

Bringing service to life



## 2006 Preliminary Results

Presented by  
**Serco Group plc**

28 February 2007

## Agenda

Overview	Kevin Beeston
Business review	Chris Hyman
Financial results	Andrew Jenner
Markets and outlook	Chris Hyman
Q & A	



## 2006 Excellent year

	2006	Increase
Revenue	£2,548.2m	12.7%
Profit before tax (PBT)	£107.4m	37.9%
Earnings per share (EPS)	16.62p	42.5%
PBT before amortisation and gain on sale	£112.2m	22.6%
EPS before amortisation and gain on sale	17.13p	21.6%
Dividend per share	3.60p	21.2%
Group free cash flow	£85.4m	15.7%

## 2006 Operational highlights and Outlook

- Excellent performance
  - won 90% of rebids and one in two new bids
  - £3bn of business signed in the year
  - £1.9bn of contracts at preferred bidder stage appointed in the year
  - £13.9bn forward order book
  - improving margins
- Continuing positive outlook
  - significant forward visibility
  - unprecedented market opportunities
  - strong positioning
  - depth of management capability
  - confident of double digit growth and rising margins

Chris Hyman

Business review

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2006 Excellent year, Compelling future

Excellent performance in new and existing markets

Good margin growth and strong cash performance

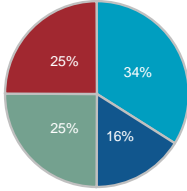
Combined group capabilities unlocking more opportunities

Leadership and systems development reaping rewards

Unprecedented market opportunities

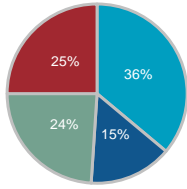
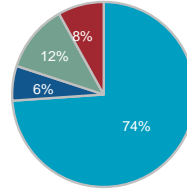
## Market sector & Geographical analysis

Revenue by market

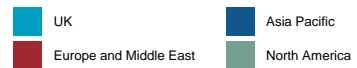
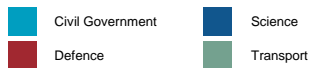
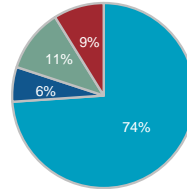


2006 £2,548m

Revenue by geography

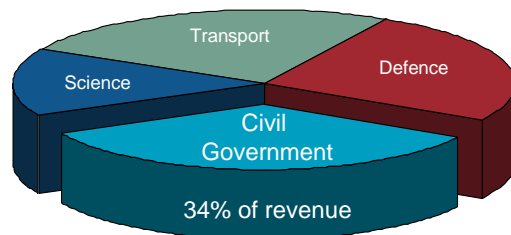


2005 £2,260m



## Civil Government

- 9% revenue growth to £875m
- Sector consists of
  - Home Affairs
  - IT and BPO services
  - Education
  - Health



## Civil Government

### Home Affairs

#### Governments facing common challenges

- To reduce social and fiscal impact of crime
- To manage increasing migration
- To reduce the threat of terrorism

- Offender management
  - Scottish electronic monitoring started
  - electronic monitoring growth in England, Wales and Scotland
  - £79m extensions to UK prisons
  - AUS\$155m Australian Acacia prison
- Civil Resilience/ Homeland Security
  - Cyclamen progressing well
  - support to UK police response
  - UAE and Oman homeland security

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## Civil Government

### Expanding Home Affairs market

- UK opportunities
  - new prison capacity
  - National Offender Management Service market
  - Police transformation programmes and strategic partnerships
  - new migration management strategies - technology and service operations
- Developing overseas opportunities
  - prison management
  - court escorting bids
  - customs / homeland security trials

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## Civil Government

IT & BPO Services

### Governments facing common challenges

- To improve efficiency
- To raise service quality
- To enable economic regeneration

- £69m London Business Link to develop SMEs
- £12m Envirowise campaign renewed
- Additional IT services contracts with multiple customers
- \$12m US Pensions Benefit Guarantee Corp administration
- New private sector business
  - £7.1m Red Bee Media IT services



## Civil Government

Expanding IT & BPO Services market

- Efficiency
  - Gershon Review and Comprehensive Spending Review driving reform
  - police shared services and national IT programmes
  - defence forces shared services and IT services
- UK Local Government drivers for healthier communities
  - children and young people
  - health and independence
  - safer and stronger communities
  - economic development and environment



