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SERCO GROUP PLC

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2000

ACHIEVEMENT HIGHLIGHTS

- Turnover up 16.2% to £454.9m (1999 - £391.5m)
- Profit before tax (pre FRS 10) up 19.6% to £18.6m (1999 - £15.6m)
- Earnings per share (pre FRS 10) up 20.6% to 3.34p (1999 – 2.77p restated*)
- Dividend per share up 13.6% to 0.5p per ordinary share (1999 – 0.44p restated*)

Richard White, Executive Chairman, stated:

“We are on track for another good year and are confident of sustaining our strong record of performance in the foreseeable future. Our confidence stems from continued success in winning new business while extending and broadening our existing contracts. We are greatly encouraged by our increasing ability to bid for very large and technically demanding contracts, often in association with major partners and subcontractors.”

- Ends -

Notes to Editors

Serco Group plc is an international provider of management services to government and industry, covering a comprehensive range of engineering and support activities across many applications.

For further information please contact Serco Group plc:

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Richard White - Executive Chairman
 Kevin Beeston - Chief Executive
 Christopher Hyman - Finance Director

The Serco Group plc Interim Report 2000 is available from today on our internet site at www.serco.com

* Restated to take account of the capitalisation issue in April 2000 of five new ordinary shares for each existing share held.



SERCO GROUP PLC

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2000

A Message from the Board

Serco continues to perform strongly. We are successfully applying our management skills and processes to a growing range of activities, on an increasing scale, in markets around the world.

In the six months to 30 June 2000, turnover was £454.9 million – an increase of 16.2% on the first half of 1999. Pre-tax profits grew 19.6% to £18.6 million before goodwill and by 12.8% to £16.9 million after goodwill. This raises earnings per share by 20.6% to 3.34p before goodwill and by 11.5% after goodwill. The tax rate remained at 32.5%.

The interim dividend of 0.5p per ordinary share – an increase of 13.6% – will be paid on 13 October 2000 to shareholders on the register at close of business on 15 September 2000. In April 2000 we undertook a share capitalisation with five new ordinary shares being issued for each existing ordinary share already held.

To support our growth, it is increasingly important to identify best practice and share it worldwide through communication and training. We continue to invest in building the capability and capacity of the Serco Best Practice Centre, and in extending its influence throughout Serco worldwide.

We are also enthusiastic users of technology to maintain and improve the effectiveness of our business operations. In partnership with BT, we are developing a global intranet and virtual office environment that helps people to share knowledge and fosters informal contact and 'open doors' throughout the organisation. This will help us to maintain our open and personal management style as Serco grows ever larger and more diverse.

This year in the UK we have phased-in, on schedule, three particularly large contracts: the management and operation of the Atomic Weapons Establishment (AWE), the newly-built Ministry of Defence Joint Services Command and Staff College (JSCSC), and our infrastructure maintenance contract for Railtrack.

While contracts like these made the headlines, our many less publicised successes reflect the fundamental strength of the traditional business. We maintained our success rate of over 90% in retaining contracts as they came up for renewal – significant renewals in the UK included Her Majesty's Prison Doncaster and the Defence Procurement Agency in Abbey Wood. We are also negotiating an extension for a further two years of our contract to manage the National Physical Laboratory (NPL).

We continued to build on existing contracts by extending their scope, or winning related new business. An interesting example in the UK was a contract from the Defence Evaluation and Research Agency (DERA) to crew, operate and maintain its new experimental research vessel *RV Triton* – a revolutionary trimaran that will be used to test the triple hull concept for future Royal Navy warships. This contract grew directly from our successful operation of another DERA research vessel, the *RV Colonel Templar*.

With this and many other new business wins, we are broadening our competencies to encompass an increasing variety of advanced technologies. Important new IT activity includes the award of a significant contract to form a strategic partnership in the UK with the National Crime Squad: under this £65 million contract starting later this year, we will provide a wide-ranging information management and communication service.



We also began supporting the entire IT infrastructure for the body that oversees the Italian Stock Exchange and public companies. And in the Netherlands, we took on two new scientific support contracts for the European Space Research and Technology Centre. Additionally we are at an advanced stage in negotiations with the Highways Agency for a contract to build and operate its Traffic Control Centre. This will allow the strategic management of traffic on England's core trunk road network, monitor traffic and journey times, and distribute traffic and travel information through existing and new media.

