

Press Release

04 December 2006

Serco establishes strategic PFI investment partnership

Serco Group plc (Serco) today announces the formation of a strategic PFI investment partnership with Infrastructure Investors Limited Partnership (I²). In creating this partnership, Serco has also sold its equity and subordinated debt in six private finance initiatives (PFI) projects to a wholly owned subsidiary of I² for a cash consideration of £76.5m, resulting in a profit on disposal of £11.4m. Serco has retained the associated long-term operating contracts.

Under the partnership, I² will be able to provide equity investment for future PFI projects for which Serco bids. This gives Serco access to a large and competitively priced source of capital, enhancing the group's ability to compete in this market by enabling it to offer better value solutions to customers.

Serco will continue to deliver services under the existing long-term operating contracts associated with the disposed PFI investments, and will in addition provide management services to the I² subsidiary, Matrix PFI Holdings Limited (Matrix Holdings). This will ensure that our customers continue to receive high standards of service.

The estimated net book value of the investments sold to Matrix Holdings was £62.8m, resulting in a profit on disposal of £11.4m after transaction costs, which is incremental to previous guidance for 2006. The transaction results in the removal of £244.2m of non-recourse debt from Serco's balance sheet.

In the year ended 31 December 2005, the disposed investments generated profit before tax of £9.7m. Whilst this contribution to profit will not be present going forward we remain confident of achieving our growth and profit expectations for 2007 and beyond, encouraged by the strong performance in the business and the interest benefit from this transaction.

Christopher Hyman, chief executive of Serco, said: "We are committed to supporting the UK Government in improving public services, including the PFI programme. This strategic partnership with I² enhances our capacity to innovate and compete in the PFI market and ensures our customers continue to receive the quality service they expect and deserve."

A conference call for investors and analysts will take place at 8 a.m. UK time today. To join the call, dial +44-20-7019-0812 and give the passcode 'Serco'. Separately today, Serco has released its pre-close trading update.

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Notes to editors

Serco is an international service company which combines commercial know-how with a deep public service ethos.

We improve services by managing people, processes, technology and assets more effectively. We advise policy makers, design innovative solutions, integrate systems and - most of all - deliver to the public.

Serco supports governments, agencies and companies who seek a trusted partner with a solid track-record of providing assured service excellence. Our people offer operational, management and consulting expertise in the aerospace, defence, education, health, home affairs, local government, science, technology, transport and the commercial sectors.

More information can be found at www.serco.com.

About I²

I² was created in 2003 to participate in secondary market infrastructure projects. The I² fund invests in the equity of existing operational infrastructure projects in the United Kingdom and European euro currency countries with a view to creating a diversified low risk portfolio. Investors in I², which is chaired by Sir Adrian Montague, include Barclays Private Equity, Société Générale and 3i.