2020 Half Year Results

For the six months ended 30 June 2020

Serco Group plc

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Agenda

Overview	Rupert Soames, Group CEO
Financial Review	Angus Cockburn, Group CFO
Operational Review	Rupert Soames
Q&A	Rupert Soames Angus Cockburn

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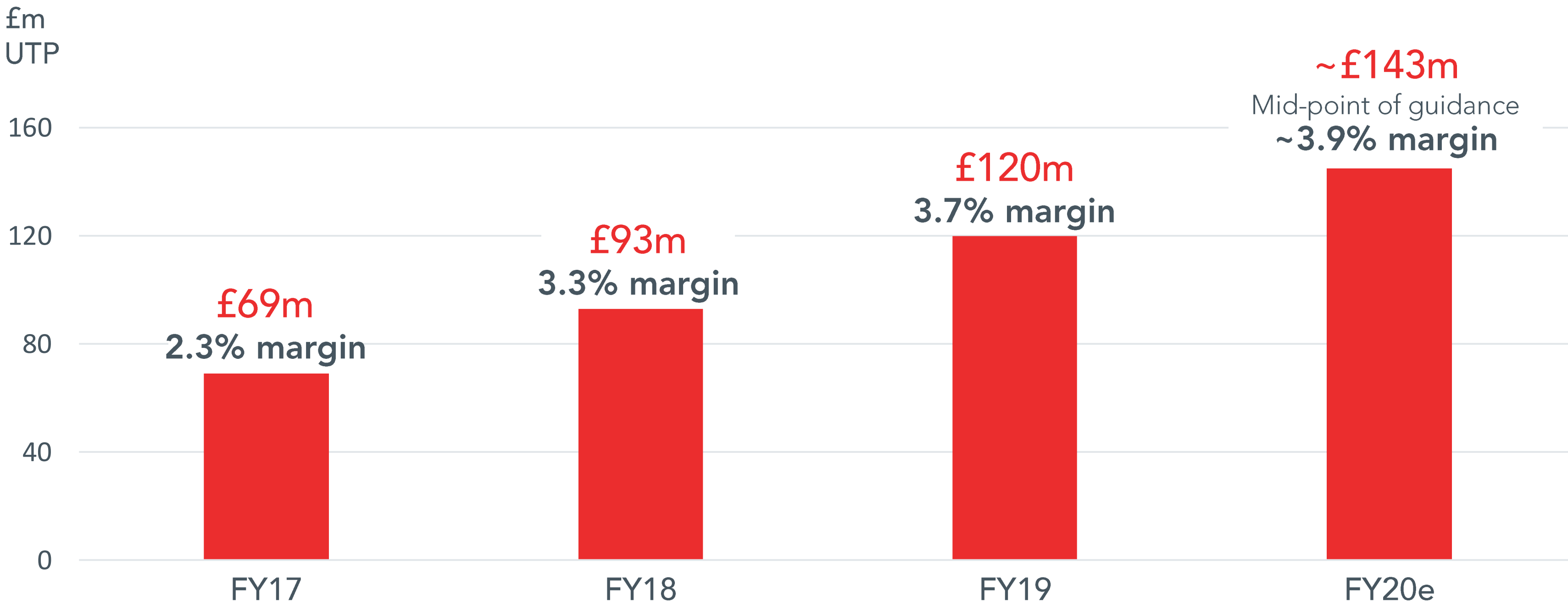
Overview

Rupert Soames
Group Chief Executive

Guidance reiterated after strong first half

- Strong financial and operational performance
  - Revenue £1,822m, up +24% at CFX; +15% organic; +9% from NSBU acquisition
  - Underlying Trading Profit of £77.6m, up +53% at CFX; margin increased from 3.4% to 4.3%
  - ~15,000 people recruited to support governments around the world; 10,500 tracers mobilized in 6 weeks for NHS Test & Trace; >500,000 tests delivered through Serco-operated test centres
  - 90% of Serco people working on the front line in hospitals, prisons, call centres, defence bases, trains
  - People, processes, systems, strategy and "Loose-Tight" business model respond well to crisis
- Covid-19 had limited impact on UTP
  - Net impact of +£80m on revenue as a result of new contracts to assist governments in responding to the crisis offset by fall in demand in leisure, aviation and UK transport; mitigated by some customer support to maintain services
  - Neutral to UTP as additional work and support schemes, such as UK furlough and emergency agreements on some UK transport contracts, offset fall in demand and higher costs
  - Customer demand for Serco and ability to respond are the result of changes and investment over last few years
- Solid order intake and order book
  - £1.9bn order intake; slightly ahead of revenue
  - Order book increased to £14.5bn, up from £14.1bn at start of year
- Robust balance sheet and good liquidity
- 2020 guidance reiterated having been reinstated in June

Profit: **~27% CAGR** 2017-20
Revenue: **8%** 2019 organic, **~9%** 2020



- In the "Grow" stage of the strategic plan
- Strong revenue and UTP growth anticipated in 2020, despite disruption from Covid-19
- Revenue growth in 2019 and 2020, as well as strong order intake, indicates we are outperforming our overall market

Financial Review

Angus Cockburn
Chief Financial Officer

Income Statement – Revenue and Trading Profit

Revenue excludes share of JV&A revenue

Trading Profit measures include share of JV&A PAT

Contract & Balance Sheet Review adjustments and other one-time items excluded from UTP

£m	HY20	HY19	FY19
Revenue	1,822	1,476	*3,248*
Trading profit	80.5	50.6	*133.4*
Exclude: Contract & Balance Sheet Review items	(2.9)	-	*(13.2)*
Underlying Trading Profit (UTP)	**77.6**	**50.6**	***120.2***
UTP margin	***4.3%***	***3.4%***	***3.7%***

- **Currency impact in HY20: Revenue -£4.4m; UTP +£0.2m**
  - Sterling weakened against the US$ but strengthened against the Aus$
- **Translational FX sensitivity:**
  - FY19 £:US$ av. rate of 1.28; 5c move = ~£50m Revenue, ~£4m UTP (based on Americas + Middle East)
  - FY19 £:Aus$ av. rate of 1.83; 5c move = ~£20m Revenue, ~£1m UTP (based on AsPac)
- **Estimated FY20e currency impact: Broadly flat**
  - Assumes FY20e £:US$ av. rate of 1.28 and £:Aus$ av. rate of 1.88, based on applying YTD average rates and the 31 July 2020 spot rate for the rest of the year

Revenue divisional analysis

UK&E, Americas and AsPac all delivered good growth

UK&E – AASC contract and Covid-19 work

Americas – FEMA, Field Office Support and CMS

AsPac – growth from AHSC and Citizen Services

Middle East – decline due to Covid-19 impact on transport portfolio

Revenue - growth composition HY20 vs HY19

£m	HY19 Reported Currency	Organic	Acquisition/ Disposal	FX	TOTAL	HY20 Reported Currency	HY20 Constant Currency	FY19 *Reported Currency*
UK&E	658	+19%	-	-	+19%	784	784	*1,362*
Americas	372	+8%	+35%	+3%	+46%	542	531	*916*
AsPac	280	+25%	-	(6%)	+19%	332	350	*621*
Middle East	166	(2%)	-	+1%	(1%)	164	162	*350*
Total	**1,476**	**+15.0%**	**+9.0%**	**-0.5%**	**+23.5%**	**1,822**	**1,827**	***3,248***
HY20 v HY19		+£221m	+£132m	-£7m	+£346m			

