Stock Exchange Announcement

Update on Serco’s Strategy Review including the Contract & Balance Sheet Reviews; capital structure and funding; latest trading and outlook

10 November 2014

THIS ANNOUNCEMENT AND THE INFORMATION CONTAINED HEREIN IS RESTRICTED AND IS NOT FOR RELEASE, PUBLICATION OR DISTRIBUTION, DIRECTLY OR INDIRECTLY, IN WHOLE OR IN PART, IN, INTO OR FROM THE UNITED STATES, CANADA, AUSTRALIA, JAPAN, SOUTH AFRICA OR ANY OTHER JURISDICTION IN WHICH THE SAME WOULD BE UNLAWFUL. PLEASE SEE THE IMPORTANT NOTICE AT THE END OF THIS ANNOUNCEMENT.

Serco Group plc (Serco), the international service company, today gives the latest position on the various reviews being carried out, along with a trading update. A meeting for institutional investors and analysts will be held at 09:00 today to discuss this announcement, details of which are included at the end of the announcement.

Key points

- The Contract & Balance Sheet Reviews identify likely impairments and further Onerous Contract Provisions totalling around £1.5bn, approximately half of which relates to goodwill and intangible assets.
- Forecast for 2014 Adjusted Operating Profit reduced by approximately £20m to £130-140m (before the impact of the Contract & Balance Sheet Reviews); outlook for 2015 reduced.
- Discussions to be held with lenders to negotiate amendments to the operation of covenants.
- Medium term capital structure target of 1-2x net debt to EBITDA.
- Proposed equity rights issue of up to £550m in the first quarter of 2015; fully underwritten on a standby basis by Bank of America Merrill Lynch and J.P. Morgan Cazenove.
- Programme of disposals of businesses not core to our future strategy underway, including the majority of our private sector BPO business.

Rupert Soames, Group Chief Executive Officer, said: “The rapid progress we have made in recent weeks on the Strategy Review and the Contract & Balance Sheet Reviews has brought us to the point that we are able to provide an initial estimate of the impairments, write-downs and Onerous Contract Provisions that are likely to be required at year end. Whilst it is a bitter pill, it is better for all concerned that we swallow it now and establish a really solid foundation on which to build Serco’s future.

“As might be expected, the Contract & Balance Sheet Reviews have encouraged much turning over of stones, and reflects our changing strategy and the latest view of the challenges we face on a few large contracts. These challenges, together with a less pronounced improvement in trading in our second half than we expected, have led us to a more cautious view of 2014 and 2015.

“Looking ahead, we have not yet completed our Strategy Review, and we will present it, as planned, at the time of our Full Year Results in March 2015. However, the direction is clear: Serco will concentrate on its core as a leading supplier of public services – an international B2G business focused on Justice & Immigration, Defence, Transport, Citizen Services and Healthcare. These are businesses which we are really good at, where we deliver outstanding service, and where our skills, experience and international reach can differentiate us. There are a tough couple of years ahead as we make this transition, but it will be worth it.”

Summary

Earlier in the year, we announced that we were carrying out a comprehensive review of our strategy (the Strategy Review), the results of which were to be presented to investors at the time of our 2014 Full Year Results in March 2015. As part of the Strategy Review, we have been conducting a review of major contracts and of the Balance Sheet (the Contract & Balance Sheet Reviews). In our July update statement
and at the time of our Half Year Results in August, we said that the results of the Contract & Balance Sheet Reviews could have an impact on our profits for the year.

We have been making good progress with the Contract & Balance Sheet Reviews, assisted by EY, as well as on the Strategy Review, and the results for the year will need to include material impairments of goodwill and other intangible assets held on the Balance Sheet, as well as recognising significant additional Onerous Contract Provisions. The Onerous Contract Provisions are likely to reduce our Adjusted Operating Profit and therefore impact the Group’s debt facility covenants. As a consequence, we will be opening discussions with our lenders with a view to securing appropriate amendments to the operation of these covenants. At the same time, we are making arrangements to strengthen our capital structure through an equity rights issue in the first quarter of 2015 to raise up to £550m. Accordingly, we are today providing: an update on the latest status of the reviews including some preliminary conclusions of the Strategy Review; an assessment of the Group’s capital structure and funding position; updates on recent trading; and the likely out-turn for 2014 and the outlook for 2015.

