Bringing service to life

serco

2008 Interim Results

Presented by
Serco Group plc

27 August 2008

Advise | Design | Integrate | Deliver

Agenda

Overview

Financial results

Business review

Acquisition of SI International

Outlook

Q & A

Strong financial performance

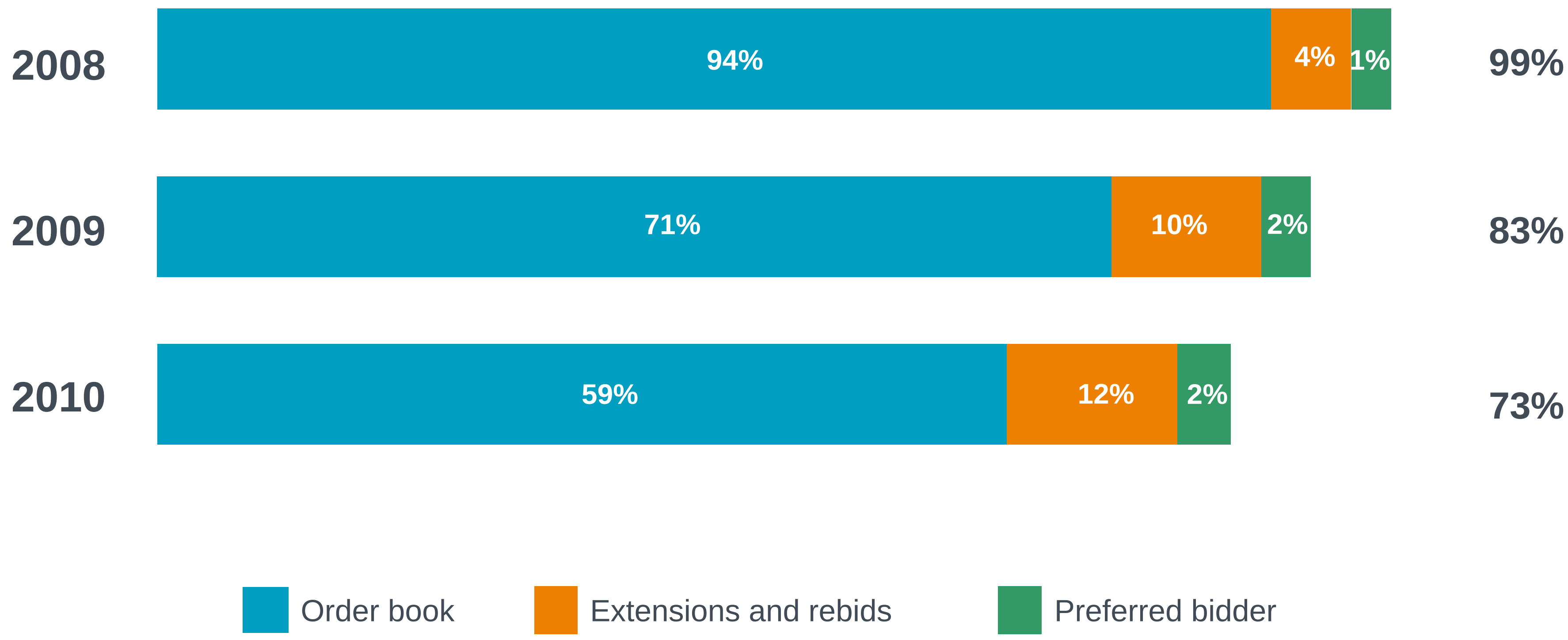
	1H 2008	Increase
Revenue	£1,491m	+10.5%
Adjusted profit before tax	£67.3m	+19.8%
Adjusted earnings per share	10.18p	+20.0%
Dividend per share	1.48p	+20.3%
Group free cash flow	£33.0m	+14.6%

Continuing growth in UK and international markets

- Focus on delivering group strategy
- Strengthening internal systems and people development
- Ongoing in-roads into international markets
- Win rates of one in two new bids and 90% of rebids
- Expanded scope and scale of existing contracts
- Signed £2.0bn of new contracts
- Order book of £15.1bn