Public Private Partnerships (PPPs) remain a significant source of opportunity for us. In the UK, we have formally entered the bidding for the National Air Traffic Services PPP; bidders will table their best and final offers in January 2001. We continue to develop PPP proposals for AWE that would extend the contract from 10 to 25 years and enable us to further redevelop the facilities.

Our ability to bid for contracts of this scale – with world-class partners where appropriate – reflects Serco's increasing strength in worldwide markets. We look forward to continued good growth and progress in the second half of the year.



Review of Operations

Maximising growth opportunities

Our continued strong growth comes not only from winning new contracts; by implementing and operating them effectively, we are able to retain, grow and extend them.

This year we have successfully implemented three very large contracts. Our joint venture with Lockheed Martin and British Nuclear Fuels has begun managing AWE and its staff of over 4,000. At JSCSC, under a 30-year contract worth some £180 million, we have invested in a joint venture to build the £90 million facility and recruited 300 staff to manage and operate it. Our infrastructure maintenance contract for Railtrack covers about 1,200 miles of track and now employs some 600 people.

In addition to JSCSC, six other UK PPP projects are now operating successfully – four prisons, the Manchester Metrolink transport system, and the Medium Support Helicopter Aircrew Training Facility at RAF Benson. Meanwhile, at NPL, we have begun transferring staff into the new laboratory facilities which are due for completion next year. Her Majesty's Prison Dovegate, Norfolk and Norwich Hospital and Wishaw General Hospital are on schedule for completion in 2001.

Rebids provide an important growth opportunity. A significant example this year was a seven-year renewal of our contract at the UK Defence Procurement Agency in Abbey Wood near Bristol. With work services management added to our previous contract, we will have over 350 people delivering a total corporate support service.

Often we broaden the scope of our activities during the life of a contract. For example, since the start of our infrastructure maintenance contract with Railtrack in April this year, we have already won an additional contract to include bridges and related structures. In Wales, we extended our facilities management contract with the stainless steel company Avesta Sheffield after successfully growing the contract since 1992. And in New Zealand we extended our contract to provide property maintenance and building services at 4,000 sites for Telecom New Zealand, the country's largest business; this contract has grown to include Telecom's preventive maintenance programme, and in the past two years we have earned substantial incentive payments for achieving cost savings.

This kind of measurable contribution to our customers' bottom line helps us extend the duration of contracts – as at ScotRail, where our train information and telesales contract was recently extended after we increased revenues by over 30% in two years.

In Hong Kong, we won our third consecutive contract to manage the Lion Rock and Airport Tunnels. The new contract – which is for six years – will employ over 200 staff.

We strive to build contractual relationships into long-term partnerships. A good example is our arrangement with DERA at its weapons testing ranges in Scotland. This began with a small two-man contract in the Hebrides in the early 1970s, which developed into a series of contracts for individual ranges. We have now pulled these contracts together into a partnering arrangement in which both parties share risks and benefits – with DERA extending its commitment so that we can increase our investment with confidence. This arrangement, employing over 200 Serco staff, is modelled on a similar relationship we have already established for DERA's other test and evaluation ranges.

Sometimes the capabilities from one contract can be used to win another. At the Royal New Zealand Air Force's Woodbourne base we have four contracts including grounds maintenance. Using the same management and equipment, we won two contracts – renewed and extended this year – to maintain the local council's parks and reserves. A similar approach enabled us to win a substantial open area management contract with Manukau City.



In the Netherlands, we extended our mainframe computer support contract with the European Patent Office. We also successfully extended our IT contracts with the European Commission. These cover PC user support to over 15,000 staff in some 30 buildings in Brussels and Luxembourg, and continue to achieve good organic growth.

Winning new contracts

While making the most of our existing contract base, we have also maintained an exciting flow of new business across the spectrum of our capabilities.

One key to our growth is our ability to apply and manage high technology. This is part of our heritage – we began by maintaining the UK Ballistic Missile Early Warning System – and makes us credible custodians of sensitive and technically demanding operations such as AWE and NPL. Later this year we begin a major partnership with the National Crime Squad. Under this newly awarded 10-year contract, we will develop a strategy for the National Crime Squad's information management and communications needs. This complex technical task ranges from the provision of data centres to the storage and tracking of vital evidence. We will provide a comprehensive, highly secure and integrated solution to meet the National Crime Squad's business requirement.