- +15% organic; compared to +4% in H1 2019 and +12% in H2 2019
- ~5% of the organic growth was from Covid-19 related work
- +9% acquisitions; Naval Services Business Unit of Alion acquired in August 2019

Underlying Trading Profit (UTP) divisional analysis

UTP increase led by Americas and UK&E

UK&E improvement driven by AASC contract moving from mobilisation to operational phase

Americas driven by NSBU acquisition (£10m) plus high activity in CMS and FEMA contracts

AsPac growth supported by AHSC

Middle East decline includes reduced air traffic control work

Underlying Trading Profit and margin

£m	HY20 UTP Reported Currency	HY20 UTP Constant Currency	HY20 UTP Reported Margin	HY19 UTP Reported Currency	HY19 UTP Reported Margin	HY change Constant Currency	HY change Constant Currency	*FY19 UTP Reported Currency*	*FY19 UTP Reported Margin*
UK&E	26.5	26.5	3.4%	15.2	2.3%	+11.3	+74%	*38.4*	*2.8%*
Americas	53.4	52.4	9.9%	37.7	10.1%	+14.7	+40%	*82.1*	*9.0%*
AsPac	13.3	14.0	4.0%	11.8	4.2%	+2.2	+19%	*31.3*	*5.0%*
Middle East	7.0	7.1	4.3%	7.4	4.5%	(0.3)	(4%)	*13.9*	*4.0%*
Divisions	**100.2**	**100.0**	**5.5%**	**72.1**	**4.9%**	**+27.9**	**+39%**	***165.7***	***5.1%***
Corporate	(22.6)	(22.6)	(1.2%)	(21.5)	(1.5%)	(1.1)	+5%	*(45.5)*	*(1.4%)*
Total	**77.6**	**77.4**	**4.3%**	**50.6**	**3.4%**	**+26.8**	**+53%**	***120.2***	***3.7%***

- UTP growth of +53% at CFX and RFX
- Margin increased from 3.4% to 4.3%
- Favourable FX of £0.2m increases the HY change from +£26.8m to +£27.0m

Income statement – EPS and DPS

Net finance costs higher due to increased interest on lease liabilities

Effective tax rate increased from 24.4% to 26.2% due to change in geographic mix

Underlying EPS up +47%

Non underlying items (contract & balance Sheet review items) net credit of £2.9m

Interim dividend decision deferred until Q4

£m	HY20	HY19	FY19
Underlying Trading Profit (UTP)	**77.6**	**50.6**	***120.2***
Net finance costs (NFC)	(12.7)	(10.5)	*(21.8)*
Underlying PBT	**64.9**	**40.1**	***98.4***
Tax on UTP and NFC	(17.0)	(9.8)	*(24.4)*
Underlying PAT	**47.9**	**30.3**	***74.0***
Non underlying items	2.9	-	*13.2*
Amortisation of intangibles arising on acquisition	(5.0)	(2.3)	*(7.5)*
Non underlying tax	11.3	1.3	*(3.0)*
PAT before exceptionals	**57.1**	**29.3**	***76.7***
Exceptional items, net of tax	13.2	(30.7)	*(26.1)*
Profit/(loss) after tax	**70.3)**	**(1.4)**	***50.6***
Less: attributable to non-controlling interests	(0.1)	(0.3)	*(0.2)*
Attributable to equity owners	**70.2**	**(1.7)**	***50.4***
Weighted average share count for diluted EPS	*1,244.7m*	*1,146.3m*	*1,199.0m*
Underlying EPS, diluted	**3.86p**	**2.62p**	***6.16p***
Impact of non underlying items	0.74p	(0.09p)	*0.23p*
Statutory EPS before exceptional items, diluted	**4.60p**	**2.53p**	***6.39p***
Impact of exceptional items	1.06p	(2.68p)	*(2.18p)*
Statutory EPS, diluted	**5.66p**	**(0.15p)**	***4.21p***
DPS	**0p**	**0p**	***0p***

Exceptional items

Net exceptional credit of £13m

Exit of Viapath JV is biggest component with gain on disposal and loan repayment

This year saw **no exceptional restructuring costs** (2019: £5.4m), marking the end of our exceptional restructuring programme

£m	HY20	HY19	*FY19*
Exceptional (loss)/profit on disposals	11.0	-	-
Other exceptional operating items:			
Restructuring costs	0.1	(5.4)	*(12.8)*
SFO fine and investigation costs	-	(22.9)	*(22.9)*
Other costs re UK government reviews	(1.2)	(1.1)	*(2.3)*
Acquisition costs re NSBU	(1.4)	(1.7)	*(4.7)*
Release of provision re 2014 commercial dispute	-	-	*19.3*
Reversal of impaired loan balances	1.2	-	-
Reversal of impairment in joint ventures	1.3	-	-
Legal settlement on commercial dispute	2.6	-	-
Exceptional operating items	**13.6**	**(31.1)**	***(23.4)***
Tax on exceptional items	(0.4)	0.4	*(2.7)*
Total exceptional items, net of tax	**13.2**	**(30.7)**	***(26.1)***
Memo:			
Cash flow on exceptional items	***(4.2)***	***(12.1)***	***(49.2)***
Cash flow on disposal of Viapath investment	***11.0***	***-***	***-***
	6.8	***(12.1)***	***(49.2)***

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Dividends

- Background to Board's recommendation of resuming dividends in respect of FY19
  - Followed very strong operational and financial performance
  - 2019 was also the last year of significant outflows on OCPs and cash exceptionals
  - Expectations were for increased underlying earnings and reducing financial leverage in 2020
- Recommendation of paying a final 2019 dividend subsequently withdrawn
  - Risks and uncertainty of Covid-19 and unknown impact on financial performance and liquidity
  - Potential to use government support where available including the deferral of tax payments
- Interim dividend decision deferred
  - Good operating performance and strong balance sheet, however
  - Currently using government support, therefore inappropriate to pay an interim dividend
- Board will review dividend again in Q4
  - We anticipate repaying the deferred taxes, where possible, towards the end of the year
  - Board will then consider whether it should distribute all or part of what would have been paid as the final dividend in respect of 2019
  - Interim dividend will also be revisited at that point

Free cash flow and trading cash flow

Free Cash Flow was £32m excluding tax deferrals

Capital repayment of lease liabilities higher than depreciation due to AASC contract