Excellent revenue visibility
At 30 June 2008

Pipeline of opportunities valued at £26bn



SI International will significantly strengthen US presence

- Agreed to acquire SI International for approximately US$423m
- US government services company providing business process outsourcing and technology services
- Serco becomes a top 30 supplier in world's largest services market
- Highly complementary customer base
- Deepens existing capabilities
- Enhances adjusted earnings per share in first full year
- Returns expected to meet Group cost of capital in third full year

Bringing service to life

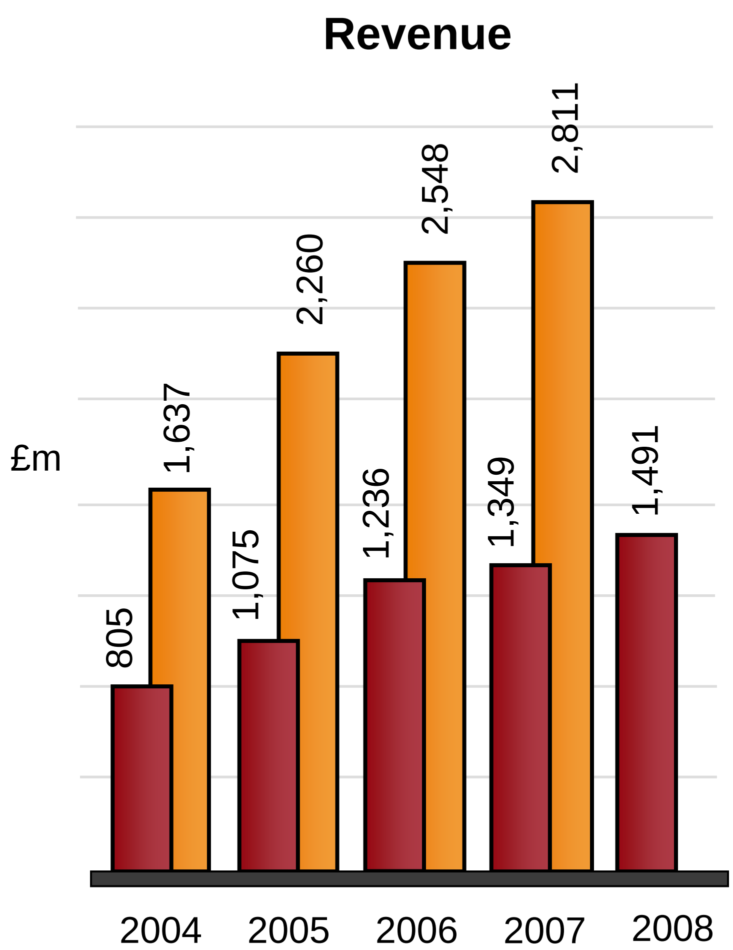
serco

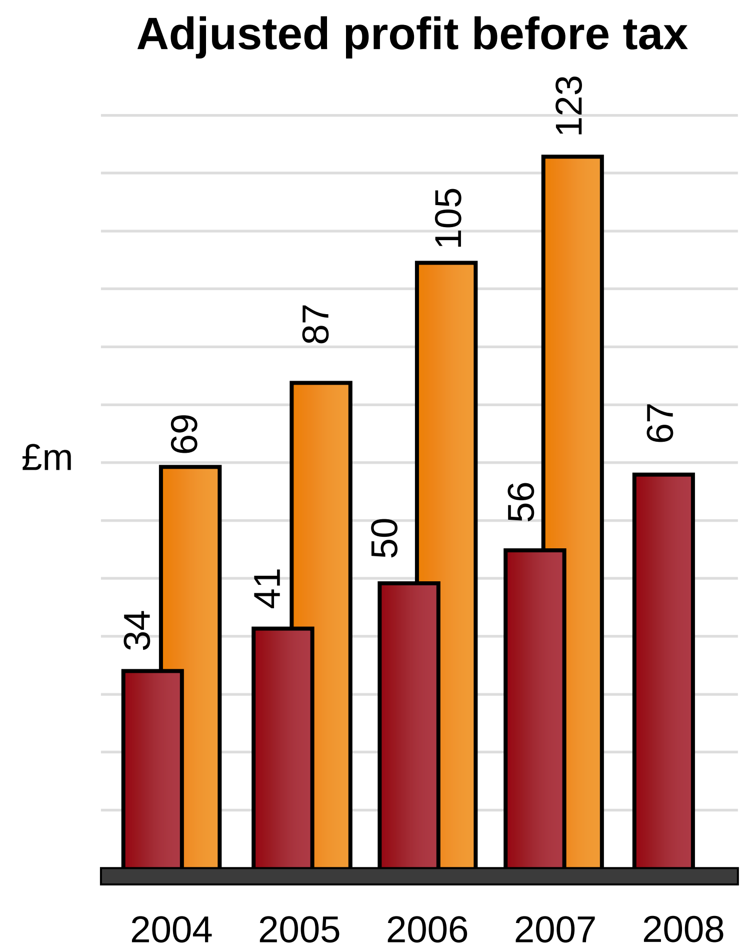
