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Serco to significantly enhance US market position through acquisition of RCI Holding Corporation

Serco Group plc ("Serco") today announces that it has agreed to purchase RCI Holding Corporation ("RCI"), which is a leading supplier of business process management and IT services to the US Federal Government.

This acquisition will significantly increase Serco's competitive position in the world's largest service contracting market, through RCI's enhanced technology capabilities and its strong customer relationships with the US Federal government.

RCI is being acquired for a cash consideration of US\$215m (£113m*) and will be funded through Serco's existing resources. The acquisition is on a debt free basis and Serco's directors believe that it will be earnings accretive in 2005**.

RCI, founded in 1979, is a contracted service supplier to the Federal Government. Key services include IT services, systems engineering, strategic consulting and HR focused business process management. RCI's primary market – the Department of Defense - represents the largest portion of federal spending, accounting for more than 75% of total contract amounts.

The acquisition will enhance Serco's North American business in that it will:

- **expand its position in the largest service contracting market:** the US Federal Government represents the largest global market for managed services – it is expanding rapidly as the US government seeks to improve services and gain better value for money in the face of an ageing Federal government workforce and increasing costs.
- **broaden the customer base:** RCI's Federal defence customer base complements Serco's largely civil agency and State customer base. Both have a strong record of contract renewal and delivering growth achieved through long term customer relationships.
- **enhance capabilities:** RCI's significant technological and IT services capabilities complement Serco's North American change management and service delivery skills.
- **deliver cost synergies:** the acquisition will generate opportunities for reducing costs in the combined business.

* All US\$ amounts converted at US\$1.9 to £1.0

** The statement that the acquisition will be earnings enhancing, pre-goodwill and exceptional items, in 2005 when compared to the earnings per share that Serco would have achieved without the acquisition, does not constitute a profit forecast and should not be interpreted to mean that the earnings per share in 2005, or in any subsequent period, would necessarily match or be greater than those for the relevant preceding financial period.

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RCI has a strong record of growth. In 2003, RCI's turnover was \$270m (£142m) and profit before tax was \$9.1m (£4.8m). Underlying revenue in 2003 was \$256m (£135m) and profit before tax was \$11.8m (£6.2m), after adjusting for contracts which have been disposed of. Turnover and profit before tax grew by an average of 23% and 50% respectively between 1998 and 2003. The net assets of RCI at 31 December 2003 were \$15.4m (£8.1m).

The Boards of both RCI and Serco believe that there are good prospects for continued growth given the US government's intentions to further increase the purchase of contracted services.

The majority of RCI contracts are of a lower risk 'cost plus' or 'time and materials' nature. More importantly this gives Serco critical mass in operating across the various contracting models used by the US Federal authorities.

As usual for an acquisition of a business undertaking US government contracts, clearances are required under the US Treasury Committee of Foreign Investment in US regulations and under Hart-Scott-Rodino. Serco is confident of being granted approval, which is anticipated within 90 days.

Serco will integrate RCI with its existing North America business and the enlarged business will be led by Steve Cuthill, Serco's current group chief operating officer. Grant Rumbles replaces Steve Cuthill as group operations director for the enlarged group.

Christopher Hyman, Chief Executive of Serco, said: "This transaction is a significant step forward for us. North America is one of our chosen markets. Opportunities in the Federal market are substantial for companies with proven capabilities and qualifications. This acquisition will give us deeper and broader access and will enable faster and more profitable growth.

"Critically, the two organisations share similar cultures based on principles of excellent customer service, long term relationships and employee development and we believe that this is the right platform from which to build."

RCI president George Troendle said: "This transaction positions RCI to continue our record of growth and will give us the resources and capabilities to achieve our broader strategic vision – to expand our US business and enter the global services market."

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The directors of Serco accept responsibility for the information contained in this announcement. To the best of the knowledge and belief of the directors of Serco (who have taken all reasonable care to ensure that such is the case), the information contained in this announcement for which they accept responsibility is in accordance with the facts and does not omit anything likely to affect the import of such information.



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Notes to editors

Serco is one of the world's leading service companies. By successfully managing organisational design and change, it helps national and local governments and commercial clients around the world improve their services.

Serco's North American business employs 2000 people, operates at the Federal, State and local level and had a 2003 turnover of \$127m. Key activities include air traffic control (for the Federal Aviation Administration), fleet management and local government services.

A fixed US dollar/ UK sterling exchange rate of \$1.9/£1.0 has been used for comparative purposes.

Serco has received advice from Lazard in connection with the transaction.