

# Stock Exchange Announcement

## First half performance update

3 July 2014

Serco Group plc, the international service company, today provides an update following the end of its financial half-year and the start of the close period ahead of the results on Tuesday 12 August 2014.

Rupert Soames, Serco Group Chief Executive Officer, said: "Whilst difficulties continue on some contracts, overall our trading and financial position is in line with the expectations on which we updated the market two months ago. We are rebuilding trust and confidence with the UK Government and the Strategy Review is proceeding according to plan. There are many challenges ahead, but I am confident that we can build a strong future for the business; I look forward to providing further updates in due course."

The underlying trading performance and financial position of the Group is in line with expectations set out two months ago at the time of our Interim Management Statement (IMS) and the placing of new ordinary shares. Specifically, we said that: Adjusted Operating Profit at constant currency would be not less than £170m for the financial year (approximately £155m at reported currency, assuming a continuation of current exchange rates); the phasing of financial performance would be split approximately one-third/two-thirds across the two financial half-year periods; and the Group's leverage ratio, as measured for our financial covenant, would be approximately 3x at 30 June 2014.

For the first half of the year, the Group expects to report Adjusted Revenue of approximately £2.4bn, which is broadly flat on an organic basis (i.e. excluding the impact of acquisitions and disposals, as well as currency movements). As set out in detail in the IMS at the end of April, margins in the first half will be significantly lower than the comparable period last year. Over £2bn of contracts have been awarded during the period.

The Group's Strategy Review is progressing well, and, as previously described, includes assessment of our markets, our value proposition, as well as our organisation and structure.

As part of the Strategy Review, we are carrying out a detailed analysis of our contracts, with particular focus on those that are loss-making. This process is expected to be completed in time for our full-year results. However, in initially reviewing some of our larger onerous contracts, it is likely that some provisions will be required at the half year in the UK business, most particularly related to our COMPASS and clinical healthcare contracts. The detailed work to confirm both the level of provisions required at the half year, and the split between exceptional and non-exceptional items, is yet to be completed. A review of the carrying value of assets is also being performed; this work will be informed further by the Strategy Review process, although it is possible that some impairments may be reported at the half-year stage. To the extent that there are further financial consequences of the Strategy Review, including analysis of our contract base, these may in turn impact our previously stated expectations for the financial year.

The COMPASS Programme provides accommodation and support services for asylum seekers. The cost of meeting our obligations to the customer is now expected to exceed revenues from the contract over its five-year life. The contract, which became fully operational in late 2012, has incurred a cumulative operating loss of approximately £15m to date, and our latest analysis indicates that the contract may continue to lose money, depending on the success of mitigating actions. An onerous contract provision for these future losses is expected to be charged in the first half of the year, which, assuming it is charged within Adjusted Operating Profit, would further weight the phasing of profits towards the second half of the year. In addition, the £18m of exceptional contract provisions taken in 2013 in respect of underperforming UK clinical healthcare contracts is likely to require some increase in the first half of the year, which we assume will continue to be treated as an exceptional charge. This reflects principally our latest estimate of meeting our obligations on the Suffolk Community Healthcare contract. We estimate that, for COMPASS and the UK clinical healthcare contracts in aggregate, further provisions at the half year of £10-15m could be required.

Good progress has been made in implementing the Corporate Renewal Programme and the related workstreams, with the estimated one-off costs associated with this remaining at approximately £15m for the year; about 50% of this will be charged in the first half. The previously announced restructuring charge

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estimated at £15-20m to implement further reductions in headcount and related costs will also be incurred mainly in the first half. A net exceptional credit of around £3m is anticipated in the first half in relation to two small disposals (Braintree Community Hospital clinical health services; Collectica debt recovery and fine enforcement services) together with a release of provisions no longer required on a previous disposal (nuclear consulting services).

**Ends**

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### **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](http://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.