

Bringing service to life



2006 Interim Results

Presented by
Serco Group plc

31 August 2006

Agenda

| | |
|-----------------------------|---------------|
| Overview | Kevin Beeston |
| Financial results | Andrew Jenner |
| Market and operating review | Chris Hyman |
| Summary and outlook | Kevin Beeston |
| Q&A | |



2006 interim results - highlights

| | 2006 | Increase | Exc ITNET and RCI |
|----------------------|---------|----------|-------------------|
| Revenue | £1,236m | 15.0% | 10.0% |
| Profit before tax* | £52.5m | 20.1% | 16.8% |
| Earnings per share* | 8.06p | 18.9% | |
| Dividend per share | 1.05p | 15.4% | |
| Group free cash flow | £25.8m | 33.0% | |

*before amortisation of intangible assets

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Business highlights

- **Strong growth in contract base**
 - signed new business valued at £1.3bn
 - appointed preferred bidder for contracts valued at £1.9bn
 - >£220m of contracts won through cross-group capability
- **Strong cash conversion**
 - converted 80% of Group EBITDA into cash
- **Excellent revenue visibility**
 - preferred bidder on contracts valued at £3.6bn
 - forward order book at record £13.5bn
 - identified 99% of 2006 planned revenue, 85% of 2007 and 75% of 2008
- **Significant pipeline**
 - £22bn of opportunities identified

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Financial results

Andrew Jenner – Finance Director



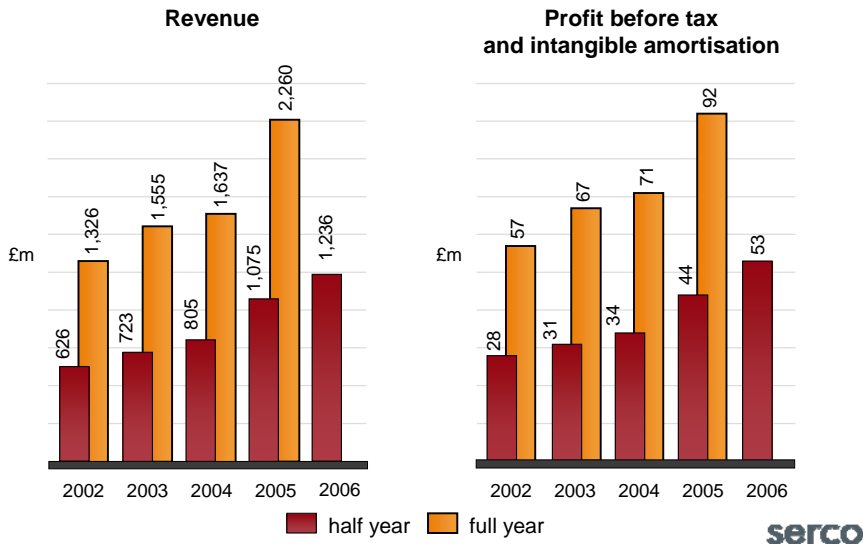
Financial results

Andrew Jenner – Finance Director

- **Financial performance**
 - income statement
 - cash flow
 - net debt
- **Pensions**
- **PFI investment partnership update**



