Stock Exchange Announcement

Update on 2017 financial performance and longer term outlook ahead of Capital Markets Event and Close Period

13 December 2017
Serco Group plc
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Highlights

- Profit performance for 2017 expected to be around the top end of previous guidance
- Closing net debt expected to be towards the lower end of previous guidance
- Strong order intake of over £3bn
- Definitive agreement to acquire major part of Carillion's health facilities management portfolio now signed
- Strong profit growth expected in 2018 and 2019
- Growth thereafter more dependent upon when market demand reverts to trend

Serco Group plc ('Serco' or 'the Group'), the international service company, today provides its scheduled update on financial performance for 2017 and for the outlook beyond. This statement is being made ahead of Serco's Capital Markets Event which is to be held in London this afternoon. Serco will be in a Close Period between 1 January 2018 and the publication of the results for the 2017 financial year on Thursday 22 February 2018; no further Trading Update or Close Period Statement is anticipated ahead of the results.

This afternoon's Capital Markets Event for institutional investors and analysts will be led by Serco's wider management team and will focus in particular on Serco's international operations in the Justice & Immigration and the Defence sectors. No additional material information on trading or outlook will be disclosed at this afternoon's event. The presentations will be made available on www.serco.com after the event has concluded.

For 2017, Serco expects to achieve an Underlying Trading Profit outcome around the top end of our previous guidance range of £65-70m; profits in the second half will be around 10% higher than in the comparable period in 2016. Revenue for the year is expected to be just under £3.0bn; the small reduction against previous revenue guidance includes an adverse impact of currency movements during the second half of the year and other volume and timing effects. The margin for the year will be better than previous guidance. Closing net debt at 31 December 2017 is expected to be towards the lower end of our previous guidance range of £150-200m; the final outcome remains subject to the timing of working capital movements around the year-end and the translation effect of prevailing currency rates at the closing balance sheet date. Closing net debt will not reflect the $20m outflow for the BTP Systems acquisition as this is expected to complete in early 2018, and similarly it does not reflect any consideration related to the Carillion health facilities management acquisition as this would only complete in phases over the course of 2018.

Order intake in 2017 has been strong at over £3bn which represents a book-to-bill ratio of over 100%, the first time this has been achieved since 2012. Order intake includes Grafton prison in Australia which is the Group's largest ever contract win, as well as other new contracts such as those for Southampton NHS Foundation Trust, the US Army Installation Management Command and for the US Navy Fleet Readiness Centers, as well as rebids and extensions such as those for the US Patent & Trademark Office, air navigation services in the Middle East, facilities management for NHS Forth Valley and citizen services support for Hertfordshire County Council. As anticipated, the pipeline of new bid opportunities will be noticeably lower by the time we report the results for 2017, and is currently estimated to be £4-5bn. Refilling the pipeline is unlikely to be a smooth progression given the effect of the timing and scale of individual opportunities; however, as announced separately today, we have now signed a definitive agreement, subject to Carillion receiving shareholders' approval and the requisite third party consents, to acquire the major part of Carillion's health facilities management portfolio; these contracts have an average unexpired period of around 14 years and are expected to add around £1bn into our order book.

Having now completed our 2018 budget review process, we expect that Underlying Trading Profit will grow to around £80m, in line with consensus, on revenues broadly flat at around £2.9bn. We continue therefore to expect some improvement in margins, driven largely by transformation savings. Our guidance reflects current currency rates, which imply adverse impacts of approximately £3-4m for profit and £70-80m for revenue when compared to the average rates for 2017 to date. As noted in the separate announcement regarding the acquisition of Carillion's health facilities management contracts, the effect of this transaction is not included in our guidance at this stage.

Looking further ahead, we expect 2019 to be a year of further good growth in Underlying Trading Profit, which is again broadly in line with consensus and is likely to be driven by additional transformation savings. The rate of growth thereafter will be more dependent on our ability to grow revenues. The Strategy Review announced in March 2015 set out a long term ambition that the business could grow in line with a market which was expected to expand at a long term trend rate of 5-7% a year and deliver margins of 5-6%. Our margin ambition was predicated on three conditions: first, reducing costs as a percentage of sales; second, containing losses on onerous contracts and converting a number of them into profitable contracts on rebid; and, thirdly, increasing margins by growing revenues whilst bearing down on overheads. We remain broadly on track on costs and onerous contracts, but some markets, and in particular the UK, are currently growing more slowly than their former trend rate. We can and will partly compensate for a weaker organic revenue outlook through increased actions on the cost base, and our ambitions of 5-7% revenue growth and 5-6% margin remain intact, but the timing of achieving this will be dependent upon when demand reverts to trend in our target markets.

Commenting on today's update, Rupert Soames, Serco Group Chief Executive, said: "2017 has been a good year for order intake. We will deliver Underlying Trading Profit around the top end of our previous guidance, and we expect profits to grow strongly over the next two years. Beyond 2019, our long term ambitions for margins and revenue growth remain intact, but the timing of achieving these remains subject to seeing improvements in the trading conditions across our markets. In the meantime, we continue to deliver against our plans and make good progress against our strategy."

Ends

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More information can be found at www.serco.com

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