Andrew Jenner

Financial review

2008 Interim Results

Income statement





half year full year

Note: Adjusted profit before tax is profit before tax and amortisation of acquired intangibles.
For the full year 2006, this also excludes the £11.4m gain on sale of PFI investments.

serco

Income statement

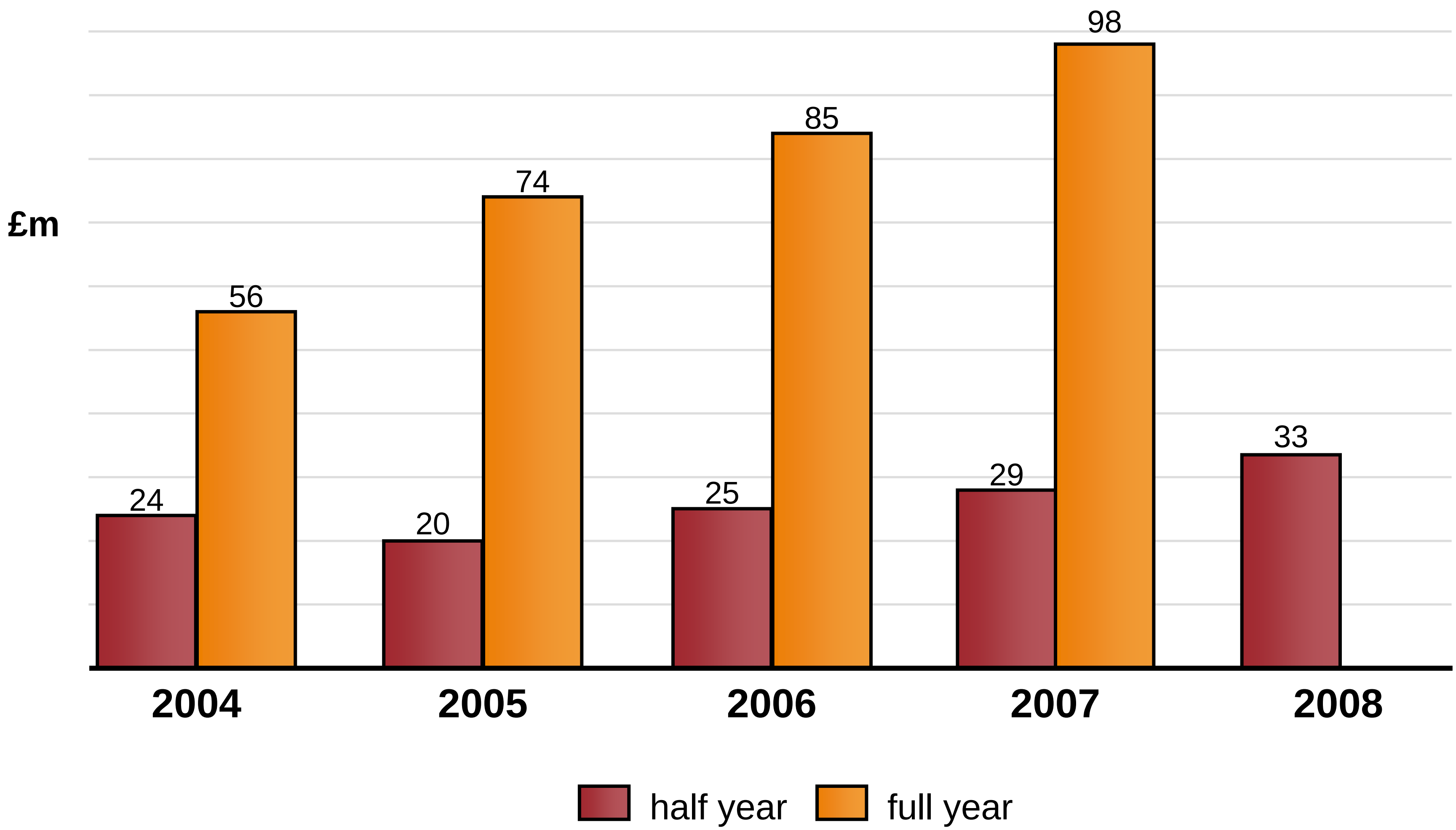
6 months ended 30 June	2008 £m	2007 £m	Increase
Revenue	1,490.5	1,349.0	10.5%
Adjusted operating profit	76.8	65.7	16.9%
Margin	*5.2%*	*4.9%*	
Investment revenue and finance costs	(9.5)	(9.5)	
Adjusted profit before tax	67.3	56.2	19.8%
Margin	*4.5%*	*4.2%*	
Amortisation of acquired intangibles	(4.5)	(4.2)	
Profit before tax	62.8	52.0	20.8%