In the UK, we won a 10-year contract to manage the Manchester Aquatic Centres. Built to host the Commonwealth Games in 2002 and to provide a community legacy, this has one of the largest indoor water areas in Europe and is the most technically advanced pool complex in the world. We also won a 10-year extension to our management and operation contract at Tenterden Leisure Centre in Kent, which will include significant investment in new facilities.

We began a new contract for CONSOB, the National Commission that oversees the Italian Stock Exchange and public companies. We are supporting its entire IT infrastructure for 450 employees at two offices in Rome and one in Milan.

In Germany, Elekluft – acquired in September 1999 and renamed Serco GmbH & Co. KG – is integrating well with our other activities. It is supporting the first of two new high-tech contracts at the European Space Research and Technology Centre in the Netherlands. The first provides support services in thermal microgravity instruments, robotics and optics laboratories; the second is for radiation and quality testing of satellite components.

We won our largest Swedish contract to date, for facilities management at Forsmark nuclear power station. This covers a wide range of activities, from decontamination services to managing some 700 accommodation units.

We were awarded a four-year contract for the Royal Netherlands Navy, providing Lynx helicopter avionics engineers both on land and at sea. Our invitation to bid for this contract was based on the recommendation of a Dutch naval officer who had been able to judge our performance at first hand on an exchange assignment with the Royal Navy.

Information technology is increasingly important to the efficient operation of transport infrastructures, and is a significant growth area for us. In the UK, we won the contract to run the Association of Train Operating Companies' Communication Centre, which collects and distributes rail information from Railtrack and Train Operators. We are currently developing a web-based system to make the service more accessible. We also bid successfully to expand the scope of Scotland's National Driver Information and Control System.



In Australia, we are the preferred tenderer for the management and operation of the Transinfo passenger information service shared by Queensland Transport, Queensland Rail and Brisbane City Council. The proposed five-year contract is based on installing voice recognition technology which will support the management of call growth.

Although the majority of our contracts have traditionally come from the public sector, there is increasingly wide recognition that we can bring comparable benefits to the commercial and industrial sectors.

Under a new contract with Bombardier, we will shortly begin acceptance testing of new non-tilting and tilting trains for Virgin CrossCountry services. We have also secured a new contract from ALSTOM for acceptance testing of its Class 180 diesel trains.

In Ireland, the influx of US companies represents a significant opportunity for us, and our clients there already include IBM. In January we began a facilities management contract with Microsoft, covering a wide range of services in the company's 11 Dublin premises which include its European operations and product localisation centres.

In the US, we built on our existing vehicle fleet maintenance contract with Dayton Power & Light to win an additional contract to provide mobile tanker refuelling for its 900-strong vehicle fleet. We enhanced our mobile maintenance service by introducing hand-held data terminals and a wireless internet management information system.

Prospects

We are on track for another good year and are confident of sustaining our strong record of performance in the foreseeable future. Our confidence stems from continued success in winning new business while extending and broadening our existing contracts. We are greatly encouraged by our increasing ability to bid for very large and technically demanding contracts, often in association with major partners and subcontractors.

The UK market is particularly exciting; we continue to broaden our range of public sector customers and activities. At the same time, our overseas markets in Continental Europe, North America and Asia Pacific are becoming increasingly sophisticated in their public sector outsourcing – and Serco is playing its part in shaping these developments.

In responding to these emerging opportunities, we will maintain our focus on areas where we can add value for our customers and where the entry criteria remain high.



Summary Consolidated Profit and Loss Account

For the six months ended 30 June 2000

	6 Months to 30.6.00 £'000	6 Months to 30.6.99 £'000	Year to 31.12.99 £'000
Turnover: Group and share of joint ventures - continuing operations	454,933	391,546	807,544
Less: Share of joint ventures	(77,640)	(69,154)	(138,982)
Group turnover	377,293	322,392	668,562
Cost of sales	(327,490)	(280,159)	(580,586)
Gross profit	49,803	42,233	87,976
Administrative expenses	(34,763)	(29,839)	(61,732)
Amortisation of goodwill	(1,750)	(615)	(2,092)
Operating profit - continuing operations	13,290	11,779	24,152
Share of operating profit in joint ventures	8,901	5,684	11,121
Gross operating profit	22,191	17,463	35,273
Net interest			
Group	(1,592)	(1,172)	(2,643)
Share of joint ventures	(3,744)	(1,353)	(3,298)
Profit on ordinary activities before taxation	16,855	14,938	29,332
Taxation on profit on ordinary activities	(5,478)	(4,855)	(9,538)
Profit on ordinary activities after taxation	11,377	10,083	19,794
Dividends	(1,964)	(1,738)	(5,593)
Retained profit	9,413	8,345	14,201

