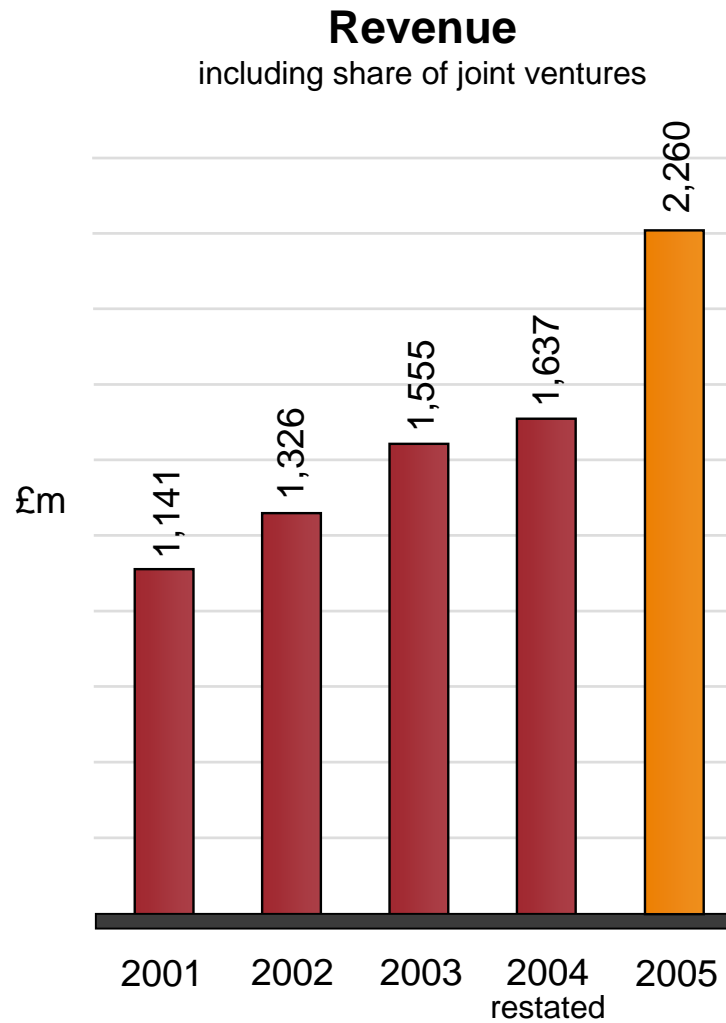
Financial performance

- Income statement
- Cash flow
- Net debt

Pensions

IFRS conversion

Income statement

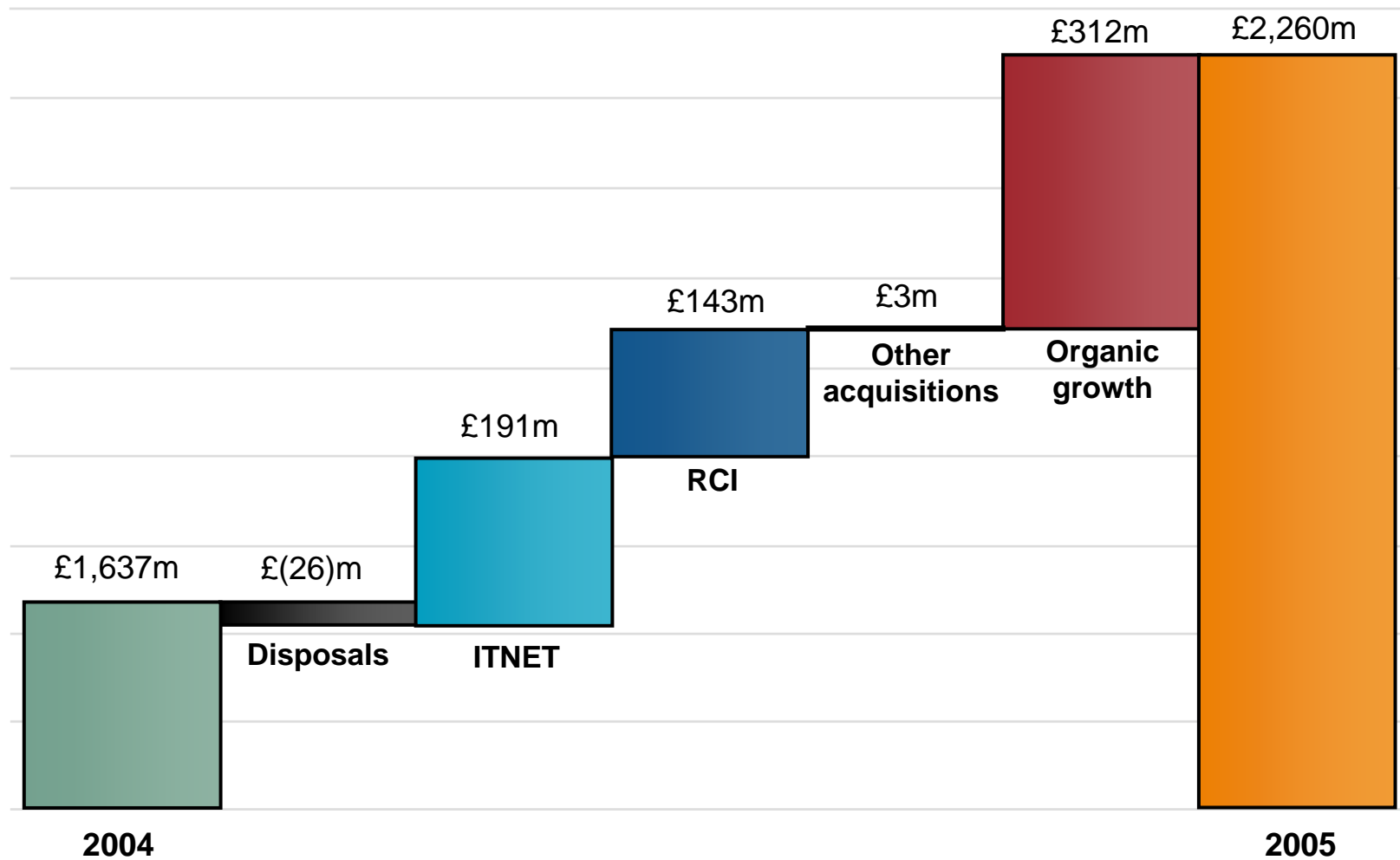


Note: 2001 to 2003 under UK GAAP. 2004 restated under IFRS.

Income statement

Year to 31 December	2005 £m	2004 £m (restated)	increase
Revenue	2,260.3	1,636.9	38.1%
Gross profit	325.0	242.6	34.0%
Administrative expenses	(214.3)	(166.2)	28.9%
Investment revenue and finance costs	(19.2)	(5.2)	
Profit before tax and intangible amortisation	91.5	71.2	28.5%
Intangible amortisation	(13.6)	(7.2)	
Profit before tax	77.9	64.0	21.7%
Effective tax rate	30.2%	30.5%	
Earnings per share before amortisation	14.09p	11.46p	22.9%
Earnings per share after amortisation	11.66p	10.11p	15.3%