## Civil Government

Education , Children's Services and Health

### Governments facing common issues

To increase educational attainment  
To manage the healthcare cost of ageing population  
To improve health outcomes

- £10m strategic children centre services
- ICT provider for 1,350 schools
- Expanded primary healthcare services
- Integrated facilities management

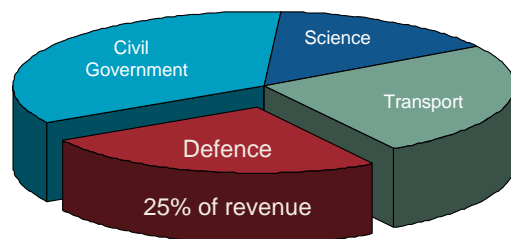
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## Defence

### Governments facing common challenges

To respond to the changing nature of the threat  
To reduce the cost of operations  
To increase the availability of trained personnel

- 14% revenue growth to £645m



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## Defence

### ■ UK

- Benefiting from new Defence Industrial Strategy
  - ▶ £125m AgustaWestland teaming agreement
  - ▶ £110m Rolls-Royce Hercules support
  - ▶ £500m Dstl signed and transition underway
  - ▶ £58m Paradigm satellite extension
  - ▶ £1bn Future Provision of Marine Services preferred bidder
- Future growth
  - ▶ extensive contract base
  - ▶ developing whole life cost prediction and planning tools
  - ▶ Defence Technology Strategy opportunities

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## Defence

### ■ US

- Winning longer, larger service contracts
- Expanding into new customers
  - ▶ \$28m US Navy Military family support
- Extending existing capabilities
  - ▶ \$57m C4I submarine and satellite communication
  - ▶ \$64m US Army; Naval and Army Reserves HR related contracts

### ■ Australia

- Significant expansion of garrison support services
- AUS\$200m from two contract wins

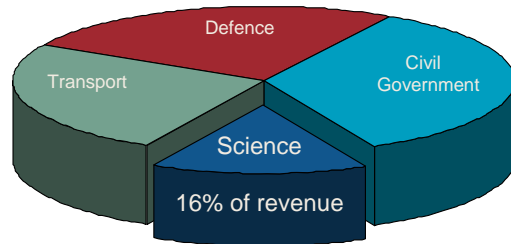
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## Science

### Governments facing common challenges

- To deliver increasing demands for energy
- To meet the challenge of climate change
- To manage the nuclear legacy

- 18% revenue growth to £403m



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## Science

- Growth from £350m AWE extension
- £20m RDA North West technology centre
- Serco-led consortium to support Nuclear Decommissioning Authority
  - £2bn Sellafield competition started

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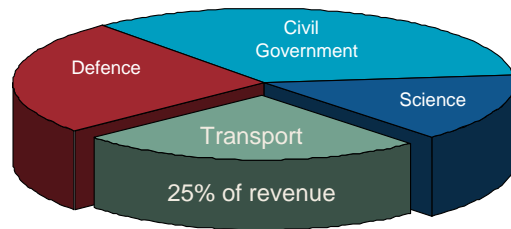
## Transport

### Governments facing common challenges

To manage increasing congestion to avoid it damaging economic growth

To use technology to enable more efficient use of networks and demand management

- 14% revenue growth to £626m



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## Transport

- Heavy Rail
  - Strong growth in Northern Rail and Merseyrail
  - West Midlands bid result due 2007
- Light Rail
  - £400m Docklands Light Railway franchise rebid
  - £400m Dubai bid result due in 2007
- Traffic Management
  - Stockholm, Hong Kong, China, UK traffic management contracts and trials

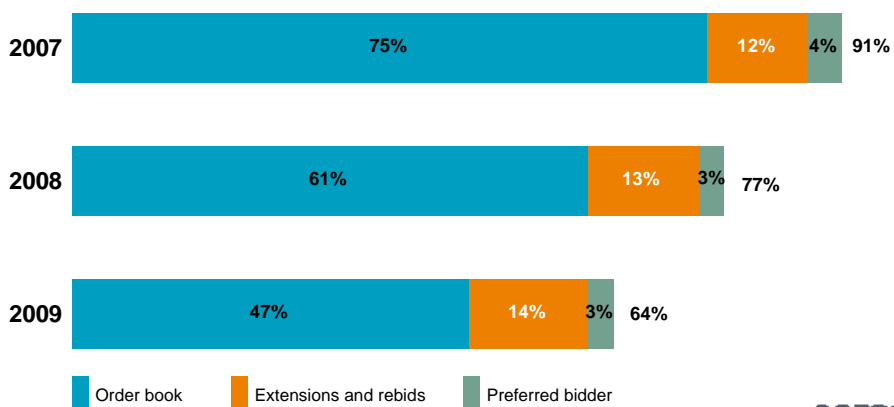
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## Business highlights