Working capital had £45m benefit from tax deferrals

FCF step up due to improved profitability and reduced OCP utilisation

Average working capital days broadly unchanged

No use of working capital facilities across the Group

UTP to Trading Cash Flow conversion was 78% excluding tax deferrals

£m	HY20	HY19	*FY19*
Operating profit before exceptionals	**75.5**	**48.3**	**125.9**
Share of profit of joint ventures and associates	(7.0)	(13.5)	(27.5)
Depreciation and amortisation of owned assets	20.3	18.6	43.3
Depreciation and impairment of leased assets	46.4	32.5	75.6
Working capital movement	19.2	(7.5)	(0.1)
OCP utilisation (excl. accelerated OCP utilisation re IFRS16 leases)	(1.7)	(29.5)	(40.9)
Accelerated OCP utilisation re IFRS16 leases	-	(12.6)	(12.7)
Other movements in provisions	7.3	6.7	10.5
Other non-cash movements	6.4	5.6	9.2
Tax paid	(12.0)	(17.2)	(31.2)
Net cash flow from operating activities	**154.4**	**31.4**	**152.1**
Dividends from joint ventures and associates	12.4	13.4	25.4
Net interest paid	(12.6)	(10.5)	(22.2)
Capital repayment of lease liabilities	(52.8)	(22.3)	(70.2)
Net capital expenditure	(20.6)	(11.7)	(23.3)
Purchase of own shares net of options proceeds	0.1	0.1	0.2
Free Cash Flow (FCF)	**80.9**	**0.4**	**62.0**
Add-back: tax paid and net interest paid, as above	24.6	27.7	53.4
Add-back: non-cash R&D, within other movements	-	-	0.1
Trading Cash Flow	**105.5**	**28.1**	**115.5**
Memo: UTP to Trading Cash Flow conversion	***136%***	***56%***	***96%***
>conversion excluding tax deferrals	***78%***	***n/a***	***n/a***

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Net debt and leverage

HY19 is presented on a pro forma basis to exclude the £139m net proceeds of the Equity Placing

£143m closing adjusted net debt compares to a daily average of £283m (2019 £219m)

Average and closing net debt difference due to: Mobilisation of Covid-19 work in advance of payment, FEMA billings, tax deferrals and JV disposal

Covenant leverage of 0.7x, or 0.9x excluding tax deferrals

Net debt of £503m including leases

£m	HY20	HY19	*FY19*
Free cash flow	**80.9**	**0.4**	**62.0**
Exceptional items (see Appendix 5)	(4.2)	(12.1)	(49.2)
Net (acquisition)/disposal of subsidiaries and operations	7.4	(9.3)	(193.2)
Equity Placing net proceeds	-	-	138.7
Other movements in investment and loan balances	0.6	0.3	0.3
Cash movements on hedging instruments	(0.9)	(7.0)	(2.0)
Foreign exchange movement on net debt	(12.2)	0.3	2.1
Movement in adjusted net debt (HY19 pro forma)	**71.6**	**(27.4)**	**(41.3)**
Opening net debt	(214.5)	(173.2)	(173.2)
Closing adjusted net debt (HY19 pro forma)	**(142.9)**	**(200.6)**	**(214.5)**
Covenant adjustments (see Appendix 6)	(5.7)	(11.5)	(20.6)
Net borrowings (HY19 pro forma)	**(148.6)**	**(212.1)**	**(235.1)**
HY19 pro forma: Equity Placing net proceeds	n/a	138.7	n/a
Net borrowings per covenant	**(148.6)**	**(73.4)**	**(235.1)**
EBITDA per covenant (see Appendix 6)	**222.7**	**170.5**	**200.7**
Exclude non-underlying items	(18.6)	(15.8)	(21.5)
EBITDA underlying	**204.1**	**154.7**	**179.2**
Leverage ratio per covenant	**0.67x**	**0.43x**	**1.17x**
Leverage ratio underlying (HY19 pro forma)	**0.73x**	**1.37x**	**1.31x**

Guidance for 2020

	2019A	2020 guidance
Revenue	£3.2bn	**~£3.7bn**
Organic sales growth	8.2%	**~9%**
Underlying trading profit	£120m	**£135m-£150m**
Net finance costs	£22m	**~£27m**
Underlying effective tax rate	24.8%	**~25%**
Free cash flow	+£62m	**Broadly similar to 2019**
Adjusted net debt	£215m	**~£200m**

NB. Full year cash flow and net debt guidance assume repayment of deferred tax by the end of the year, where possible.

- Short term outlook:
  - The relatively wide range of UTP outcomes reflects the continuing uncertainty
  - Uncertainty likely to persist well into 2021 as the world grapples with recurring outbreaks of infection
  - Upsurges in cases can affect both our revenue and profit
  - Net impact of Covid-19 in HY20 was neutral due to additional Covid-19 related work. These contracts are short-term by their nature

Operational review

Rupert Soames
Group Chief Executive

HY20 highlights & lowlights

Highlights

- **Response to Covid-19** (see following slides)
- **People, systems, processes prove to be scalable and agile; business and management model "fit for purpose"**
  - Call centres: from Ugly Duckling to Belle of the Ball
- **Extremely strong financial performance** Revenue +24%, UTP +53%, OCP utilisation £2m, down from £42m; strong cash flow; On track for >25% CAGR in UTP 2017-20
- **Order Intake**: >100% Book-to-Bill in difficult environment. Key wins Northern Isles Ferries, Gatwick IRC, Fiona Stanley, GEODSS, Fylingdales.
- **Successful mobilisations despite lockdown:** Gatwick IRC, Clarence; PECS goes live in August
- **NSBU / METS** performing to plan; **FEMA** running well; strong operational response to additional unexpected **CMS** volumes
- **AASC** finds accommodation for >2,700 additional service users
- **Management: new appointments to Exec; 7,500 applications for 40 Graduate positions**
- **Necessity the mother of invention:** learning how to do things better/faster; slicker processes such as SpeedyBoarding

Lowlights

- **7 Covid-19 related deaths**
- **Bid Losses:** Viapath, ATC training in US
- **Some tenders delayed, customers distracted;** pipeline weaker, but extensions benefit
- **Hard to maintain momentum** on productivity improvements whilst in lockdown
- **Icebreaker delayed**
- **Negative press** on Test & Trace
- **Health:** margin improvement challenging; PFI audits continuing

Covid-19 has been a huge test of Serco's operational capability

Setting priorities

"Our priority in this crisis is to support the delivery of essential public services and, within that context, do all we can to protect our employees from harm and our shareholders from loss"