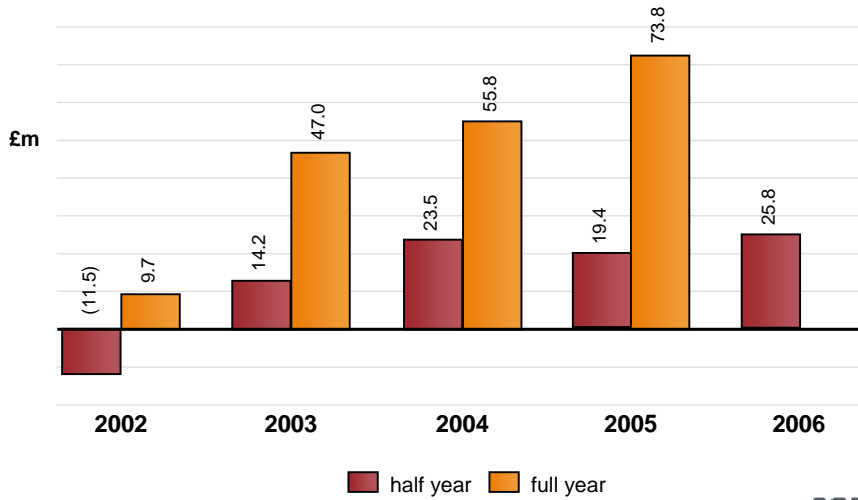
Income statement



Income statement

| Six months to 30 June | 2006 £m | 2005 £m | increase |
|---|------------|------------|----------|
| Revenue | 1,236.2 | 1,074.9 | 15.0% |
| Gross profit | 178.4 | 153.5 | 16.2% |
| Administrative expenses | (116.6) | (101.6) | 14.8% |
| Investment revenue and finance costs | (9.3) | (8.2) | |
| Profit before tax / intangible amortisation | 52.5 | 43.7 | 20.1% |
| Intangible amortisation | (7.7) | (6.4) | |
| Profit before tax | 44.8 | 37.3 | 20.1% |
| Effective tax rate | 29.0% | 30.5% | |
| Earnings per share before amortisation | 8.06p | 6.78p | 18.9% |
| Earnings per share after amortisation | 6.69p | 5.61p | 19.3% |

Group free cash flow



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Group free cash flow

| Six months to 30 June | 2006 £m | 2005 £m |
|---|------------|------------|
| Group EBITDA | 56.5 | 52.3 |
| Working capital movement | (11.2) | (15.5) |
| Group operating cash flow | 45.3 | 36.8 |
| Interest | (8.7) | (7.7) |
| Tax | (2.4) | (3.2) |
| Expenditure on tangible / intangible assets | (21.9) | (12.1) |
| Dividends from joint ventures | 13.5 | 7.7 |
| Other items | - | (2.1) |
| Group free cash flow | 25.8 | 19.4 |

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Net cash flow

| Six months to 30 June | 2006 £m | 2005 £m |
|-----------------------------------|------------|------------|
| Group free cash flow | 25.8 | 19.4 |
| Acquisitions | - | (282.5) |
| Other financing | (23.0) | 254.4 |
| Dividends paid | (9.6) | (8.3) |
| Non recourse debt financed assets | (3.0) | (9.2) |
| Net change in cash - group | (9.8) | (26.2) |

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Group recourse net debt

| As at | 30 June 2006 £m | 31 Dec 2005 £m |
|----------------------------------|-----------------------|----------------------|
| Cash and cash equivalents | 198.9 | 210.0 |
| Other loans | (417.9) | (453.1) |
| Obligations under finance leases | (18.0) | (20.9) |
| Group recourse net debt | (237.0) | (264.0) |

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Total net debt

| As at | 30 June 2006 £m | 31 Dec 2005 £m |
|-------------------------|-----------------------|----------------------|
| Group recourse net debt | (237.0) | (264.0) |
| JV recourse net cash | 26.9 | 18.0 |
| Total recourse net debt | (210.1) | (246.0) |
| Group non recourse debt | (311.2) | (326.8) |
| JV non recourse debt | - | (22.4) |
| Total non recourse debt | (311.2) | (349.2) |
| Total net debt | (521.3) | (595.2) |



Pensions

| As at | 30 June 2006 £m | 31 Dec 2005 £m |
|------------------------------------|-----------------------|----------------------|
| Group schemes – SPLAS | (119.4) | (144.2) |
| – other | (36.4) | (56.2) |
| Contract specific schemes | | |
| - reimbursable | (77.1) | (84.9) |
| - not certain to be reimbursable | (24.0) | (21.3) |
| Net retirement benefit liabilities | (256.9) | (306.6) |
| Intangible assets | 22.2 | 19.0 |
| Reimbursable rights debtor | 77.1 | 84.9 |
| Deferred tax asset | 40.7 | 52.8 |
| Net balance sheet position | (116.9) | (149.9) |



Group defined benefit pension scheme

| As at 30 June 2006 | £m |
|--------------------|----------------|
| Scheme assets | 519.6 |
| Scheme liabilities | (639.0) |
| Gross deficit | <u>(119.4)</u> |

- **9,800 members, closed to new members in 2001**
- **Deficit volatile principally due to movements in AA bond rates**
 - ranged from £119m to £160m in H1 2006

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Group defined benefit pension scheme