- Exceptional revenue visibility
  - £13.9bn record forward order book (2005: £13.4bn)
  - none of top ten largest contracts due for rebid before 2011

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## Visibility of planned revenue At Dec 31 2006



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## Business highlights

- Growing bid pipeline
  - £3.5bn contracts at preferred bidder stage
  - £4.5bn of other bids short listed to final two or three
  - £23bn of additional opportunities identified
- Focused on selecting best contracts and markets
  - opportunity for long term relationships and service transformation
  - opportunity for organic growth
  - appropriate returns

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## Summary

- Excellent performance
  - winning >90% of rebids and one in two new bids
  - 11.4% of growth in organic revenue
  - 22.6% of growth in profit before tax, amortisation and gain on sale
  - £3bn of new contracts signed in the year
  - £1.9bn of contracts at preferred bidder stage appointed in the year
  - converted 98% of Group EBITDA into operating cash

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Andrew Jenner

Financial results

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## Financial results

- PFI investment partnership
- Pension funding
- Financial performance
  - income statement
  - cash flow
  - net debt

## PFI investment partnership

- Strategic investment partnership with Infrastructure Investors Limited (I<sup>2</sup>)
- Enhances Serco's capacity to innovate and compete in PFI market
- I<sup>2</sup> able to provide equity investment for future PFI contracts
- Serco retains long term operating contracts
- Sold investments in six PFI projects to I<sup>2</sup>
  - sale proceeds of £76.5m
  - profit on disposal of £11.4m
  - removal of £242m of non recourse debt

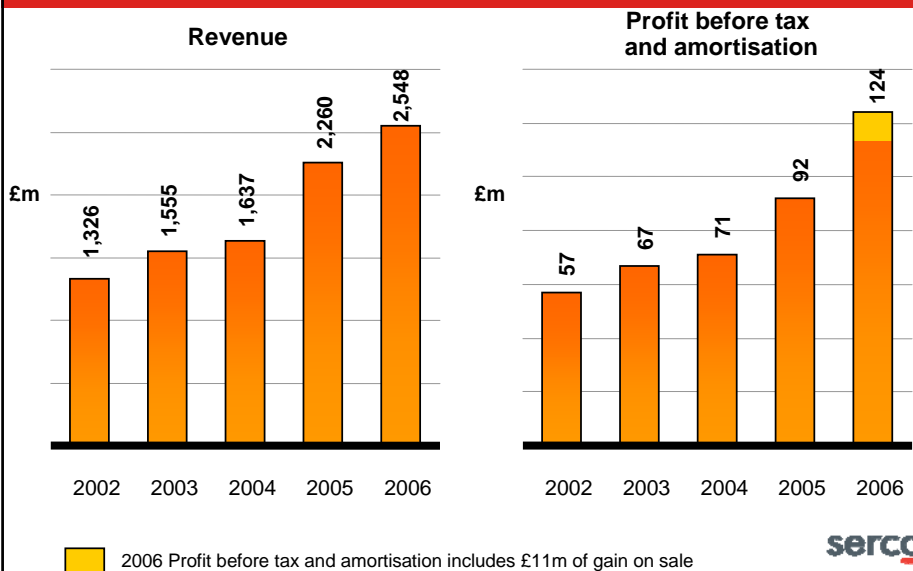
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## Group defined benefit pension scheme

- Deficit of £136m at Dec 31 before special cash contribution
- Deficit volatile principally due to movements in AA bond rates
  - ranged from £119m to £160m in 2006
- Scheme funding review resulted in:
  - special cash contribution paid of £70m
  - increase to employer and employee contribution rates
  - lower risk investment strategy
  - no material impact on earnings