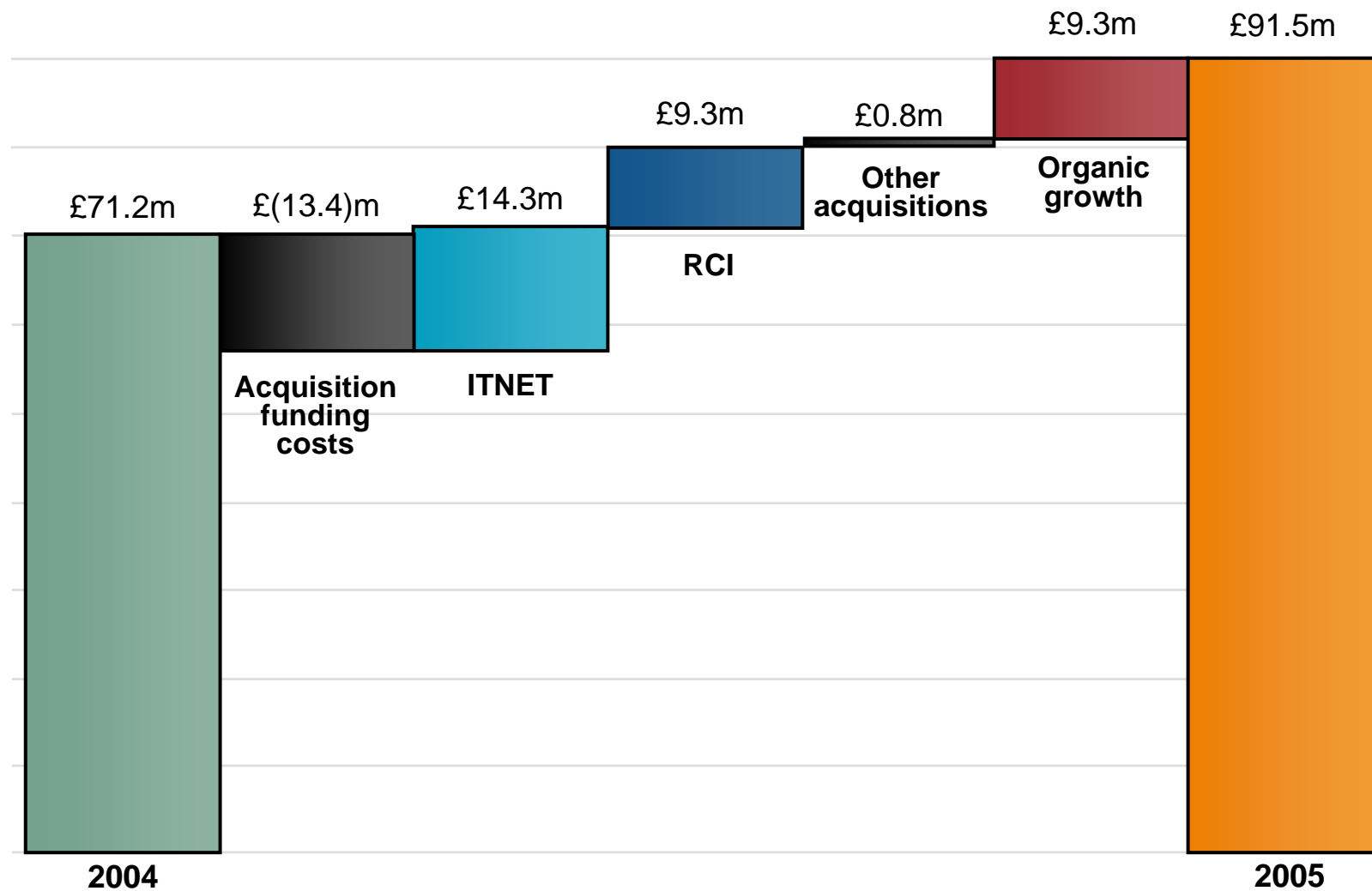
Revenue growth



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Profit before tax and intangible amortisation