- **Outcome of scheme funding review likely to result in**
 - cash injection into scheme of approximately £70m
 - review of employer and employee contribution rates
- **Continue to consider investment strategy with Trustees**
- **Will not materially affect Serco's earnings**

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PFI investment partnership update

- **In discussions to form a strategic investment partnership to**
 - provide larger and lower cost pool of capital for future investment
 - allow us to sell some or all of our existing 100%-owned investments and recycle cash
- **Serco would continue to**
 - provide services under existing operating contracts
 - deliver management services to investment partner
- **Still several steps to complete**



Summary

- **Good organic growth**
- **Improving margins**
- **Strong free cash flow**
- **Strengthening balance sheet**



Review of markets and business performance

Chris Hyman – Chief Executive



Review of markets and business performance

Chris Hyman – Chief Executive

- **Strong performance**
- **Growth**
- **Acquisitions bring new capabilities**
- **New markets emerging**
- **Systems and infrastructure investment**
- **Leadership development**
- **Combined group capabilities unlocking more opportunities**



Civil Government

- Overall growth of 15% to £458m
- Sector accounted for 37% of revenue
- Sector consists of
 - Home Affairs
 - IT Services, BPO and Local Government
 - Health
 - Education



Civil Government - Home Affairs market

- Clients responding to significant challenges
 - terrorism
 - crime
 - prison capacity
 - re-offending rates
- New UK prison opportunities

UK market £3bn pa

Capabilities
Offender management
Law enforcement
Migration
Homeland security



Civil Government - Home Affairs

- **Wins**
 - new prison contracts and extensions valued at £79m
 - non-emergency police number
 - chemical, biological, radiological and nuclear response
- **Leveraging UK experience in new geographies**
 - prisons in Australia and Germany
 - UAE & Oman homeland security

UK market £3bn pa

Capabilities

Offender management
Law enforcement
Migration
Homeland security

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Civil Government - IT Services and BPO

- **Strengthened capabilities**
- **£69m London Development Agency contract to encourage SMEs**
- **£35m of further IT service contracts**
- **Solutions contributed £107m revenue, £8.5m PBTA**
- **Citizens seek joined-up public services**
- **Shared services market developing**
- **Education**
 - supplying ICT to >1350 schools

UK market £4.3bn pa

Capabilities

Contact centres
Data sharing
Shared Services Centre

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Civil Government - Health

- **Expanded primary healthcare services**
 - Cornwall out of hours
 - Police/ Revenue and Customs contracts for primary and forensic medical services
- **PFI**
 - £450m Forth Valley NHS Hospital
 - £60m Norfolk and Norwich FM rebid
 - £1.2bn Leicester Pathway given go-ahead

UK market £10bn pa

Capabilities

Primary care

Occupational health

Support services

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Civil Government - Local Government

- **Waste management pressures on councils**
- **Welwyn Hatfield Council**
 - £50m, 10 year contract
- **Restormel Borough Council**
 - £45m, 10 year contract

UK market £2bn pa

Capabilities

Innovative 'one pass' service

Performance based contract

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Defence

- **Growth of 22 % to £ 307m**
- **Sector accounted for 25% of revenue**
- **UK**
 - £58m Paradigm satellite contract extension
 - £1bn Marine Services contract
 - £125m Agusta Westland teaming agreement
 - new MoD procurement strategy opportunities

UK Market £8bn pa

Capabilities

Integrated engineering

Information systems

Equipment operation

Integrated training

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Defence – US

- **Good growth from RCI**
- **RCI contributed £95.1m revenue, £6.1m PBTA**
- **\$25m, three year, US Army ID cards**
- **\$20m, five year, Navy Command Centre rebid**
- **\$10m, two year, Navy Family Assistance Services**
- **Longer, larger service contracts now in reach**

US Market \$50bn pa

Capabilities

HR solutions

Technical systems

Equipment operation

Integrated training

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Science

- Overall growth of 26% to £204m
- Sector accounted for 16% of revenue
- Growth from £350m AWE extension
- £12m, two year, Envirowise rebid
- £20m, five year, North West technology centre