It is important to recognise that neither the Strategy Review nor the Contract & Balance Sheet Reviews are yet complete. The information set out today will be subject to further work through to the completion of our year end audit in March 2015. It is also possible that between now and March 2015, events and new information may change our view. However, the Board is determined to keep all stakeholders informed of its thinking, and, given the magnitude of the issues involved, we think it better to set the issues out as we currently see them, rather than waiting for perfect clarity.

**Contract & Balance Sheet Reviews**

Under the Balance Sheet Review we have assessed the carrying value of goodwill and some intangible assets held on the Balance Sheet, particularly taking into account the likely outcome of the Strategy Review and the resulting planned disposal of non-core businesses, and we are likely to have to recognise some very material impairments. Under the Contract Review we are reviewing all our contracts and re-assessing the scale of potential future losses on our larger loss-making contracts in the light of the latest operational developments and the worse than expected financial performance, with the consequence that we will have a substantial increase in the level of Onerous Contract Provisions.

In total, we estimate the adjustments will be around £1.5bn, although the range of possible outcomes is still wide. Our latest estimate is that approximately half is likely to be in the form of goodwill and other intangible asset impairments. Approximately £450m is likely to be Onerous Contract Provisions, of which a significant proportion will have associated cash outflows over the next eight years. The balance will include other write-downs mainly related to loss-making contracts, and other adjustments to provisions, accruals and tax balances.

We have reviewed our 30 September 2014 Balance Sheet in the context of our likely future strategy. In terms of goodwill, whilst we will be carrying out impairment tests as part of normal year-end procedures, our initial review indicates that a large proportion of the £500m of goodwill currently on the Balance Sheet that is related to our investment in the Global Services BPO business will need to be impaired. The discount factors used in all the impairment calculations have also been reviewed and will also lead to impairment of goodwill in respect of our UK Health and Americas businesses.

At our Half Year Results presentation we highlighted the fact that we had a number of contracts which are loss-making, and in recent months there are several where operational issues and discussions with customers have caused us to revise substantially upwards our estimates of the costs to complete our obligations. Work done to date indicates that the major contractual issues relate to a single contract in Australia and a small proportion of the contracts that we have with the UK Government.

The single largest revision of estimates involves our contract with the Australian Defence Materiel Organisation for the maintenance of the Royal Australian Navy's Armidale Class Patrol Boats (ACPB). Following a further engineering-led review of the implications of corrosion and cracking seen on the vessels, we have re-estimated the costs of rectification and maintenance through to the scheduled end of the contract in 2022. The results of this review, combined with limited progress on additional cost recovery from our customer, means that our current view is that the total adjustment required in relation to this contract may be in the region of £150m.

We are likely to increase our Onerous Contract Provisions in respect of certain UK Central Government contracts by around £150-200m. The worst-affected contracts are: UK asylum seeker support (COMPASS), reflecting latest assumptions in terms of volumes in a rapidly changing environment and of costs over the remaining five years of the contract; Royal Navy fleet support (FPMS), reflecting updated vessel utilisation
and maintenance cost assumptions over the remaining seven years of the contract; Prisoner Escort & Custody Services (PECS), reflecting estimated cumulative losses over the remaining four years of the contract; and the National Citizen Service, reflecting the expected loss in the final year of the contract. Following more detailed legal advice, it now appears likely that the quantum of our liability under the DLR pension scheme may be significantly higher than previously estimated.

Assessment of these and other contracts is ongoing, and will be reported on in the Full Year Results. We will naturally be seeking to discuss with customers how these potential losses can be mitigated.

**Capital structure assessment**

The equity placing completed in May 2014 and an improvement in Free Cash Flow in the first half of the year supported a reduction in Group Net Debt to £581m (comprising £559m recourse net debt and £22m non-recourse net debt) and resulted in a leverage ratio of 2.41x net debt to EBITDA as at 30 June 2014. The Group’s main debt facilities have a principal financial covenant (as defined in the facilities and set out in the Group’s financial results presentations) requiring that leverage should not exceed 3.5x EBITDA.

We now anticipate net debt for leverage purposes to be in the region of £650-700m at 31 December 2014, an increase over the position at 30 June 2014 because of lower cash flows generated from trading as well as other impacts such as foreign exchange movements. The associated year-end leverage ratio (before the potential impact of the Contract & Balance Sheet Reviews) would likely exceed 3x, and further non-exceptional Onerous Contract Provisions or other income statement charges would additionally reduce EBITDA in the leverage covenant calculation. Therefore, in advance of finalising the Contract & Balance Sheet Reviews, Serco will be opening discussions with its lenders. These discussions will include: possible amendments to the operation of financial covenants; a possible deferral of the covenant test date for the year ending 31 December 2014 to ensure Serco remains compliant with the terms of its debt; and to reflect the fact that Serco intends to strengthen its capital structure and funding position through the proposed raising of new equity, as set out below. These changes will assist the Group in maximising both financial and strategic flexibility in order to take the Group forward successfully.