Trading Update 2nd April

Questions: Group

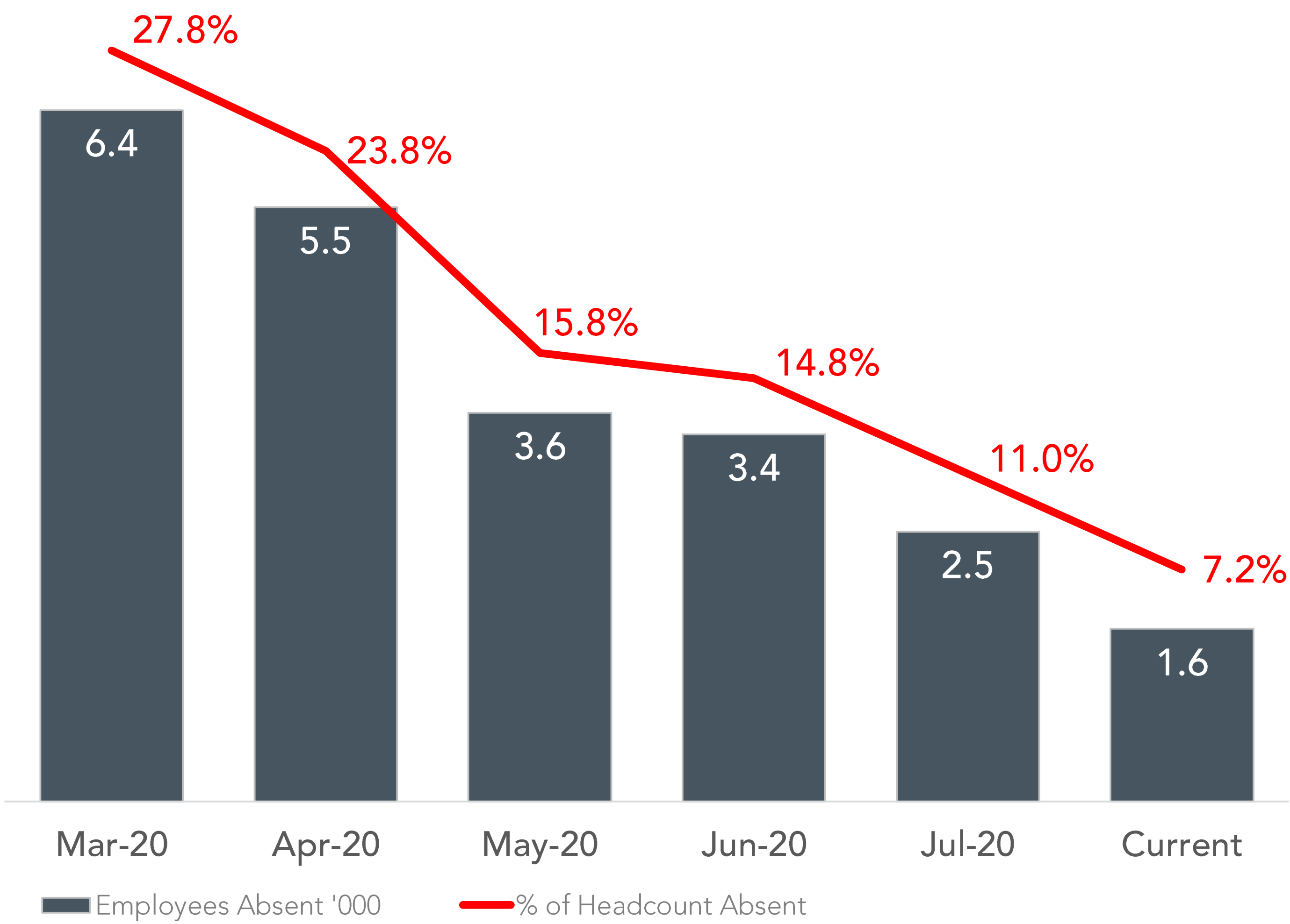
- How do we manage this?
- Same or different impact by country?
- How many people would turn up for work?
- How do people get in to work?
- At what level of attendance would we be unable to function?
- Would our offices be open fully / a bit / at all?
- Can we provide secure IT at home?
- Would our supply chain hold up?
- Was this nasty flu, or something worse?
- How long should we plan for it to last?
- Would governments be able to function?
- What was our liquidity position?
- What PPE do we need, and how do we get it?

Answers: Group

- Well-rehearsed business continuity plans worked
- Largely the same by country; different timings; different government responses
- "Loose-Tight", devolved structured, with people used to sharing ideas worked
- Initial high level of absence soon normalised
- At >30% absence it is very difficult to sustain
- 90% of our people work from government facilities – prisons, hospitals, call centres, defence locations
- 10% of our people homeworking worked well
- Supply chain held up
- Much worse than flu and plan for it being around for a long time
- Governments functioned well
- Liquidity position strong as we were paid and we have been paying
- PPE – endless war-stories

Absence trends - UK

Almost back to normal: 7.2%, of which 2.3% Covid-19 related



Covid-19 has been a huge test of Serco's operational capability
Each sector presents different challenges

Questions: by sector

- Hospitals: what PPE? What shifts? What cleaning regimes? Food supplies?
- Prisons: Lock down? Visitors? Control & Restraint?
- Transport: to run or not to run? How much capacity?
- Driver Test & Examination
- Leisure Centres
- Environmental Services
- Asylum seeker accommodation
- Call centres: how many m2 per person? Which customers will allow home working?
- Defence: who will be allowed on sites? How do we assure tug crews for essential movements?

Serco people have risen to the challenge and behaved in exemplary fashion

Answers: by sector

- Hospitals: same PPE standards as NHS; additional staff to manage absences; food supplies as normal
- Prisons: lock down regimes & no visitors worked surprisingly well; in-cell exercises & video; many prisoners well aware of their own fragile health
- Transport: Merseyrail, Northlink Ferries, Dubai Metro, Dubai Airport, Caledonian Sleepers all running <20%
- Driver Test & Examination: closed down
- Environmental: deal with 25% increase in volume
- Leisure Centres: close down, care & maintenance
- Asylum seekers: stop "move-ons"; population increases by >2,700 since March
- Call centres: reduced capacity by ~70%; most, but not all, customers accepting home working
- Defence: some sites tightly shut down in early days; mission critical crews isolate for 14 days before task

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Covid-19 has been a huge operational test for both Serco & governments

Setting priorities

"Our priority in this crisis is to support the delivery of essential public services and, within that context, do all we can to protect our employees from harm and our shareholders from loss"

Trading Update 2nd April

- Mobilise immediately, sort out commercials later, open book, lower margins, collaborative working with government, agencies, and other companies
- >15,000 people hired, 2,800 furloughed, ~800 layoffs, hundreds re-deployed
  - UK: Drive-through & mobile test centres (0.5m tests delivered, 25 fixed / 64 mobile sites) NHS Test & Trace (10,500 people), Dept Work & Pensions (1.8m calls last quarter), Public Health England, NHS111, Louisa Jordan Hospital, NHS Trusts
  - Middle East: Dubai World Trade Centre field hospital; Saudi hospitals; Defence base support
  - Australia: quarantined returning travellers; increasing immigration & extradition cases; Services Australia, Dept Health Services
  - US: increased volumes on CMS; Navy demands continued throughput

Serco response to "Can you help?"
"Yes, we can"

Total additional revenue ~£130m in H1, offset by £50m revenue losses.
Net profit impact negligible due to puts and takes.