Decommissioning
market £2bn pa

Capabilities

Change management

Nuclear consultancy

Knowledge transfer

Technology transfer

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Transport

- Overall growth of 2% to £267m
- Sector accounted for 22% of revenue
- £400m, nine year, DLR franchise rebid
- Growth in Northern Rail and Merseyrail
- AUS\$75m, six year, Hong Kong tunnels rebid
- Congestion increasing traffic management opportunities

Market £4bn pa

Capabilities

Road and rail operations

Information and control

Infrastructure maintenance

Consultancy

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Operational highlights – 2006

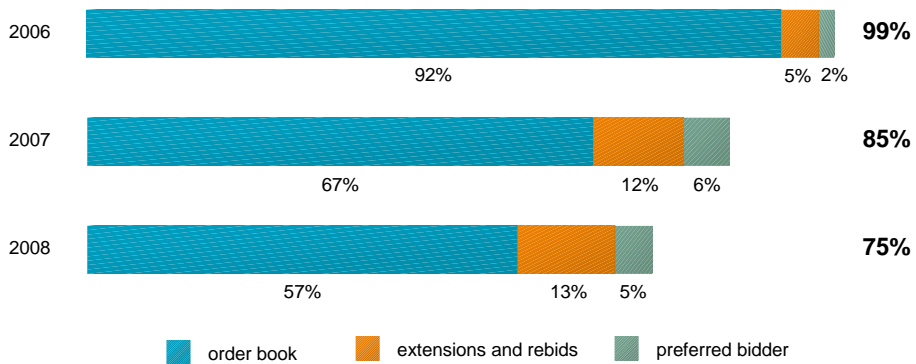
■ Service builds business

- revenue growth of 15% and PBTA growth of 20%
- organic revenue growth of 10%
- winning 90% of rebids and one in two new bids
- new contracts valued at £1.3bn
- appointed preferred bidder on contracts valued at £1.9bn
- order book at record £13.5bn
- improving margins

■ Focused on selecting best bids, contracts and markets

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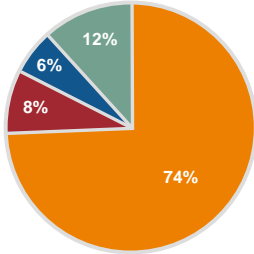
High visibility of planned revenue



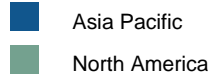
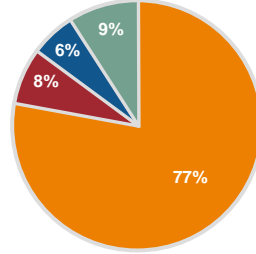
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Geographical analysis

2006 £1,236m



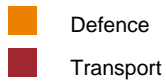
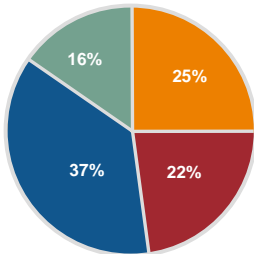
2005 £1,075m



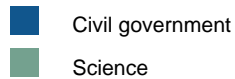
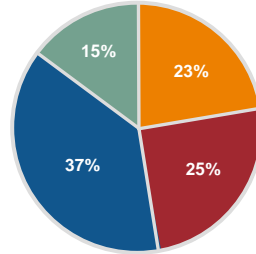
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Market sector analysis

2006 £1,236m



2005 £1,075m



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Building for the future

- **Refining internal systems**
 - SAP system rolling out
- **Capability and capacity**
 - shared service centre in India
- **Leadership**
 - recruitment and development programmes

Summary

Kevin Beeston – Executive Chairman

Summary

Kevin Beeston – Executive Chairman

- **Macro market development**
- **Change to Board responsibilities**
- **Summary and outlook**



Macro market development

- **UK is world leading public service contractor**
- **Globalisation driving competition and change**
- **Political acceptance of private sector delivering in public service**
- **Mixed economy of provision**
- **Clients requiring more integrated approaches**
- **Addressable markets to grow significantly**
- **Citizen demands for better services continues**



Change to Board responsibilities

- **Kevin Beeston moving to Non-Executive Chairman**
- **Transition over twelve months**
- **Strong management at all levels**



Summary and Outlook

- **Summary**
 - strong double-digit growth
 - enhanced capabilities delivering new business
 - continued high win and rebid rate
 - order book and bid pipeline stronger still
 - markets developing well
- **Outlook**
 - double-digit growth and increasing margins