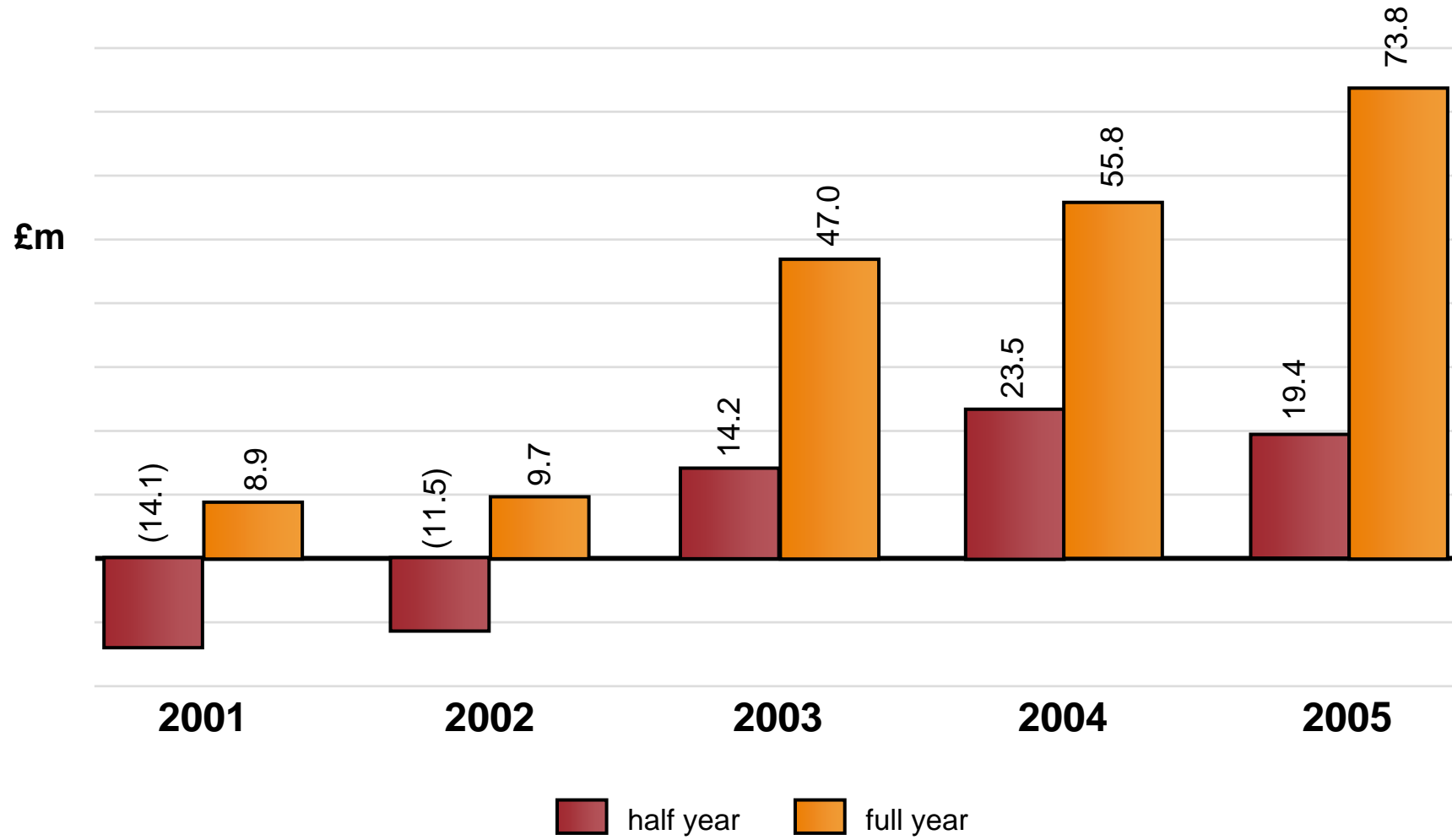


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Group free cash flow



Group free cash flow

Year to 31 December	2005 £m	2004 £m (restated)
Group EBITDA	107.6	75.6
Working capital movement	(11.2)	(5.3)
Group operating cash flow	96.4	70.3
Interest	(15.7)	(3.8)
Tax	(1.0)	(1.5)
Expenditure on tangible / intangible assets	(31.6)	(23.4)
Dividends from joint ventures	25.7	14.2
Group free cash flow	73.8	55.8

Net cash flow

Year to 31 December	2005 £m	2004 £m (restated)
Group free cash flow	73.8	55.8
Acquisitions	(281.7)	(9.1)
Other financing	269.4	(7.6)
Dividends paid	(12.5)	(10.4)
Non recourse debt financed assets	(15.6)	(25.2)
Other	2.7	(0.4)
Net change in cash - group	36.1	3.1

Group recourse net debt

As at	31 Dec 2005 £m	30 June 2005 £m	31 Dec 2004 £m (restated)
Cash and cash equivalents	210.0	148.4	173.9
Other loans	(453.1)	(440.0)	(168.4)
Obligations under finance leases	(20.9)	(23.6)	(20.8)
Group recourse net debt	(264.0)	(315.2)	(15.3)

Total net debt

As at 31 December	2005 £m	2004 £m (restated)
Group recourse net debt	(264.0)	(15.3)
JV recourse net cash / (debt)	18.0	(4.6)
Total recourse net debt	(246.0)	(19.9)
Group non recourse debt	(326.8)	(256.5)
JV non recourse debt	(22.4)	(47.1)
Total non recourse debt	(349.2)	(303.6)
Total net debt	(595.2)	(323.5)

Pensions

As at 31 December	2005 £m	2004 £m (restated)
Group schemes - non contract specific	(200.4)	(164.6)
Contract specific schemes		
- reimbursable	(84.9)	(56.0)
- not certain of reimbursement	(21.3)	(22.3)
Net retirement benefit liabilities	(306.6)	(242.9)
Intangible assets	19.0	21.2
Reimbursable rights debtor	84.9	56.0
Deferred tax asset	52.8	41.0
Net balance sheet position	(149.9)	(124.7)

Group defined benefit pension scheme

As at 31 December 2005	£m
Scheme assets	447.9