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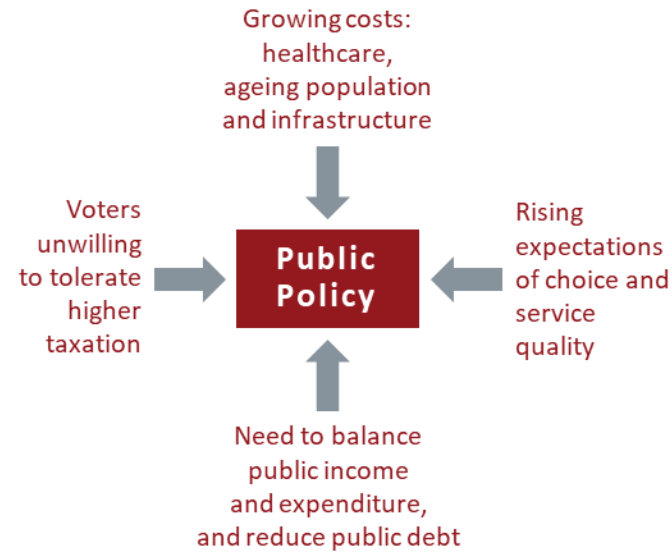
Covid-19 will be net positive for our relationship with governments

Long-term impact

- Four Forces will speak with louder voice:-
  - Governments will have more debt
  - Citizens will be more aware of the importance of public services
  - Deficits will have to be stabilised
  - Increased taxation will continue to be unpopular
- We have built battle-proven relationships with many customers
- Realisation of the value of the private sector as a nation's reserve army
- Response of UK private sector really strong:
  - Ventilators: Dyson, Babcock, Maclaren, Penlon
  - Nightingale Hospitals: Mitie, Interserve, Balfour Beatty, Kier, British Army, Serco
  - Drive-through test centres: Boots, Deloitte, G4S, Sodexo, Serco, British Army
  - Test & Trace: Sitel, Serco, NHS Professionals, PHE
- Public and private sectors have worked really well together

The Four Forces



Fierce pressure on governments to deliver more, and better, for less

UK & Europe summary of HY20

HY20 Revenue

£784m
CFX change:
+£126m
+19%

% of Group Revenue

HY20 UTP

£26.5m
CFX change:
£11.3m
74%

% of Group UTP (before corp. costs)

Sectors

Justice, Immigration, Defence, Health, Citizen Services, Transport

- **Revenue** +19% organic
  - Growth driven by: AASC contracts and additional Covid-19 work
  - Negatives: Leisure, Northern Isles Ferry, some lost healthcare work
- UTP +74%
  - Margin: increased from 2.3% to 3.4%, or 2.9% JV&A-adjusted (HY19: 2.1%)
  - Growth driven by: AASC move from loss-making (mob costs) to profitability, Covid-19 work (at lower than average margin), Viapath exit (non-recurring)
  - Negatives: Covid-19 impact on Leisure, Merseyrail, additional costs in Health
- **OCP journey now virtually complete:** £1.5m utilisation (HY19: £36m)
- **Contract awards of >£1bn incl:** Northern Isles Ferry ~£450m; Gatwick Immigration Centres ~£200m; various contracts to provide services in response to Covid-19, the largest being NHS Test & Trace
- **Pipeline / rebids / extensions:** Test & Trace, Herts CC, FPMS, Skynet Athena consortium; DIO Defence infrastructure; new build prisons; Belgium military bases

Americas summary of HY20

HY20 Revenue

£542m
CFX change:
+£159m
+43%

% of Group Revenue

30%

HY20 UTP

£53.4m
CFX change:
+£15.7m
+39%

% of Group UTP (before corp. costs)

53%

Sectors

Defence, Citizen Services, Transport

- **Revenue +46%:** +36% NSBU, +8% organic, +3% FX
  - NSBU +36%: Acquisition performing in-line with our expectations
  - Organic +8%: main contributors new FEMA contract, PBGC and temporary uplift in volumes on CMS
  - Covid-19: Limited impact as vast majority of work classed as essential
- **UTP +42%:** +27% NSBU, +12% organic, +3% FX
  - Margin: reduced from 10.1% to 9.9%, mainly as NSBU margin lower
  - CMS: Margins stable due to temporary work that has now ended, we don't expect margins to recur at the FY19/HY20 levels in the future
  - Covid-19: Limited impact
- **OCPs:** None (HY19: £4m)
- **Contract awards of £0.3bn incl:** U.S. Space Force to manage, operate and maintain the Ground-Based Electro-Optical Deep Space Surveillance (GEODSS) system
- **Pipeline / Rebids / extensions:** METS ~£1.9bn of opportunities (40% of NA pipeline); FAA Towers; ATFP; Goose Bay; CANES; FMS FOTS; GATCS II; TACNET ISEA

AsPac summary of HY20

HY20 Revenue

£332m
CFX change:
+£70m
+25%

% of Group Revenue

HY20 UTP

£13.3m
CFX change:
+£1.5m
+19%

% of Group UTP (before corp. costs)

Sectors

Justice, Immigration, Defence, Health, Citizen Services, Transport

- **Revenue +19%:** +25% organic, -6% FX
  - Organic growth driven by: strong growth in our Healthcare, Citizen Services and Justice & Immigration sectors. Largest contributor AHSC defence garrison healthcare services contract, which started in H2 2019
  - Covid-19: Small net positive; Some extra work from quarantine accommodation and Citizen Services, negative impact from delays to testing ASRV Icebreaker
- **UTP +13%:** +18% organic, -5% FX
  - Margin: reduced from 4.2% to 4.0% due to ASRV and additional overheads
  - Growth driven by: AHSC move from loss-making (mob costs) to profitability, other new contracts and expanded Citizen Services work
  - Covid-19: Small net negative
- **OCPs:** £0.2m utilisation (HY19: £2m)
- **Contracts awards of £0.5bn:** Fiona Stanley extension ~£370m, ATO extension, quiet phase for new work following significant wins in recent years.
- **Pipeline / Rebids / extensions:** DIBP, SQCC, Department of Human Services; Acacia Prison; Australian Tax Office; Defence Marine Services; Victoria Justice Health, Hong Kong infrastructure

Middle East summary of HY20

HY20 Revenue

£165m
CFX change:
(£4m)
(2%)

% of Group Revenue

HY20 UTP

£7.0m
CFX change:
(£0.4m)
(4%)

% of Group UTP (before corp. costs)

Sectors

Transport, Defence, Health, Citizen Services

- **Revenue -1%:** -2% organic, +1% FX
  - Covid-19: Largest negative impact from Covid-19; sudden reduction in activity in parts of the transport portfolio and limited Covid-19 response work to act as a counterbalance
  - Organic decline: Reduced revenue on Baghdad Air Traffic Control, Serco Saudi Services, Dubai Air Navigation Systems and Dubai Airport FM
- **UTP -5%:** -4% organic, -1% FX
  - Margin: reduced from 4.5% to 4.3% due to drop-through margin on Covid-19 impacted work being higher than segment average;
  - UTP decline: Main drivers were lower revenue in air traffic control work and Serco Saudi Services
- **OCPs:** no OCPs
- **Contract awards of £0.1bn incl:** Extention of Dubai airports FM
- **Pipeline / Rebids /extensions due before end of 2022:** Dubai Metro; Dubai and Baghdad ANS, MELABS extensions; Saudi rail operations

Summary & outlook

Rupert Soames
Group Chief Executive

Summary and Outlook

- Very strong operational & financial performance
- Serco people, processes, systems, strategic positioning and "Loose-Tight" business model have responded well to unprecedented scale of challenges presented by Covid-19
- We will revisit in Q4 decision on final dividend, withdrawn in April, and also of interim dividend
- Expect to pay taxes deferred in Q4
- Short-term outlook: wide range of UTP guidance for 2020 due to significant uncertainty, which is likely to persist well into 2021. Government contracts offsetting negative impact of Covid 19 are short term and unlikely to continue much into next year. Recurring outbreaks (e.g. Australia, US) may cause operational issues
- Long-term outlook: Four Forces will be stronger than ever; more will stay the same than will change