serco

Income statement

6 months ended 30 June	2008	2007	Increase
Effective tax rate	26.9%	28.1%	
Average shares in issue	487.1m	479.9m	
Adjusted earnings per share	10.18p	8.48p	20.0%
Earnings per share	9.35p	7.71p	21.3%

Group free cash flow



serco

Group free cash flow

6 months ended 30 June	2008 £m	2007 £m
Group EBITDA	72.4	67.0
Working capital movement	(24.6)	(18.2)
Group operating cash flow	47.8	48.8
Interest	(12.4)	(11.5)
Tax	(3.1)	(0.7)
Expenditure on tangible and intangible assets	(19.1)	(24.9)
Dividends from joint ventures	19.8	17.1
Group free cash flow	33.0	28.8

Net cash flow

6 months ended 30 June	2008 £m	2007 £m
Group free cash flow	33.0	28.8
Disposal of subsidiaries	1.6	1.4
Acquisition of subsidiaries	(21.3)	(7.9)
Other financing	12.5	(23.3)
Special pension contribution	-	(51.0)
Dividends paid	(14.5)	(12.0)
Net change in cash - group	11.3	(64.0)

Net debt

As at	30 June 2008 £m	31 Dec 2007 £m
Group cash and cash equivalents	153.3	138.1
Group loans	(280.4)	(263.3)
Group obligations under finance leases	(13.1)	(12.7)
Group recourse net debt	(140.2)	(137.9)
JV recourse net cash	52.8	34.9
Total recourse net debt	(87.4)	(103.0)
Group non recourse debt	(32.9)	(59.3)
Total net debt	(120.3)	(162.3)

Summary

- Continued strong revenue growth
- Further margin improvement
- Good group free cash flow performance
- Continued strong balance sheet