Scheme liabilities	(592.1)
Deferred tax	43.3
Net balance sheet position	<u>(100.9)</u>

- Actions taken to manage the scheme liabilities
 - closed scheme to new members
 - increased employer contributions from 2003
 - increased employee contributions from 2004
 - annual actuarial valuations
- Discussing funding strategy and risk profile with trustees

Summary Implications of IFRS

- Underlying performance, cash flow and ability to pay dividends will be unaffected
- Impact on year on year earnings growth after transition likely to be minimal
- Fair value concept will introduce volatility into balance sheet
- On transition
 - profit before tax principally affected by non-amortisation of goodwill and charge for share based payments
 - net assets reduced largely due to pensions

Source: 2004 preliminary results presentation

Summary

- Strong revenue and profit growth, organically and from acquisitions
- Acquisitions performing to expectations
- Strong operating cash conversion and free cash flow
- Impact of IFRS as expected

Business Performance

Chris Hyman – Chief Executive

- 2005 highlights
- Market conditions
- Delivery programme

Operational Highlights- 2005, an excellent year

■ Service builds business

- Revenue growth of 38.1% and PBTA growth of 28.5%
- Underlying, organic growth of 19.4%
- Winning 90% of rebids and 50% of new bids

■ Rapidly developing capabilities and markets

- Acquisitions bringing new skills, new capabilities and new business
- Developing shared service capability
- Drivers expanding our markets around the world
- Invested in people and systems

■ Highly visible and secure future revenues

- Forward order book up to record £13.4bn at 31 December 2005
- Bids under evaluation at £2.7bn [down to the last two or three bidders]
- Future identified opportunities valued over £21bn

