

## Close period update

29 June 2018

Serco Group plc

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Serco Group plc ('Serco' or 'the Group'), the international service company, will be in a close period between 1 July 2018 and publication of the results for the first half of the financial year on Thursday 2 August 2018. Serco will be holding meetings with analysts today, during which no additional material information will be disclosed.

Commenting on today's update, Rupert Soames, Serco Group Chief Executive, said: "As foreseen in our five-year strategy, profits are now starting to grow and we expect Underlying Trading Profit to increase by around 20% at constant currency in the first half. The period has also seen a continuation of the strong order intake we saw in 2017, with contract awards expected to exceed £1.5bn, representing over 100% book-to-bill ratio; consequently we expect to show continued growth in our order book. Around 80% of our order intake will have come from our operations outside the UK. In addition, we have progressed with value-enhancing acquisitions, completing and integrating the BTP acquisition within our US defence business to deepen our satellite and radar capabilities, and we have now transferred the first of the Carillion healthcare contracts. Notwithstanding market conditions that are less than ideal, particularly in the UK, we are responding appropriately and continuing to make progress in line with our strategy."

### Update on trading

For the first half, we expect to report revenue of around £1.35bn and Underlying Trading Profit (UTP) of £35-40m. For the comparable period, restated for IFRS15 (see note), revenue was £1.51bn and UTP was £34.0m. The results for the first half of 2018 include adverse currency impacts of approximately £60m for revenue and £3-4m for UTP. At constant currency therefore, revenue is anticipated to have reduced by approximately 6%, and UTP to have increased by around 20%. As expected, the revenue reduction is driven largely by contracts that ended in 2017, whereas the profit increase is driven by transformation savings. Our guidance for the full year is revenue of £2.7-2.8bn and UTP of around £80m, compared to the IFRS15-restated result for 2017 of £2.95bn revenue and £69.3m UTP. We therefore do not anticipate any material change to analyst consensus for UTP for 2018, although, as we have previously stated, there remains a wide range of potential outcomes reflecting the sensitivity of our profits to even small changes in revenues and costs, as well as further movements in currency during the second half of the financial year.

Our order intake has continued to be strong, driven in particular by progress on securing rebids and extensions. Including the anticipated value of option periods for our health insurance eligibility contract and our naval electronic surveillance systems contract, both in the US, along with the value of other awards across our UK & Europe, Middle East and AsPac divisions, we expect over £1.5bn of order intake in the first half, and therefore our book-to-bill ratio continuing to run at over 100%.

### Update on health facilities management acquisition

Further to previous announcements on our planned acquisition of a portfolio of selected UK health facilities management contracts from certain subsidiaries of Carillion plc ('Carillion'), we provide the following update.

Serco has been working closely with the Special Managers and Liquidators of Carillion, together with all other relevant parties, to agree acquisition terms enabling the various contract to transfer. We are now anticipating that we will take responsibility for facilities management services at six major NHS hospital sites: Great Western Hospital in Swindon; Darent Valley Hospital in Dartford; James Cook University Hospital in Middlesbrough; Harplands Hospital in Stoke-on-Trent; The Langlands Unit of Queen Elizabeth University Hospital in Glasgow; and Addenbrooke's Treatment Centre in Cambridge. The first contract, Great Western Hospital in Swindon, transferred recently, and the remainder, subject to signing of the relevant contracts, are expected to do so over the coming weeks.

Each of the remaining five contracts still require a separate transaction and novation; if all six contracts transfer to Serco, the total annual revenue would be around £70m and the estimated Underlying Trading Profit, including an appropriate allocation of charges for shared support services and other incremental overheads, would be approximately £4m; together, all six contracts would add around £700m to our order book. Reflecting the reduced number of contracts transferring and other changes to the transactions, the aggregate consideration payable, assuming all of the relevant contracts are transacted and novated, would be approximately £16m. As there would only be a part-year trading contribution in 2018, after the costs of the transition and integration phase that would be completed over the coming months, this would likely result in a small negative impact on Serco's net profitability for

the 2018 financial year; this has been taken into account in our guidance as stated in today's update on trading. The transactions would be immediately accretive to earnings following the completion of the integration phase.

Our previously stated estimate of accounting net debt at the end of 2018 was a range of £200-250m, equivalent to leverage for covenant purposes of 1.5-2x EBITDA. The guidance provided in February excluded the potential effect of the proposed acquisition of Carillion healthcare contracts. Assuming the transaction progresses as currently anticipated, we would not expect it to have a material impact on our net debt in the first half, but would leave it at the upper end of the range at the close of the 2018 financial year.

A final update will be provided when all potential transfers have been completed.

## Ends

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### Note re IFRS15 restatement

In line with previous estimates, for the year ended 31 December 2017, the impact of adopting IFRS15 is a revenue restatement of £2.7m from £2,953.6m to £2,950.9m and an Underlying Trading Profit restatement of £0.5m from £69.8m to £69.3m. For the six months ended 30 June 2017, there is a revenue restatement of £0.9m from £1,508.2m to £1,507.3m and an Underlying Trading Profit restatement of £1.3m from £35.3m to £34.0m. For the six months ended 31 December 2017, the revenue restatement is £1.8m from £1,445.4m to £1,443.6m and the Underlying Trading Profit restatement is £0.8m from £34.5m to £35.3m.

### About Serco

Serco is a leading provider of public services. Our customers are governments or others operating in the public sector. We gain scale, expertise and diversification by operating internationally across five sectors and four geographies: Defence, Justice & Immigration, Transport, Health and Citizen Services, delivered in UK & Europe, North America, Asia Pacific and the Middle East.

More information can be found at [www.serco.com](http://www.serco.com)

### Forward looking statements

This announcement contains statements which are, or may be deemed to be, "forward looking statements" which are prospective in nature. All statements other than statements of historical fact are forward looking statements. Generally, words such as "expect", "anticipate", "may", "should", "will", "aspire", "aim", "plan", "target", "goal", "ambition" and similar expressions identify forward looking statements. By their nature, these forward looking statements are subject to a number of known and unknown risks, uncertainties and contingencies, and actual results and events could differ materially from those currently being anticipated as reflected in such statements. Factors which may cause future outcomes to differ from those foreseen or implied in forward looking statements include, but are not limited to: general economic conditions and business conditions in Serco's markets; contracts awarded to Serco; customers' acceptance of Serco's products and services; operational problems; the actions of competitors, trading partners, creditors, rating agencies and others; the success or otherwise of partnering; changes in laws and governmental regulations; regulatory or legal actions, including the types of enforcement action pursued and the nature of remedies sought or imposed; the receipt of relevant third party and/or regulatory approvals; exchange rate fluctuations; the development and use of new technology; changes in public expectations and other changes to business conditions; wars and acts of terrorism; and cyber-attacks. Many of these factors are beyond Serco's control or influence. These forward looking statements speak only as of the date of this announcement and have not been audited or otherwise independently verified. Past performance should not be taken as an indication or guarantee of future results and no representation or warranty, express or implied, is made regarding future performance. Except as required by any applicable law or regulation, Serco expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward looking statements contained in this announcement to reflect any change in Serco's expectations or any change in events, conditions or circumstances on which any such statement is based after the date of this announcement, or to keep current any other information contained in this announcement. Accordingly, undue reliance should not be placed on the forward looking statements.