Bringing service to life

serco

Chris Hyman

Business review

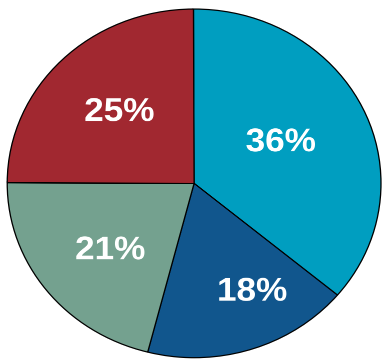
2008 Interim Results

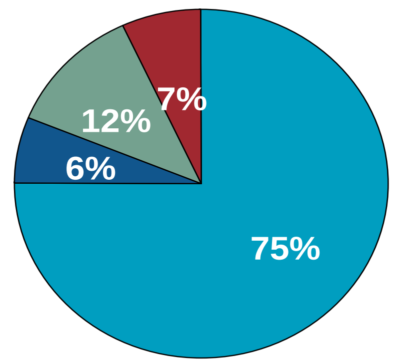
Market sector and geographical analysis

Revenue by market

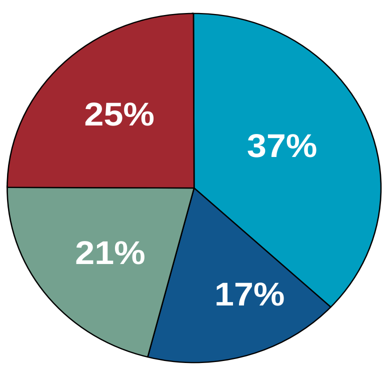
Revenue by geography

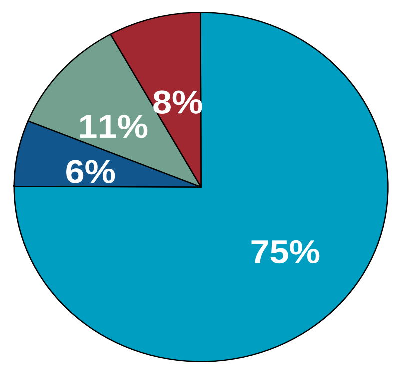
1H 2008 £1,491m





1H 2007 £1,349m





Civil Government
Science
Defence
Transport

UK
Asia Pacific
Europe and Middle East
North America

Government reviews reveal scope for industry growth

- Citizens continue to demand higher standards in public services
- Operational Efficiency Review successor to Gershon review
- Julius Review says UK Public Service Industry most developed in world
  - worth £79bn (US market five times larger)
- Competition delivers cost savings of 10% - 30% and service quality
- Significant potential for further UK growth
- Clear opportunities overseas given
  - rising incomes driving demand for better services
  - UK experience in developing service models

serco

Civil Government
Expansion of existing contracts; good win and rebid performance

- 9.5% revenue increase to £543m representing 36% of the group
- Home Affairs
  - £100m expansion to HMPs Dovegate and Lowdham Grange
- IT and BPO services
  - good progress on £265m partnership with Glasgow City Council
- Education
  - 12 year £345m education and children services contract with Walsall Council
- Integrated FM
  - £140m London Borough of Hammersmith & Fulham contract
  - £160m with Milton Keynes Council (preferred bidder)
- Consulting
  - £3m of new business
- Health
  - acquisition of Grosvenor occupational health positions for growing health market

serco

Civil Government
Growth areas

- Home Affairs
  - UK and Australia potential in offender and migration management
- IT & BPO
  - local council partnerships and environmental management
- Education and Children's Services
  - service integration programmes in support of Children's Plan
- Health
  - NHS primary care market and managed health services provision
- Welfare to Work
  - new approach to increase private sector involvement

serco

Defence
Strong organic growth and wins in operational support

- 11.3% revenue increase to £375m representing 25% of the group
- UK
  - Naval Air Command, £76m over ten years
  - Air Surveillance and Control Systems, £24m over eight years (preferred bidder)
  - RAF aircraft maintenance, £64m over ten years
- US
  - contracts valued over US$100m to support military personnel and families
- Australia
  - Northern Territories garrison support services, AUS$175m over nine years

serco

Defence
Growth areas

- UK Defence Industrial Strategy
  - operational services support services to front line commands
  - integration of people, infrastructure, training and technology
- US Defence spending increasing
  - harmonisation and modernisation of IT
  - military personnel support services