Civil Government

- Overall growth of 28% to £803.6m
- Sector accounted for 36% of 2005 revenue
- Sector consists of:
 - Home Affairs
 - IT Services, BPO and Local Government
 - Health
 - Education

Civil Government - Home Affairs

■ Growth

- New contracts signed valued at >£160m
- Cyclamen (£100m over 10 years)
- Scottish Electronic Monitoring (£30m over 5 years, starts April 2006)
- England & Wales Electronic Monitoring (contracts phased in April 2005)
- Germany's first private prison began operation December 2005

■ Opportunities

- Addressable UK market £2.5bn
- Warnings Index, E-Borders, ID Cards
- UK and overseas opportunities in all service areas

Civil Government - IT Services, BPO & Local Government

■ Solutions

- £190.6m revenue, £14.3m PBTA before funding costs
- Bradford - £160m to consortium over 10 years
- DTI's Small Business Service, £125m over 10 years
- Extensions valued at >£20m with 4 London Boroughs
- First shared service provision – Stevenage & Hertsmere Councils

■ Major integrated services contract wins

- Breckland Council - £60m over 20 years
- Restormel Council - £45m over 10 years

■ Opportunities

- UK addressable market > £3.4bn
- Shared services development, IT enabled services

Civil Government - Health

■ 2005 Progress

- Strong capability developed
- Out of Hours Doctors services to one million people
- Newham PCT managed health care service - £2m over 2 years
- Feltham YOI health service provision - £4m over 3 years
- Leicester Pathway preferred bidder £1.2bn

■ Opportunities

- Chronic disease management
- Service delivery

Civil Government - Education

■ 2005 Progress

- Continued improvement in results – Bradford and Walsall
- E-learning, ICT and consultancy

■ Opportunities

- Education Bill
- Children's Services

Defence

- Overall growth of 52% to £565.5m
- Sector accounted for 25% of 2005 revenue
- Significant new business
 - Defence Academy Campus Integrator - £400m, 23 years
 - Defence Science and Technology Laboratories - £400m, 15 years
 - RCI acquisition delivered £143m revenue, £9.3m PBTA
 - Australian garrison support – AUS\$200m, 9 years
- Opportunities
 - >\$600m of near term US defense contractor opportunities
 - UK addressable market doubling to £8bn by 2010
 - £1bn marine services preferred bidder Feb 06

Science

- Overall growth of 18% to £342.4m
- Sector accounted for 15% of 2005 revenue
- 2005 highlights
 - Atomic Weapons Establishment extension - £350m over 3 years
 - Integrated Sensor Management System - £13m
 - Enhanced nuclear capabilities
- Opportunities
 - Nuclear Decommissioning Authority - £2bn per annum market
 - Homeland security

Transport

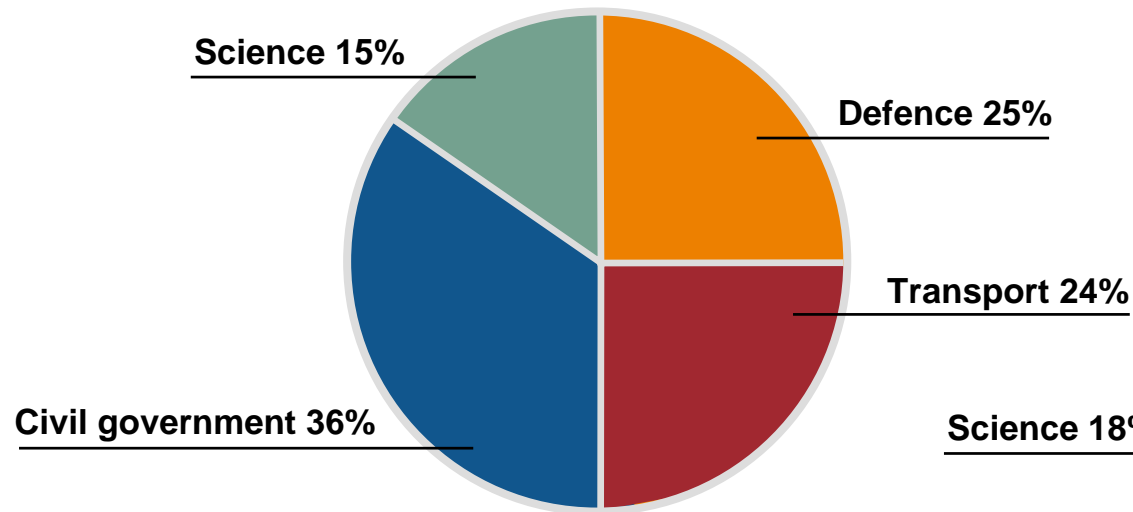
- Overall growth of 59% to £548.7m
- Sector accounted for 24% of 2005 revenue
- 2005 Highlights
 - Rail: Northern Rail, Merseyrail exceeding service standards
 - Urban Transportation: DLR preferred bidder, TCC completed testing
 - Air: rebid programme successfully completed – Al Ain, Abu Dhabi, Dubai
- Opportunities
 - Merseyrail vertical integration
 - Silverlink and two Midland TOC bids
 - Traffic management systems
 - Dubai