Plus ça change, plus c'est la même chose.
Jean-Baptiste Karr, a year after the 1848 French Revolution

SERCO – AND REALLY RATHER PROUD OF IT

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Q&A

Appendix 1 – notes and definitions

- Revenue is as defined under IFRS, which excludes Serco's share of revenue of its joint ventures and associates. In prior periods where relevant, revenue including that from any discontinued operations has been shown for consistency with previous guidance and disclosures.
- Organic revenue growth is the change at constant currency after adjusting to exclude the impact of relevant acquisitions or disposals.
- Trading Profit is defined as IFRS Operating Profit excluding amortisation of intangibles arising on acquisition as well as exceptional items. Consistent with IFRS, it includes Serco's share of profit after interest and tax of its joint ventures and associates. Underlying Trading Profit excludes Contract & Balance Sheet Review adjustments (principally Onerous Contract Provision (OCP) releases or charges) and other material one-time items. In prior periods where relevant, it has also excluded the beneficial treatment of depreciation and amortisation of assets held for sale. In prior periods where relevant, Trading Profit measures have included discontinued operations for consistency with previous guidance and disclosures.
- Change at constant currency for Revenue and Underlying Trading Profit is calculated by translating non-Sterling values for the period being reported into Sterling at the average exchange rate for the comparable period.
- Underlying EPS reflects the Underlying Trading Profit measure after deducting pre-exceptional net finance costs and related tax effects.
- Trading Cash Flow is the net cash flow from operating activities before exceptional items as shown on the face of the Group's Consolidated Cash Flow Statement and is stated after net capital expenditure on tangible and intangible asset purchases, adding dividends we receive from joint ventures and associates, and adjusting to remove net tax paid.
- Free Cash Flow is Trading Cash Flow after adjusting to deduct net interest paid and net tax paid.
- Pre-tax ROIC is calculated as Underlying Trading Profit or Trading Profit divided by the Invested Capital balance on a two-point average basis. Invested Capital assets are: goodwill and other intangible assets; property, plant and equipment (excluding ROU lease assets); interests in joint ventures and associates; contract assets, trade and other receivables; and inventories. All other assets are excluded from Invested Capital, being: ROU lease assets; tax assets; derivative financial instruments; retirement benefit assets; and cash and cash equivalents. Of the total liabilities on the Balance Sheet, Invested Capital liabilities are contract liabilities, trade and other payables. All other liabilities are excluded from Invested Capital being: lease liabilities; tax liabilities; provisions; derivative financial instruments; retirement benefit obligations; and loans. In prior periods where relevant, assets and liabilities classified as held for sale were also included in Invested Capital.
- The order book reflects the estimated value of future revenue based on all existing signed contracts, excluding Serco's share of joint ventures and associates. It excludes contracts at the preferred bidder stage and excludes the award of new Multiple Award Contracts (MACs) or Indefinite Delivery / Indefinite Quantity (IDIQ) contract or framework vehicles, where Serco cannot estimate with sufficient certainty its expected future value of specific task orders that may be issued under the IDIQ or MAC; in these situations the value of any task order is recognised within the order book when subsequently won. The definition excludes unsigned extension periods as well as option periods in our US business.
- The pipeline is defined as new bid opportunities with estimated Annual Contract Value (ACV) of at least £10m, and which are expected to be bid and awarded within a rolling 24-month timeframe. The TCV of individual opportunities is capped at £1bn. The definition does not include rebids and extension opportunities related to existing contractual relationships. FOR MACs or IDIQs, only the potential value of any individual task order is included.
- Where relevant, prior year numbers in this presentation have been restated to reflect restated numbers within the Condensed Consolidated Financial Statements, where explanations of the restated numbers have been provided.

Appendix 2 – focus on five sectors across four regions

HY20 revenue mix, including share of JV&As*

£m Sector	UK & Europe	Americas	Asia Pacific	Middle East		
Defence	233	364	64	13	£674m	34%
Justice & Immigration	179	-	141	-	£320m	16%
Transport	110	42	4	101	£257m	13%
Health	139	-	50	6	£195m	10%
Citizen Services	310	136	73	45	£564m	28%
Total	£971m 48%	£542m 27%	£332m 17%	£165m 8%	£2,010m	

* Reflects £1,822.2m reported revenue, adjusted to include Serco's share of joint ventures and associates revenue of £187.9m

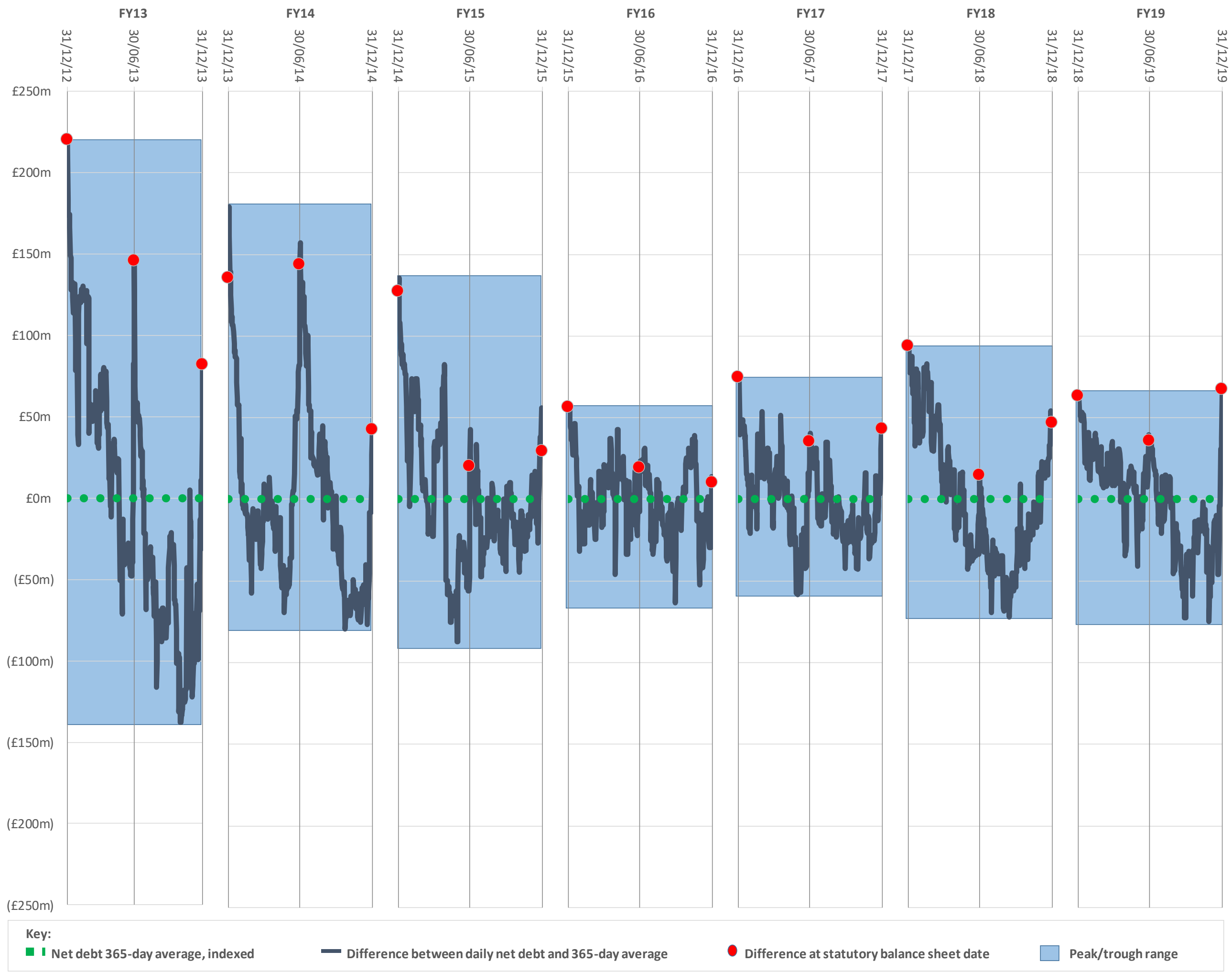
Appendix 3 – cash management normalisation

