Stock Exchange Announcement

Interim Management Statement

On track to meet 2012 expectations; £3.9bn of contract awards for year to date; portfolio continues to provide both resilience and confidence in future growth

14 May 2012

Ahead of its Annual General Meeting today, Serco Group plc (Serco), the international service company, is issuing the following Interim Management Statement covering performance since 1 January 2012.

The Group is on track to meet expectations for 2012: we continue to expect another year of strong total revenue growth, including further good organic growth, together with an Adjusted operating margin increase similar to 2011. As previously indicated, performance in the first half will reflect the challenging environment in the US and some remaining UK headwinds. The strength of recent contract awards and progress on operational efficiencies reinforce a strong second half and confidence in achieving full-year expectations.

Christopher Hyman, Chief Executive of Serco Group plc, said: "The start of the year has been pleasing, with a number of significant contract awards. These support our view of achieving a stronger financial performance in the second half of 2012. I am also delighted with the excellent wins and strategic positioning of our global BPO business, which further underlines our confidence for Serco's portfolio to sustain attractive growth well into the future. Conditions for the US federal market and hence our Americas division currently remain very tough, but for the year as a whole we anticipate that further strong growth in AMEAA, the improving UK outlook, and the delivery of cost efficiencies will see us meet expectations."

Contract awards and operational update

Serco's order book was £17.9bn at 31 December 2011 and our pipeline of identified opportunities around the world had a total estimated value of some £30bn. Since the beginning of the financial year, we have been awarded £3.9bn of contracts, comprising signed contracts valued at £2.9bn and preferred bidder appointments valued at £1.0bn. Winning or expanding smaller contracts also plays an important role in our growth and a selection of these is included in today's Contract News Update on www.serco.com. Notable contract awards so far in the year are highlighted below.

In the UK, our health operations have been expanded with the Suffolk community health services and East Kent integrated facilities management contracts, each worth approximately £140m. In Transport, Serco is preferred bidder for a £350m contract to operate the lifeline ferry services to the Northern Isles of Scotland. For the UK Border Agency, we have now signed the £175m contract to provide accommodation-related services for asylum applicants. Our largest contract, the management and operation of the Atomic Weapons Establishment, has also seen the joint venture successfully conclude the next five-year pricing period, adding approximately £1.5bn to our order book.

In the Americas, task orders and contract awards have continued to be won in the US. However, as previously indicated and similar to the previous six months, revenues will be significantly lower against a relatively robust performance in the comparative period, as budgetary challenges continue to disrupt the industry.

In AMEAA, Serco's consortium has been selected as preferred bidder for a new prison in New Zealand, and we signed a contract for a new Young Adults Facility in Australia. Other smaller wins and the annualisation of 2011's very strong contract award performance across the region supports our expectation of continued strong growth in 2012.

Serco has recently created a new global BPO business, bringing together all of Serco's middle and back office skills and capabilities around the core of our 2011 acquisition of Intelenet. The division has seen early encouraging success with the achievement of significant milestones. The award of the Anglia Support Partnership contract, which has an initial £120m value, will provide middle and back office support to NHS organisations. We have also penetrated further into private sector contact centre operations, with several wins including the recently announced £430m contract with Shop Direct Group.

Our previously announced organisational changes, to reflect developments in our markets and the resulting opportunities, are on track. Alongside our Americas and AMEAA divisions, we now have a single UK & Europe division to achieve greater economies and support the delivery of better services, together with the new Global Services division. The timing of implementation costs associated with this re-organisation will reduce the Group's Adjusted operating profit margin in the first half, but the delivery of efficiencies is such that we expect the impact on the full-year margin to be broadly neutral.

Financial position

No material events, transactions or impacts on the Group's strong financial position have taken place since the 31 December 2011 balance sheet date.

Serco has continued to achieve both greater diversification and a lengthened maturity profile of its borrowing facilities. A new £730m five-year syndicated revolving credit facility was completed successfully in March 2012. This concludes the early refinancing of the £400m equivalent facility due to mature in September 2013, with the proceeds also applied to the repayment of other facilities. Against our diversification objective we now have an approximate even balance between bank and other debt funding, whilst the maturity profile extends out to 2023 and averages over six years.

Outlook and guidance

The outlook and our detailed financial assumptions for 2012 remain unchanged from those set out with the full-year results announced on 28 February 2012. We expect another year of strong total revenue growth, including further good organic growth, together with an Adjusted operating margin increase similar to that achieved in 2011.

As previously indicated, the financial performance, including revenue growth, margin progression and free cash generation, will be weighted towards the second half.

We expect to achieve broadly flat organic revenue in the first half for the Group as a whole, despite the tough US federal market conditions experienced by the Americas division. Acquisitions completed during 2011 are expected to add growth of approximately 6% to the Group's total revenue in the first half.

The Group's Adjusted operating margin, before the implementation costs of organisational changes, is expected to be broadly flat in the first half compared to the corresponding period in 2011. The margin accretion from the Intelenet acquisition is expected to offset a margin reduction in the Americas division.

Improving conditions around the world, should they continue, would allow the Group to anticipate a modest improvement in the rate of organic revenue growth in 2013 and further improvement into the medium term. This would support the continued delivery of strong financial performance by Serco.

Ends

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About Serco

Serco is a FTSE 100 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