Private Sector

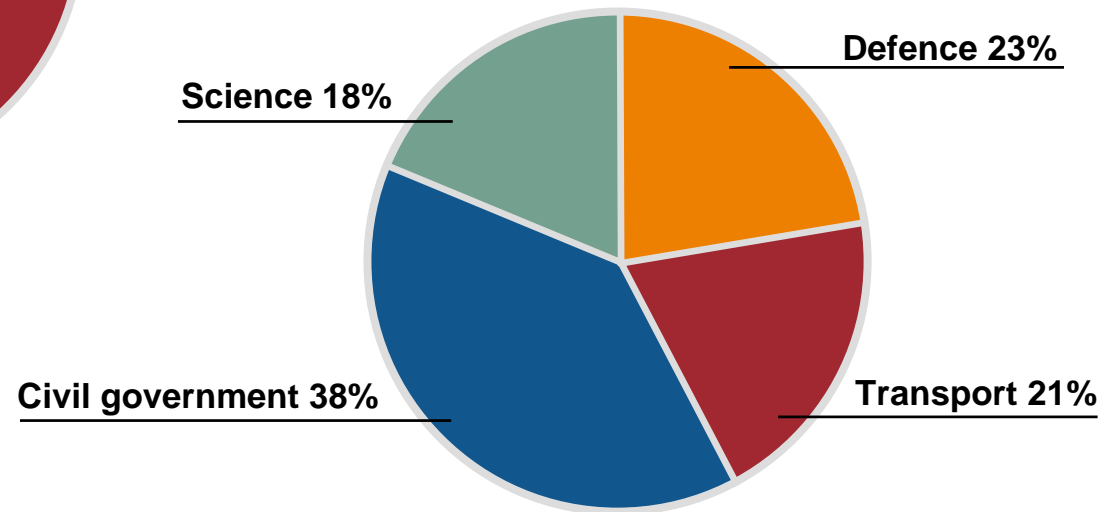
- Reported within our four main segments
- Growth of 54% to £192m
- Accounts for 8% of 2005 revenue
- IT and BPO renewals and new contracts:
 - Microsoft
 - Cadbury Schweppes
 - Coca Cola Enterprises Ltd
 - Signet plc
 - BMW
 - Wales and West Utilities
 - European Central Bank
 - Airbus UK