**Funding strategy and proposed future raising of equity**

The Strategy Review includes an assessment of the appropriate funding strategy for the Group. As indicated above, net debt for leverage purposes at the end of 2014 is likely to be approximately £650-700m; historically, average net debt has tended to be £100-150m higher than that at the statutory balance sheet dates. Assuming an Adjusted Operating Profit for 2015 of around £100m (as described in more detail below), EBITDA would be around £160m and therefore the leverage ratio is expected to be in excess of the current covenant threshold and more so when calculated prudently against average net debt over the year. The Board has therefore concluded that it needs to reduce the Group’s indebtedness.

Although the Strategy Review is not yet finalised, the Board’s preliminary view is that appropriate leverage for the business over the medium term is in the region of 1-2x net debt to EBITDA. To reduce debt to this level, we will first explore “self-help” options. The first will be to institute improved day-to-day working capital controls and cash forecasting. Secondly, in the current circumstances, the Board will not recommend the payment of a final dividend for the 2014 financial year. When the trading outlook and cash generation improves, the Board will reconsider the dividend policy. Thirdly, the Group has a number of high-quality businesses which are not core to its future strategy, and which may be more valuable to others than they are to us. Consequently we have stepped up our disposals programme, the proceeds of which will contribute to reducing net debt. We will be looking to dispose of our Environmental and Leisure businesses in the UK, our Great Southern Rail business in Australia, and the majority of our private sector BPO business, being mainly the activities of Intelenet and The Listening Company. The proposed assets we are looking to dispose of account for approximately £500m of the goodwill and asset write-downs.

However, our future strategy, which we outline below, must be properly funded, and the Group put on a firm foundation which will allow it to grow and flourish. To do this the business will need a sustainable balance sheet with a prudent level of financial gearing, as outlined above, which is appropriate for the level of operational gearing given the mix of businesses we have. To this end, the Board intends to conduct a rights issue to raise up to £550m which will be launched in the first quarter of 2015 following the publication of our audited 2014 financial statements. The rights issue has been fully underwritten on a standby basis by Bank of America Merrill Lynch and J.P. Morgan Cazenove.
Strategy Review update

The Strategy Review is now well advanced with enough progress made to reach some early conclusions and identify immediate actions that can be taken in advance of our full strategy presentation due in March 2015.

Hindsight is a wonderful thing, and it is easy for those who follow to critique the work of predecessors; but we have to have an understanding of the past to build a vision of the future. It is our analysis that in recent years Serco has made two strategic mis-steps. First, confronted by slowing growth rates and increased competition in its core markets, and wishing to maintain its historic levels of growth, the Group diversified its portfolio significantly, sometimes by acquisition, and often into areas that required very different skills. In so doing, Serco lost some of its focus and diluted its operational expertise. Second, it has concentrated too much on winning new business and has failed to manage effectively the fact that over recent years there have been significant advances in public sector contracting, particularly in the UK, with new models that transfer substantially more risk to suppliers. As a consequence, we now have a number of contracts which are making large losses, and others which are in sectors where we are sub-scale.

The financial impact of these mis-steps has been mitigated to a significant degree in recent years by the rapid growth of the Australian immigration services contract. Between 2009 and 2013, Group Adjusted Operating Profit grew by 28%; excluding the immigration services contract, Group profits were flat. This contract has begun to decline significantly in value, and the underlying trends in the business are now more clearly visible.

In addition to these strategic mis-steps, Serco’s infrastructure has not kept pace with its growing scale, breadth and complexity with the result that its systems, processes and management information fall short of what is needed by a company of our size and sophistication. As a consequence the business has lacked operational visibility as evidenced by the issues that arose last year on certain UK Government contracts; has made some poor judgements on how much risk to accept within contracts; and has found it hard to control costs.

The programme of Corporate Renewal on which we have concentrated this year and that is now substantially complete has focused on these shortfalls in systems, processes and management information. We have completely rewritten our system of management control, in particular as it relates to bid development and approval and contract management; developed an approach to management information and review that focuses equally on operational as well as financial performance; and materially strengthened our processes of management assurance, risk assessment, and internal audit, as well as our Board. We have reduced our spans of management control, establishing two UK divisions – one for UK Central Government and one for UK & Europe Local & Regional Government – where there was one before. We have also brought operational management closer to the executive direction of the business, such as, for example, by having the management of the Asia Pacific and Middle East regions report directly to the CEO.

