Bringing service to life

serco

Stock Exchange Announcement

First Half trading update

1 July 2015

Serco Group plc ('Serco' or 'the Company'), the international service company, today provides a trading update covering the first half of its 2015 financial year. Serco will be holding meetings with analysts over the course of the day, during which no additional material information will be disclosed. Serco will then be in close period until the release of its first half results on 11 August 2015.

Trading in the year to date has been a little better than we anticipated. Our expectations for the year as a whole remain unchanged from those we set out on 12 March 2015, with Revenue likely to be around £3.5bn, Trading Profit around £90m and EBITDA (as defined for covenant purposes) of approximately £160m. These expectations do not include any adjustment for disposals that may be completed over the remainder of 2015.

For the first half we expect to report Revenue of not less than £1.7bn (1H14: £2.0bn). The Revenue reduction versus the comparable period was driven by an anticipated organic decline, in particular reflecting the reduced volumes and rates in Australian Immigration Services and the previously disclosed ending of contracts such as the Docklands Light Railway and the National Physical Laboratory in the UK, as well as certain US intelligence agency IT support services and visa processing work. There was a small reduction in revenue resulting from the disposal of Great Southern Rail during the period. The impact of foreign exchange rate movements was marginally positive in the period, with the benefit of the US dollar strengthening against Sterling being largely offset by the weakening in the Australian dollar.

We anticipate Trading Profit in the period of not less than £45m (1H14: £45m, before restatement of certain financial instruments). This includes the benefit of utilising Onerous Contract Provisions (OCPs) that were charged as part of the Contract and Balance Sheet Review carried out in 2014. The previously-stated estimate of OCP utilisation for 2015 was £139m, with the phasing expected to be weighted slightly to the first half of the year given the timing of actions being taken and roll-off of certain loss-making contracts. The Trading Profit expectation is before any further charge or release of provisions and related Contract and Balance Sheet Review items which will be assessed as part of the detailed half year financial results process; the overall net movement in provisions as well as the phasing is not expected to be materially different to that anticipated at the time of completing the Review.

As set out on 12 March 2015, free cash outflow for the 2015 financial year as a whole is expected to be approximately £150m. This outflow is weighted to the first half of the year, reflecting in particular the working capital impact of the continued normalisation of net debt at the end of the statutory period compared with the average for the period, as previously described. The net proceeds of the Rights Issue, after the costs of the refinancing including make-whole payments to lenders, reduced the Group's indebtedness by approximately £500m. Taking account of other non-trading movements, including cash exceptional costs as previously indicated, net debt at 30 June 2015 is anticipated to be approximately £350m (31 December 2014: £682m).

The Group signed contracts with an aggregate total value of approximately £1bn during the first half; as anticipated, the period was relatively quiet with few major bidding outcomes due. The largest new contracts signed were those for the Saudi Railway Company and the new district general hospital for NHS Dumfries and Galloway. The majority of the total signed value was weighted to securing existing relationships, with extensions or successful rebids in the period including BPO services for a major international financial services company, air traffic control in the US and IT support services for European agencies.

The process related to the potential disposal of our offshore private sector BPO business, the main elements of which are the former Intelenet business, continues. The Board is considering a number of alternative options, and a further update will be provided in due course. We are making good progress managing the process of exiting loss-making contracts in the remainder of the private sector BPO business which is predominantly UK onshore operations, and we expect that the run-rate of losses from these contracts will be significantly lower in 2016 than in 2015.

Rupert Soames, Group Chief Executive Officer, commentating on today's statement, said: "We have ended the first half in reasonably good order and are making progress in implementing our plans. Whilst our recovery is at an early stage, and there will be bumps along the road, I am confident that we are doing the right things, with a stronger balance sheet and supported by an excellent management team."

Serco will release its 2015 half year results on Tuesday 11 August 2015. A presentation for institutional investors and analysts will be held at JPMorgan, 60 Victoria Embankment, London EC4Y 0JP, starting at 9.00am on that day. The presentation will be webcast live on www.serco.com and subsequently available on demand. A dial-in facility will also be made available with details provided in the results announcement.

Ends

For further information please contact Serco:

Stuart Ford, Head of Investor Relations T +44 (0) 1256 386 227

Marcus De Ville, Head of Media Relations T +44 (0) 1256 386 226

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

Forward looking statements

This announcement contains forward looking statements. The terms "expect", "anticipate", "may", "should", "will" and similar expressions identify forward looking statements. By their nature, these forward looking statements are subject to a number of risks and uncertainties 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 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; 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. These forward looking statements speak only as of the date of this announcement. 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.