		Restated	Restated
Earnings per Ordinary Share of 2p each:			
Basic earnings per share, after amortisation of goodwill	2.90p	2.60p	5.10p
Basic earnings per share, before amortisation of goodwill	3.34p	2.77p	5.63p
Fully diluted earnings per share, after amortisation of goodwill	2.88p	2.58p	5.07p
Fully diluted earnings per share, before amortisation of goodwill	3.32p	2.73p	5.60p
Dividend per share	0.50p	0.44p	1.43p

Earnings per share

The calculation of basic and fully diluted earnings per Ordinary Share after goodwill is based on profits of £11,377,000 for the six months ended 30 June 2000 (1999 - £10,083,000) and the weighted average number of Ordinary Shares of 2p each in issue during the period.

The calculation of basic and fully diluted earnings per Ordinary Share before goodwill is based on profits of £13,127,000 for the six months ended 30 June 2000 (1999 - £10,698,000) and the weighted average number of Ordinary Shares of 2p each in issue during the period.

Share capitalisation

The comparative calculations of basic and fully diluted earnings per Ordinary Share have been restated to take account of the capitalisation issue of five new Ordinary Shares for each existing Ordinary Share already held. The comparative for dividend per share has also been restated.



Summary Consolidated Balance Sheet

As at 30 June 2000

	As at 30.6.00 £'000	As at 30.6.99 £'000	As at 31.12.99 £'000
Fixed assets			
Intangible asset: Goodwill	65,199	25,989	66,854
Tangible assets	45,775	26,043	36,508
Investments in joint ventures	25,023	12,464	18,022
Total fixed assets	135,997	64,496	121,384
Current assets/(liabilities)			
Stocks	23,527	9,328	26,830
Debtors	163,992	176,986	161,900
Cash (net of overdraft)	22,686	26,836	35,187
Trade and other creditors	(99,853)	(84,321)	(105,565)
Accruals and deferred income	(72,876)	(59,024)	(74,970)
Net current assets	37,476	69,805	43,382
Long term creditors	(47,053)	(47,903)	(47,232)
Provisions for liabilities and charges	(26,403)	(3,805)	(25,906)
Equity shareholders' funds	100,017	82,593	91,628



Summary Consolidated Cash Flow Statement

For the six months ended 30 June 2000

	6 Months to 30.6.00 £'000	6 Months to 30.6.99 £'000	Year to 31.12.99 £'000
Net cash inflow from operating activities	11,080	1,360	36,818
Dividends received from joint ventures	1,971	874	2,156
Returns on investments and servicing of finance	(1,729)	(1,624)	(3,482)
Taxation	(1,253)	(1,002)	(7,279)
Capital expenditure and financial investment	(9,967)	(10,809)	(4,627)
Acquisitions and disposals	(7,944)	(914)	(26,288)
Equity dividends paid	(3,861)	(3,299)	(5,018)
Net cash outflow before financing	(11,703)	(15,414)	(7,720)
Financing	(798)	(1,741)	(1,084)
Decrease in cash	(12,501)	(17,155)	(8,804)
Opening balance	35,187	43,991	43,991
Closing balance	22,686	26,836	35,187

Interim Report

As required by Section 240 of the Companies Act 1985, notification is hereby given that the accounting information contained in the Interim Report for 2000 does not comprise a full set of accounts and that no full accounts have been delivered to the Registrar of Companies. The interim results for both 1999 and 2000 are unaudited whilst the results for the 1999 full year were audited, and an unqualified audit report was made. The 1999 full year accounts have been delivered to the Registrar of Companies.

Distribution of Report

Copies of the Report are being sent to all shareholders of Serco Group plc. Copies can be obtained from our Internet site at www.serco.com or on request from the Registered Office:

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