We therefore believe we have learned the hard lessons of the past couple of years such that we are now appropriately equipped to do what has always been our core competence, built up over the last thirty years, being to provide services to Governments and other Public Service Providers around the world. Fully recognising the painful exceptions we have highlighted today, in general we have continued to deliver high standards with an overriding commitment amongst our people to public service, and to manage successfully the difficult interface between the public and private sectors, both as contracts transition from one to the other, and during their subsequent life.

At its heart, Serco is a “B2G” business. We have a unique portfolio of service offerings in Justice & Immigration, Defence, Transport, Citizen Services (Public Sector BPO) and Healthcare. Typically, competitors can offer one of these verticals in more than one country; others can serve several verticals in a single country. Only Serco can offer all of them across the UK, US, Australia, New Zealand and the Middle East, which are markets in which Governments are comfortable with the idea of engaging private companies in the provision of public services. This core, reflecting the combination of these five sectors across four geographies, is expected to account for approximately 80% of our Adjusted Revenue and over 95% of our economic profit in 2014.

Globally, the market for services to Government is attractive and has structural drivers of growth that will last for decades. Almost every jurisdiction is challenged by three enduring forces: the inexorable growth in healthcare and pension costs, the rising expectations of citizens, and the unwillingness of voters to tolerate increases in taxation or a degradation of service. These forces will demand that Governments put outcomes, value for money and efficiency first. This means that they will continue to need private companies to bring the rigour of competition to ever-more areas of public service provision.
Within the domain of public services, we believe that the core areas in which we already have strong positions – Justice & Immigration, Defence, Transport, Citizen Services and Healthcare – will be particularly fertile. We believe they are segments in which skills and knowledge garnered in one jurisdiction will be transferable to another. We believe that skills in serving Governments in critical areas are hard to learn and do not easily co-exist with those required in commercial markets. Furthermore, political forces and fashions do not walk in lock-step across jurisdictions; being able to offer a portfolio of different services in a number of different segments will allow us to adapt to the requirements of changing Governments, whilst offering a degree of diversification not available to those who offer services in a single country or segment.

Becoming a focused B2G supplier operating in a number of countries will require Serco to embark on a programme of change. There is no elegant translation of the French phrase “reculer pour mieux sauter”; we need to take a step back first, to be better able to leap forward. We need to get smaller and more focused, to become the successful, profitable and growing company we aspire to be.

This transformation will take time, but will be worthwhile. The next two years are going to be difficult, and we expect our revenue to reduce over this period through disposals and exiting loss-making contracts, following which we expect to be able to start growing again. We are developing plans to reduce our overheads to match a smaller business, and achieving cost savings will be a key part of addressing the sub-standard returns the Group will still be earning in 2015.

We are not yet ready to describe our plans in detail, and clearly the outcome will depend on decisions around disposals, but the direction is becoming apparent: after a period of adjustment during which our Adjusted Revenue could reach a nadir of £3.5bn in 2016, and margins could be as low as 2-3%, we believe we can transform ourselves over subsequent years to become a company growing in line with the market in each of our core areas and generating margins similar to peers at attractive risk-adjusted rates of return. Research conducted as part of the Strategy Review tells us that the segments we will be focusing on will be growing at an aggregate of 5-7%, and that industry margins across our mix of business are likely to be in the range of 5-6%; if this turns out to be correct, and markets turn out as we expect, we believe that our performance will match this.

In conclusion, we think that we have a bright future as a B2G business, supported by structural growth, an international footprint, and strength in a number of different segments. It does beg the question, however, that given our recent experience in the Government market, why do we want to focus on it, and what makes us think we can succeed? There are a number of answers to this, perfectly sensible, challenge. The first is that the contracts in which we have had failures of governance, or of risk management, or instances of individual bad behaviour, represent a tiny part of our overall business with public bodies. Across the vast majority of our contracts we deliver outstanding service, at decent margins and with well-managed risk. The second is that, although the failures have been few, their consequences have been awful; as a result we have learnt hard lessons. We have instigated a far-reaching programme of Corporate Renewal, monitored by our largest customer, which has touched every part of our business; we are strengthening our management assurance and risk management processes; we have hired new management and added to our Board; we are building appropriate information systems; and we are learning to say “no” when we think risk outweighs reward. That is not to say that we will never make mistakes, but we have been badly bitten, and we will be thrice shy. In short, at great cost to our shareholders, we think we have learnt lessons that will equip us to be a world-class operator in this market.