Pre 2014, net debt at statutory Balance Sheet dates had been as much as £200m+ better than the 365-day average

Previous cash management has been unwound, removing the cash inflow 'spikes' seen at the open/mid/closing statutory dates of FY13 and FY14

By FY16, the in-year cash cycle swing narrowed the peak/trough range; the difference between statutory Balance Sheet and average net debt has since been ~£50m

Some daily volatility can still result from the timing of contracts starting and ending; statutory dates will be persistently better than the average due to 4-4-5 billing cycle in the US



The impact of net proceeds from the May 2014 Placing, the April 2015 Rights Issue and refinancing, and the December 2015 BPO disposal are all adjusted for in the above charts. In FY19, the effect of the 28 May 2019 Placing proceeds (cash inflow of £139m for ~7 months of the year) and the completion of the NSBU acquisition on 1 September 2019 (cash outflow of £184m for ~5 months of the year) have also been adjusted for; for the purpose of the above chart this has the effect of changing the 365-day average from £231m to £237m, and changing the year-end Adjusted Net Debt from £215m to £169m.

Appendix 4 – cash flow breakdown 1 & breakdown 2

£m	HY20	HY19	FY19
Breakdown 1 – depreciation, amortisation and impairment			
Depreciation (excluding lease assets)	7.8	*6.9*	*15.3*
Amortisation (non-acquisition)	7.5	*9.4*	*18.1*
Depreciation and amortisation	**15.3**	***16.3***	***33.4***
Impairment of PPE (excluding lease assets)	-	-	*2.4*
D&A inc. impairment (excl. lease assets and acquisition intangibles)	15.3	***16.3***	***35.8***
Amortisation of intangibles arising on acquisition	5.0	*2.3*	*7.5*
Total depreciation, amortisation and impairment (excluding lease assets)	**20.3**	***18.6***	***43.3***
Breakdown 2 – other non-cash movements			
Share-based payment expense	5.9	*5.6*	*11.6*
Loss/(profit) on disposal of PPE, intangible assets and leases (including termination)	0.4	*0.1*	*(1.1)*
Non-cash R&D expenditure	-	-	*(0.1)*
Other non-cash movements	0.1	*(0.1)*	*(1.2)*
Other non-cash movements	**6.4**	***5.6***	***9.2***

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Appendix 5 – cash flow breakdown 3

£m	HY20	HY19	*FY19*
Breakdown 3 – cash flow and net debt exceptional items			
Restructuring and costs related to Strategy Review	(1.1)	*(11.1)*	(19.2)
SFO fine and investigation costs	-	-	(22.9)
Other costs re UK government reviews	(0.1)	*(1.0)*	(2.2)
Acquisition costs re NSBU	(1.4)	-	(4.7)
Costs re legal claims previously provided for	(1.6)	-	-
Other cash flow exceptional items	-	-	(0.2)
Exceptional items cash costs	**(4.2)**	***(12.1)***	**(49.2)**

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Appendix 6 – leverage covenant calculation

£m	HY20 LTM	HY19 LTM	*FY19*
Trading Profit	163.3	121.9	133.4
Exclude: share of joint venture and associate post-tax profits	(21.0)	(27.3)	(27.5)
Exclude: foreign exchange credit on investing and financing arrangements	(0.1)	(0.9)	(0.8)
Include: dividends from joint ventures and associates	24.4	27.0	25.4
Add-back: D&A inc. impairment (excl. lease ROU assets and acquisition intangibles)	40.5	38.0	35.8
Add-back: share-based payments charge	11.9	13.4	11.6
Add-back: non-exceptional net charge to OCPs	6.6	-	7.2
Covenant adjustment to reflect GAAP pre IFRS16	(4.5)	(1.6)	3.5
Covenant adjustment to pro-forma for NSBU acquisition	1.6	-	12.1
EBITDA per covenant	**222.7**	**170.5**	**200.7**
Adjusted Net Debt (closing, pro forma for HY19)	(142.9)	(200.6)	(214.5)
Add: finance leases (as covenant reflects GAAP pre IFRS16)	(6.8)	(11.7)	(8.9)
Exclude: disposal vendor loan note, encumbered cash and other adjustments	(5.3)	(4.2)	(4.1)
Covenant adjustment for average FX rates	6.4	4.4	(7.6)
Net borrowings, pro forma	**(148.6)**	**(212.1)**	**(235.1)**
Equity Placing net proceeds	n/a	138.7	n/a
Net borrowings per covenant	**(148.6)**	**(73.4)**	**(235.1)**
Leverage ratio per covenant (not to exceed 3.5x)	**0.67x**	**0.43x**	**1.17x**

Appendix 7 – interest cover covenant calculation

£m	HY20 LTM	HY19 LTM	FY19
Net Finance Costs	(24.0)	(18.1)	(21.8)
Exclude: Finance charge on lease obligations recognised under IFRS16	9.1	2.2	6.6
Exclude: foreign exchange credit on investing and financing arrangements	0.1	0.9	0.8
Exclude: net interest receivable on retirement benefit obligations	(1.6)	(1.5)	(2.1)
Exclude: movement in discount on other debtors	-	(0.6)	(0.1)
Add-back: movement in discount on provisions and deferred consideration	0.1	1.3	1.2
Net finance costs for covenant calculation	**(16.3)**	**(15.8)**	**(15.4)**
EBITDA per covenant (Appendix 6)	**222.7**	**170.5**	**200.7**
Interest cover per covenant (to be at least 3.0x)	**13.7x**	**10.8x**	**13.0x**