Transport
UK skills enabling international opportunities

- 7.3% revenue increase to £306m representing 21% of the group
- Light Rail
  - Dubai Metro, £500m over 12.5 years
  - Al Safooh light rail (preferred bidder), £120m over 18 years
- Heavy Rail
  - strong Northern Rail and Merseyrail performance
  - Great Southern Rail launches new services
- Traffic management
  - Dubai Bus and journey planner contracts, £6m
  - San Francisco “smart parking” contract, US$23m over two years
  - Hong Kong Aberdeen Tunnel, £14m over six years

serco

Transport
Growth areas

- Light rail
  - significant pipeline of opportunities in the UAE
- Heavy rail
  - Melbourne trains
- Traffic management
  - technology based solutions for congestion and parking

serco

Science
Technology and innovation at the heart of growth

- 15.4% revenue increase to £267m representing 18% of the group
- AWE
  - facility to house Orion research project opened on schedule in March
  - strong health, safety and environmental performance
- Assurance services in defence and civil nuclear market
  - £30m of new business for technical services
  - British Energy technical support contract, up to £30m per annum over five years (joint venture)

serco

Science
Growth areas

- Nuclear capabilities
  - regulatory and assurance services
    - UK defence and civil nuclear
    - civil nuclear overseas
  - National Nuclear Laboratory
- Nuclear decommissioning
  - review opportunities as the market develops

serco

Organisational strength enables growth

- Depth of management capability
  - leadership development programmes
  - strong talent pipeline equipped to meet future growth challenges
- Strong systems
  - SAP extended to Asia Pacific and Middle East after successful UK roll out
  - strategic procurement
- Effective governance
  - selective bidding
  - effective transition
  - service delivery
  - rebid or exit

serco

Bringing service to life

serco

Chris Hyman

Agreement to acquire SI International

US government services market and strategy

SI International overview

- Significantly adds to depth of capability in North America
- Increase client base into Federal government services
- Provide strong foundation for growth in higher value services
- US government services market largest in the world

US: the world's largest government services market

- Valued at US$290bn and growing 5-8% per annum in the medium term
- We have capabilities applicable to half the market
  - Professional, Administrative and Management Services (PAMS)
  - Facilities-related services (FRS)
  - Equipment-related and other services
  - IT
- Market for IT and professional services in the US seeing strong growth

Strong growth drivers in government services market

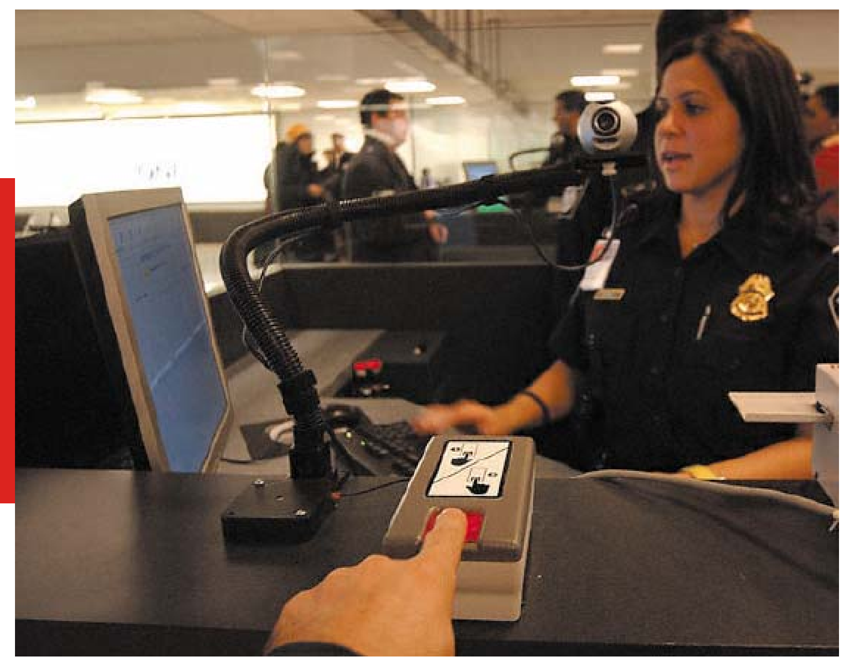
- Market drivers:
  - fight against terrorism
  - modernisation and transformation initiatives
  - ageing workforce
  - government strategy to improve records management
  - IT security
  - cost reduction

