

Stock Exchange Announcement

Update on 2016 financial performance

25 May 2016

Serco Group plc (Serco), the international service company, today provides an update on financial performance which has been stronger than we anticipated in the first four months of the year. This is in large part due to the successful outcome of a number of commercial negotiations. The nature of most of the items driving the stronger performance is that they will sharply increase profits in the first half, but will not repeat in subsequent periods.

As a result of this we now expect Underlying Trading Profit for 2016 to be ahead of current market expectations. We had previously anticipated Revenue of approximately £2.8bn and Underlying Trading Profit of approximately £50m. Our latest reforecast indicates Revenue of approximately £2.9bn and Underlying Trading Profit of not less than £65m, though the outcome remains dependent on many factors over the balance of the year. The increase in guidance for 2016 does not change our view of the likely outcome for 2017.

The stronger outlook for 2016 is driven by:

- Several contracts that were anticipated to end early in the year have run-on longer; these include the Virginia transport (VDOT) and US Army transition assistance (SFLTAP) contracts.
- On contracts which we have already exited in the year-to-date, most notably Northern Rail, the final settlement arrangements are likely to be more favourable than we had originally budgeted.
- Within continuing operations, there are several contracts where either current trading is better than we expected, or the conclusion of certain negotiations has enabled us to update our assumptions. These include AWE, where we have reflected the outcome of its contract year to 31 March 2016 and updated forecasts for the expected timing of the change in Joint Venture shareholding arrangements. Amongst other contracts, a programme supporting defence logistics in the Middle East has seen significant upside from higher-than-expected volumes.
- Within our internal shared service operations, some items of expenditure budgeted for the first half have been deferred. We are also running ahead of our plans to mitigate losses and stranded costs related to the residual UK onshore private sector BPO operations.
- Assuming current rates persist for the rest of the year, foreign exchange also benefits our most recent estimates of the likely outturn in 2016.

Serco expects to provide a pre-close statement on 30 June, ahead of announcing the results for the first half of the 2016 financial year on 4 August.

Rupert Soames, Serco Group Chief Executive, said: "It is encouraging that we are able to announce an upgrade to our guidance for the year, albeit that much of this improvement comes from items that will not recur. We must remain cognisant that, with underlying margins currently around 2%, our profits are a sliver of reward between two very large numbers – revenue and costs – tiny percentage movements in which can lead to large percentage movements in profits. There remains much to do in order to complete our transformation this year and next, but we are continuing to make good progress on the roadmap we have set out through to 2020."

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More information can be found at www.serco.com

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