Market Sector Analysis

2005 £2,260m



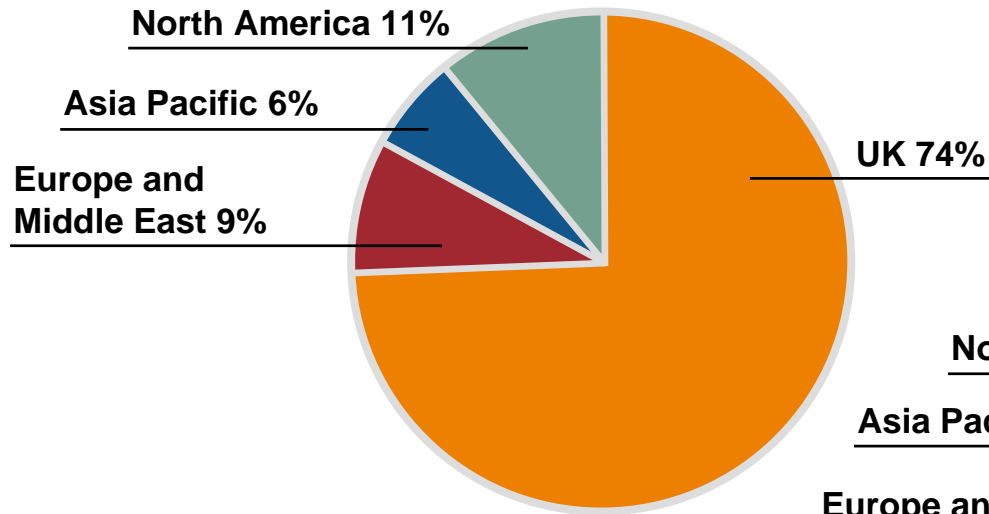
2004 £1,637m



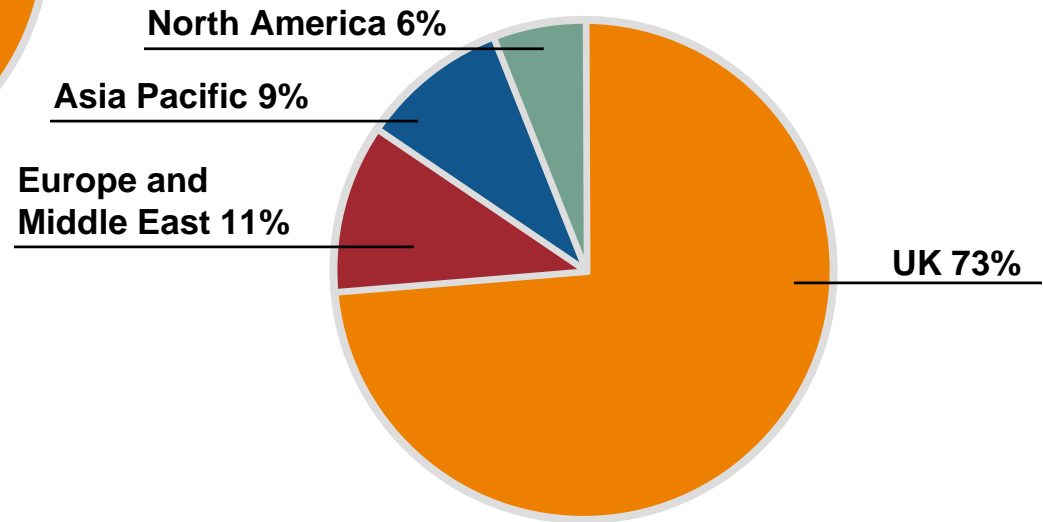
2005 private sector revenue of £192m (2004: £125m)

Geographical Analysis

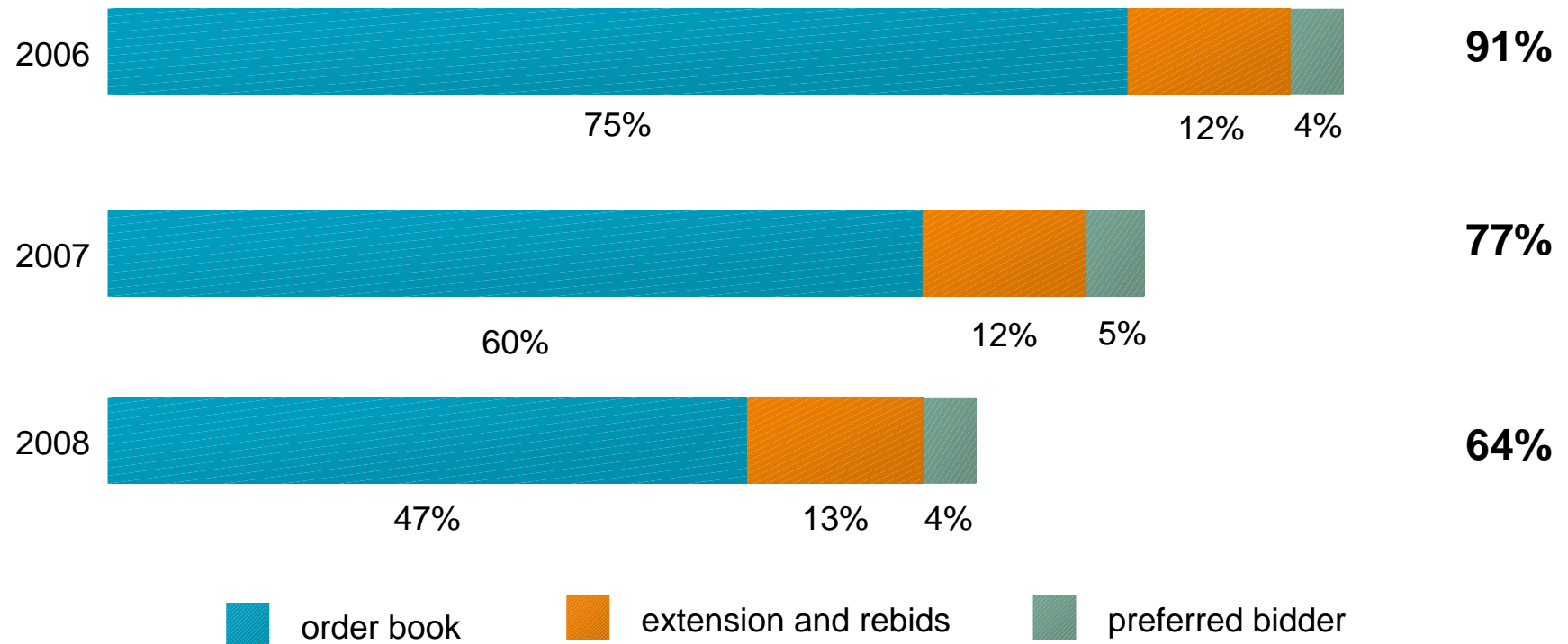
2005 £2,260m



2004 £1,637m



High Visibility of Planned Revenue



Future Focus

■ Culture

- Values based organisation

■ Efficiency

- Structure reviewed to keep close to the customer
- Strategic sourcing delivering savings in purchasing costs
- SAP roll out and shared services function