Trading and operational update

The Group’s latest trading indicates that the organic revenue growth of 2% in the first half of 2014 will have shifted to a mid-single digit percentage decline in the second half. A significant driver of this is the reduced volumes in the Australian immigration services contract, together with the effect of contract losses (such as Electronic Monitoring) and contract renegotiations (such as the Northern Rail interim franchise). These factors also have an adverse margin impact, although this impact is partially offset by the greater run-rate of cost reduction from restructuring and other efficiency programmes.

Implementation of Serco’s Corporate Renewal Plan is now substantially complete, and we believe that relations with UK Central Government are now much improved. With Angus Cockburn having started as Chief Financial Officer on 27 October and David Eveleigh joining as General Counsel and Company Secretary in mid-November, and Liz Benison and Kevin Craven in place since September, we have great strengthened our management team.

At 30 June 2014, Serco had an order book of £17.1bn. Since then, we have been awarded work with an estimated total value of approximately £0.9bn, bringing the total for the year to date to £3.4bn, comprising
signed contracts valued at £3.2bn and preferred bidder appointments valued at £0.2bn. Notable contract awards and other developments by division are highlighted below.

In the UK, significant contract awards in the period included non-clinical hospital services at Dumfries & Galloway and the successful rebid at Wishaw General Hospital with a combined total value of £100m, and various defence support work extended or expanded with cumulative award value of over £60m. However, in our Central Government Division, a number of contracts are extremely challenging; our policy towards these contracts has been to do whatever is necessary to fix the operational performance, so that we are meeting our key performance metrics as far as it is reasonably possible to do so. On the all the most troubled contracts – COMPASS, PECS, NCS – our operational performance has materially improved, but we have had to increase our costs significantly to achieve this. The same applies to our contract in the Local & Regional Government Division to provide community healthcare in Suffolk; unanticipated increases in volume, for which there is no additional revenue, along with having to use large numbers of agency staff to deliver improved performance has resulted in a further increase in the rate of losses. Transitions to the new operators of the Docklands Light Railway and National Physical Laboratory are progressing, and we have now exited Colnbrook Immigration Removal Centre.

In the Americas Division, our work for the US Affordable Care Act (ACA) has begun an expanded first option year. Other awards in the period included: career transition services for US soldiers; health outreach services for the US Naval Reserve; deployable medical systems solutions also for the Navy; and two contracts for fleet maintenance services for commercial clients. In total, the ACA and all other awards in the period are valued at over $550m. Meanwhile, our contract supporting the Department of State’s National Visa Center and Kentuck Consular Center (NVC/KCC) came to an end during the period, as did some Acquisition and Program Management support work for US intelligence agency customers. C4I2TSR services for the US Air Force and Naval installation task order work under the Sea Enterprise frameworks are also reducing.

In the AMEAA region, Serco has been selected as preferred tenderer to continue its Australian Immigration Services operations, with commercial negotiations expected to conclude in the near future at which point the estimated contract award value would be established. At the start of October, Fiona Stanley Hospital in Perth opened, with Serco beginning its full operating contract providing an extensive range of non-clinical services. The transfer of our Australian regional defence garrison support services operations to new contractors is now substantially complete.

As mentioned above, we have a major challenge in our Defence Maritime Services business, and specifically on our contract to maintain the Armidale Class Patrol Boat fleet for the Royal Australian Navy. It is now apparent that there are major design flaws with the class of vessel, and a number of different issues related to design, manufacture, usage and maintenance practice have conspired to require maintenance expenditure far in excess of that envisaged at the time the vessels first began service in 2005. Until very recently, it was believed that these issues could be fixed as part of a one-off maintenance cycle. However, an engineering re-assessment of likely costs to complete now leads us to conclude that this class of boat is going to need intensive care (far beyond that expected a few months ago) for the rest of its life, which effectively means until 2022. As described above, we have therefore assessed that our liabilities on this contract may be around £150m in total over the remaining contract life.

Global Services, Serco’s BPO business, was awarded extensions to support work for local authority customers with a total value of over £25m, and a new contract win for multi-channel customer contact services for a major UK private sector organisation with a value of approximately £140m over 10 years. Profitability in the latest period has, however, continued to be constrained given the initial operational stage on other large, recently awarded private sector contracts which are currently running at sub-optimal levels, and lower levels of project work and consulting. Our contracts providing various citizen services for Westminster City Council have now come to an end.