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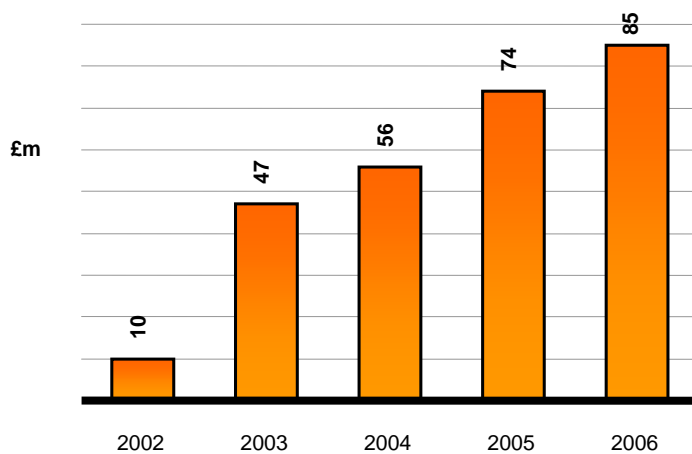
## Income statement



## Income statement

Year ended 31 December	2006 £m	2005 £m	increase
Revenue	2,548.2	2,260.3	12.7%
Profit before tax, amortisation and gain on sale	112.2	91.5	22.6%
Gain on sale of PFI investments	11.4	-	
Profit before tax and amortisation	123.6	91.5	35.1%
Amortisation	(16.2)	(13.6)	
Profit before tax	107.4	77.9	37.9%
Effective tax rate	26.0%	30.2%	
Earnings per share	16.62p	11.66p	42.5%
Earnings per share before amortisation and gain on sale of PFI investments	17.13p	14.09p	21.6%

## Group free cash flow



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## Group free cash flow

Year ended 31 December	2006 £m	2005 £m
Group EBITDA	122.9	107.6
Working capital movement	(2.1)	(11.2)
Group operating cash flow	120.8	96.4
Interest	(10.6)	(15.7)
Tax	(6.7)	(1.0)
Expenditure on tangible and intangible assets	(47.7)	(31.6)
Dividends from joint ventures	29.6	25.7
Group free cash flow	85.4	73.8

## Net cash flow

<b>Year ended 31 December</b>	<b>2006 £m</b>	<b>2005 £m</b>
Group free cash flow	85.4	73.8
Cash received on sale of PFI investments	76.5	-
Cash disposed of on sale and transaction costs	(58.3)	-
Acquisitions	-	(281.7)
Other financing	(98.6)	253.8
Special pension contribution	(19.0)	-
Dividends paid	(14.5)	(12.5)
<b>Net change in cash - group</b>	<b>(28.5)</b>	<b>33.4</b>

## Group recourse net debt

<b>At 31 December</b>	<b>2006 £m</b>	<b>2005 £m</b>
Group cash and cash equivalents	177.8	210.0
Group loans	(334.4)	(453.1)
Group obligations under finance leases	(15.3)	(20.9)
<b>Group recourse net debt</b>	<b>(171.9)</b>	<b>(264.0)</b>

## Total net debt

<b>At 31 December</b>	<b>2006 £m</b>	<b>2005 £m</b>
Group recourse net debt	(171.9)	(264.0)
JV recourse net cash	28.2	18.0
<b>Total recourse net debt</b>	<b>(143.7)</b>	<b>(246.0)</b>
Group non recourse debt	(62.2)	(326.8)
JV non recourse debt	-	(22.4)
<b>Total non recourse debt</b>	<b>(62.2)</b>	<b>(349.2)</b>
<b>Total net debt</b>	<b>(205.9)</b>	<b>(595.2)</b>

## Summary

- Good organic growth
- Improving margins
- Strong group free cash flow
- Strengthened balance sheet

Chris Hyman

Environment &  
Outlook

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## Business focus

- Revenue
  - new higher quality opportunities
  - traditional business
- Margin improvement
  - portfolio management
  - operating cost savings
  - selective bidding policy

## Strengthening the business

- Leadership
  - recruitment and development programmes
- Capability and capacity
  - cross-divisional working
  - IT development capability
- Enhancing internal systems
  - strong and embedded risk management processes
  - upgrading the Serco Management System

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## Shifting political mindsets

- Political acceptance of private sector delivering in public service
- UK is world leading public service contractor
- Clients requiring more integrated approaches
- Increasing variety of contracting models

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## Changing landscape

- Governments facing similar challenges
  - increasing demands for better public services
  - limits on levels of taxation
  - impact of technology
  - transport congestion
  - ageing population
  - threat of terrorism
  - climate change

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## Summary and Outlook

- Summary
  - strong growth
  - margins improved
  - strong cash performance
  - order book and bid pipeline stronger still
- Outlook
  - growing markets
  - enhanced business capabilities
  - double-digit revenue growth and increasing margins

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