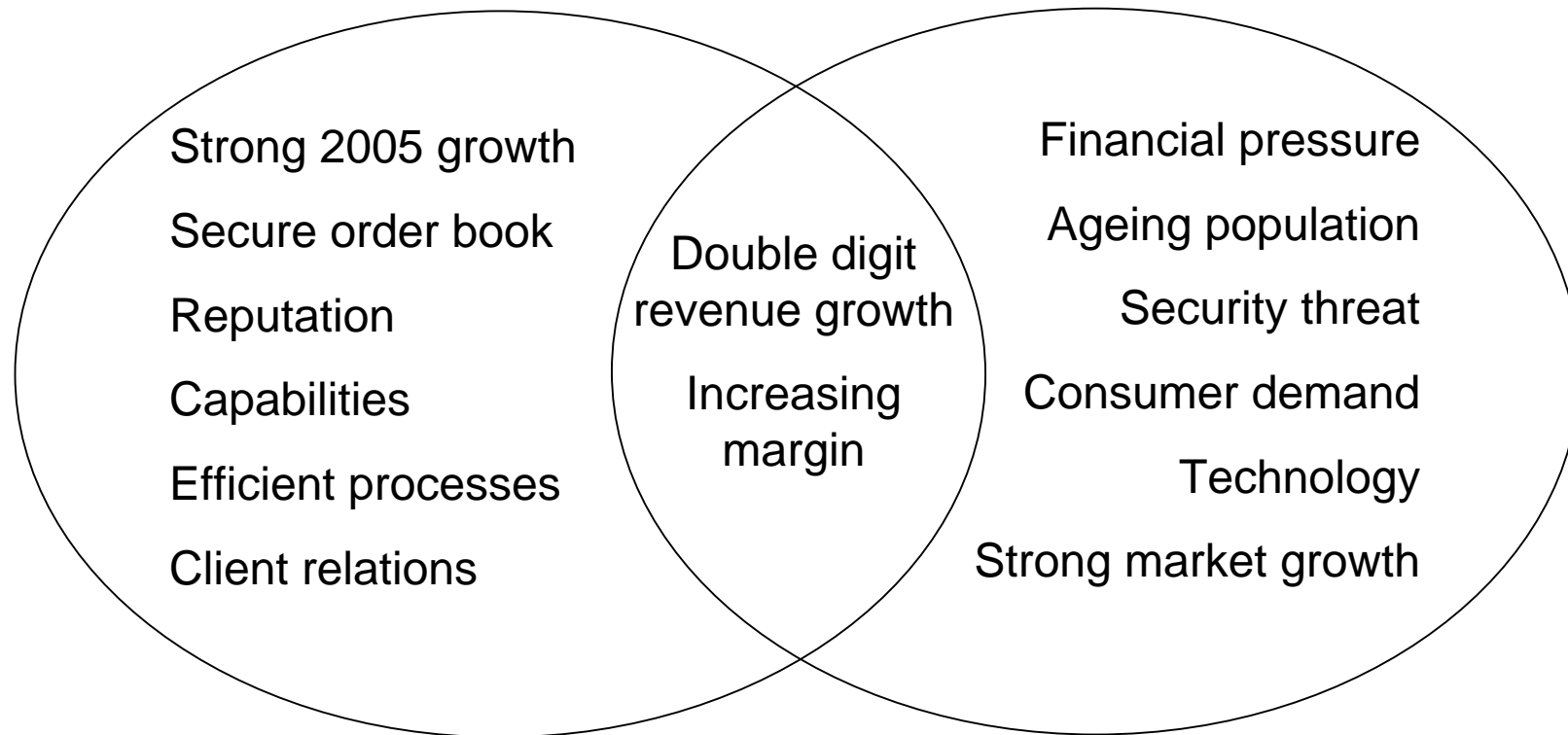
■ Growth

- Brand strengthening
- New capabilities acquired
- Selective bidding and account management
- Unprecedented market opportunities

Summary and Outlook

Kevin Beeston - Chairman

Internal and external factors deliver growth



Summary and Outlook

Summary

- Strong organic growth
- Enhanced capabilities and efficiency
- Acquisitions delivering
- Strong order book and bid pipeline
- Top ten contracts not due for renewal before end 2010
- Markets moving in our favour

Outlook

- Double digit growth and increasing margins

Questions & Answers