**Out-turn for 2014 and outlook for 2015**

Our previously stated guidance for 2014, on a reported currency basis, was Adjusted Revenue of at least £4.6bn and Adjusted Operating Profit of not less than £155m. Based on trading over recent months, we now anticipate reporting Adjusted Revenue of approximately £4.8bn and Adjusted Operating Profit of approximately £130-140m. These estimates are before the impact of the financial consequences from the Contract & Balance Sheet Reviews. Compared to previous guidance, revenue has held up, whereas profitability has weakened predominantly reflecting continued operational under-performance on certain contracts as discussed in the Trading and Operational Update above.
Whilst our budgeting process for 2015 is still far from complete, early indications suggest that 2015 will be more challenging than we thought back in August, partly as a result of issues identified by the Contract & Balance Sheet Reviews, and partly because of worsening financial performance on some contracts in the second half of 2014. Although there have been no further major contract losses in recent months, the cumulative impact of all known revenue attrition has increased. There is also significant impact from volume reductions on existing contracts, particularly on the Australian Immigration Services contract which, assuming we are successful in retaining it, will likely be much smaller in 2015; we also expect other reductions in certain areas of US defence work and in project-orientated contracts and partnerships elsewhere. There is offset only in part from known incremental revenue growth and potential new wins reflecting recent weakness in win rates and the pipeline. As a result, we believe that Adjusted Revenue for 2015, before the impact of any disposals, could be around £4bn.

The initial divisional plans indicate a substantial profit impact from revenue attrition and volume reductions on existing contracts (many of them at above average margins), as well as margin pressure from rebids and extensions. In addition, it is unlikely that we will be able to adjust our overheads in the short term fast enough to compensate. Taken together, these factors would imply a further decline in the Group’s margin to around 2.5%, and an Adjusted Operating Profit for 2015, before the impact of any disposals, of around £100m.

The outcome of progress over the coming months in terms of improving underlying contract performance, securing rebids such as Australian Immigration Services, identifying further cost efficiencies, and completing the various reviews, will continue to inform our view for 2015. The initial plans for 2015 assume approximately £50m benefit from utilising Onerous Contract Provisions expected to be charged in 2014. The finalised budgets still require further adjustment for any other financial consequences of the ongoing reviews, and would also require adjusting for any disposals. There is currently no material difference to 2015 estimates on a 2014 constant currency basis when compared to an estimated reported currency basis at latest spot rates.

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
Jonathan Glass, Brunswick T +44 (0) 207 404 5959

Analyst and institutional investor meeting

A meeting for institutional investors and analysts will be held at J.P. Morgan Cazenove, 60 Victoria Embankment, London EC4Y 0JP at 09:00 (UKT) today. Please arrive from 09:00 to allow time for registration and venue security purposes. The presentation will be webcast live on www.serco.com and subsequently available for replay. A live dial-in facility is also available on +44 (0) 20 7784 1036 (USA: +1 718 354 1152) with participant pin code 3751221. Both the webcast and dial-in will be listen-only facilities for both the presentation and Question & Answer session.
About Serco

Serco is an international service company, which combines commercial know-how with a deep public service ethos.

Around the world, we improve essential services by managing people, processes, technology and assets more effectively. We advise policy makers, design innovative solutions, integrate systems and - most of all - deliver to the public.

Serco supports governments, agencies and companies who seek a trusted partner with a solid track record of providing assured service excellence. Our people offer operational, management and consulting expertise in the aviation, BPO, defence, education, environmental services, facilities management, health, home affairs, information and communications technology, knowledge services, local government, science and nuclear, transport, welfare to work and the commercial sectors.

More information can be found at www.serco.com

Forward looking statements

This announcement contains forward looking statements. The terms "expect", "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.

Important notice

This announcement does not constitute or form part of, and should not be construed as, any offer, invitation or recommendation to purchase, sell or subscribe for any securities in any jurisdiction and neither the issue of the information nor anything contained herein shall form the basis of or be relied upon in connection with, or act as an inducement to enter into, any investment activity.

This announcement and the information contained herein do not constitute an offer of securities in the United States. The security referred to in this announcement have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the Securities Act), and may not be offered or sold in the United States absent registration under the Securities Act or pursuant to an exemption from, or a transaction not subject to, such registration requirements. Serco has not registered and does not intend to register the offering of any securities in the United States or to conduct a public offering of any securities in the United States.