Enables Federal government to combat constantly evolving man-made and natural dangers

Enables US military to perform their roles by providing vital information

Proactive support plays a
critical role in ensuring
US Air Force mission success

Help manage effectively
the significant volume
of visa applications



Compelling strategic rationale

- **Scale**: enhances our scale in the significant North American market
  - will be top 30 services provider; able to compete for larger contracts
- **Depth**: Extends our existing BPO and programme management capabilities
  - strong technological capabilities
- **Access**: provides access to existing IDIQ programmes
  - Alliant (US$50bn Federal IT solutions contract)
  - EPM II (US$280m, 5 year intelligence community programme)
- **New customer base**: high quality, complementary customer base
  - strong relationships and reputation for service excellence

serco

Bringing service to life

serco

Andrew Jenner

Agreement to acquire SI International

Transaction and financials

Transaction overview

- Agreed to acquire SI International for US$32 per share in cash, valuing SI International's equity at US$423m
- 40% premium to SI International's closing share price on 26 August 2008
- Enterprise value of approximately US$510m represents a multiple of 12.3 times 2008 analyst forecast EBITDA
- Offer subject to SI International shareholder approval and regulatory clearances and expected to complete by end 2008
- Enhancing to Group adjusted earnings per share in the first full year and returns to meet Group cost of capital in third full year

EBITDA forecasts based on analyst consensus, adjusted to include stock compensation costs

serco

SI International revenue growth and margin

- Revenue CAGR of 28% since flotation in 2002
- 2008 revenue forecast of approximately US$574m, growth of 12.5%, including organic growth of approximately 7%
- 2008 forecast EBITDA of US$41.6m (7.2% margin); adjusted operating profit of US$37.3m (6.5% margin)

Forecasts based on analyst consensus

EBITDA forecasts adjusted to include stock compensation costs

Adjusted operating profit is before amortisation of acquired intangibles

Assumptions for SI International: 2009 onwards

- Assume continuation of current organic revenue growth rate in 2009
- Expect medium-term revenue growth in line with Serco Group growth
- Cost synergies principal driver of future margin improvement: annual cost synergies in excess of US$10m realised by end of second full year

serco

Financing and tax

- New fully committed £700m, 5 year multi-currency bank loan and revolving credit facility
- Replaces existing Serco facility and finances SI International acquisition
- Debt for SI International acquisition drawn in US dollars; approximate cost of 5.5%
- Serco Group tax rate unlikely to be materially affected by SI International acquisition

serco

A financially attractive acquisition

- Strong contribution to Group revenue and operating margin growth
- Enhancing to Group adjusted earnings per share in first full year
- Expected to deliver returns to meet Group cost of capital in third full year

Bringing service to life

serco

Chris Hyman

Summary and Outlook

2008 Interim Results

Serco's distinctive strengths

- Serco has:
  - 40 years experience – people led change management
  - significant exposure to growing markets
  - deep public service ethos and culture
  - robust risk management and corporate governance
  - excellent reputation for assured service delivery
  - proven ability to evolve to take advantage of new opportunities
- Which lead to:
  - highly visible and predictable revenue, growing at double digits
  - the ability to bid selectively and increase margins
  - rising and predictable cash flows

Summary and Outlook

- Continued progress in UK and international markets
- Strong financial performance
- High revenue visibility: order book of £15.1bn
- Markets continue to offer excellent opportunities: pipeline of £26bn
- Confident in delivering double digit revenue growth for foreseeable future
  - underpinned by continued strong performance and wide range of opportunities
- Guidance reiterated for current business for 30 bps increase in adjusted PBT margin in 2008 and 2009
  - from portfolio management, efficiency and selective bidding

serco

Bringing service to life

serco

2008 Interim Results

Question & Answers