Appendix 8 – balance sheet summary

£m	HY20	HY19	FY19
Goodwill	710.3	*581.4*	674.2
Other intangible assets (excluding leased assets)	91.3	*58.5*	96.5
Property, plant and equipment (excluding leased assets)	58.6	*40.4*	47.3
Contract assets, trade and other receivables	702.9	*623.3*	633.9
Inventories	20.3	*18.9*	18.3
Interest in joint ventures and associates	19.6	*21.1*	23.6
Invested capital assets	**1,603.0**	***1,343.6***	**1,493.8**
Cash and cash equivalents	244.9	*173.4*	89.5
Leased assets	340.7	*120.9*	345.3
Other assets (tax, derivative financial instruments, retirement benefit assets)	203.5	*179.9*	152.0
Total assets	**2,392.1**	***1,817.8***	**2,080.6**
Invested capital liabilities (contract liabilities, trade & other payables)	**(701.3)**	***(618.1)***	**(629.7)**
Loans	(390.4)	*(240.6)*	(305.0)
Obligations under leases	(359.9)	*(144.8)*	(369.9)
Provisions	(169.5)	*(214.7)*	(161.8)
Other liabilities (tax, derivative financial instruments, retirement benefit liabilities)	(87.8)	*(67.7)*	(71.3)
Total liabilities	**(1,708.9)**	***(1,285.9)***	**(1,537.7)**
Net assets	**683.2**	***531.9***	**542.9**

Appendix 9 – Return on Invested Capital (ROIC)

£m	HY20	HY19	FY19
Invested capital assets	1,603.0	1,343.6	1,531.3
Invested capital liabilities	(701.3)	(618.1)	(667.2)
Invested Capital (IC)	**901.7**	**725.5**	**864.1**
Average IC (two-point)	813.6	730.0	782.7
Trading Profit	80.5	50.6	133.4
Trading Profit for rolling 12 months	163.3	121.9	n/a
Underlying Trading Profit	77.6	50.6	120.2
Underlying Trading for rolling 12 months	147.2	106.1	n/a
Pre-tax ROIC:			
Trading Profit / Average IC	20.1%	16.7%	17.0%
Underlying Trading Profit / Average IC	18.1%	14.5%	15.4%

Appendix 10 – pension assets mix and IAS 19 valuation

SPLAS, the main Group scheme, represents 90%+ of total assets and liabilities; ~90% of SPLAS assets historically allocated to LDIs

June 2017 'buy-in': assets transferred to purchase a bulk annuity policy covering ~45% of SPLAS members

Insurer funds future payments to members; gross liability remains, but an equal and opposite insurance asset recorded

Transaction establishes a perfect hedge for the insured liabilities – fully removes longevity, investment and accounting risks

£m	HY20	HY19	*FY19*
Scheme assets at fair value:			
Liability driven investments (LDI)	425.8	488.8	447.4
Bonds except LDI	349.0	198.8	302.2
Equities	52.1	52.6	54.7
Cash, property and other	72.4	77.1	10.9
Annuity policies	663.6	611.1	614.0
Fair value of scheme assets	**1,562.9**	**1,428.4**	**1,429.2**
Present value of scheme liabilities	(1,485.3)	(1,361.1)	(1,384.5)
Net amount recognised	**77.6**	**67.3**	**44.7**
Franchise adjustment and members' share of deficit	12.8	8.2	9.6
Net retirement benefit asset (before tax) as per consolidated Group balance sheet	**90.4**	**75.5**	**54.3**

Appendix 11 – currency rates

Spot rate for FY20e		Average rates						Closing rates					
	30 Jun 2020	HY20	FY19	HY19	FY18	HY18	FY17	30 Jun 2020	31 Dec 2019	30 Jun 2019	31 Dec 2018	30 Jun 2018	31 Dec 2017
£:US$	1.23	1.27	1.28	1.30	1.34	1.38	1.29	1.23	1.32	1.27	1.28	1.31	1.35
£:Aus$	1.79	1.94	1.83	1.83	1.78	1.78	1.69	1.79	1.88	1.81	1.81	1.78	1.73
£:Eur	1.09	1.16	1.14	1.15	1.13	1.14	1.14	1.09	1.18	1.11	1.12	1.13	1.13

- **Currency impact in HY20: Revenue -£4.4m; UTP +£0.2m**
- **Translational FX sensitivity:**
  - FY19 £:US$ av. rate of 1.28; 5c move = ~£50m Revenue, ~£4m UTP (based on Americas + Middle East)
  - FY19 £:Aus$ av. rate of 1.83; 5c move = ~£20m Revenue, ~£1m UTP (based on AsPac)
- **Estimated FY20e currency impact expected to be negligible**
  - Assumes FY20e £:US$ av. rate of 1.28 and £:Aus$ av. rate of 1.88, based on applying YTD average rates and the 31 July 2020 spot rate for the rest of the year

Appendix 12 – Tax

HY20 Underlying ETR increased slightly due to geographic mix

Expect ETR to be ~25% in FY20 and remain at this level

Cash tax rate higher than ETR due to timing differences re tax deductions

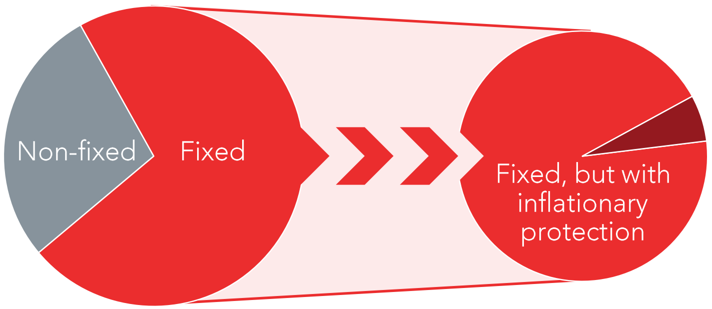
UK deferred tax asset available to offset against future taxable profits

- HY20 underlying tax of £17.0m, which, on UTP (£77.6m) less net finance costs (£12.7m), is a 26% effective tax rate (ETR)
  - Tax charge on overseas profits blends to ~30%, reflecting the mix of Australia, US and Middle East local rates
  - Calculation affected by proportion of JV&A profits which are consolidated within Underlying PBT but on an after-tax basis
- Higher rate than 24% in HY19 due to change in geographic mix of profitability and relative movement in some tax provisions.
- Expect Underlying ETR to be around 25% for FY20 and to continue at this level, although this is sensitive to the geographic mix of profit
- Cash tax will likely be sustainably 1-2% lower than an Income Statement ETR of ~25% primarily driven by use of UK losses and tax amortisation of NSBU goodwill in the US, though timing of cash tax payments on account can impact the outflow in any single period
- To date, the outlook of future profitability has resulted in recognising £23.5m of UK deferred tax asset. There is a total additional potential deferred tax asset of £144m in relation to UK tax losses; recognition of more of this balance is contingent on further improvement in the UK outlook

Appendix 13 – contract nature and inflation mitigation

- Around ¾ of revenue is from contracts where pricing is "fixed" in advance and on a longer term contractual basis; a "long term fixed price contracting" model requires careful cost inflation consideration
- The remainder is the "non-fixed" revenue base, which includes: work on shorter term task order basis or "cost plus" contracting (which represents a large proportion of the Americas division); pricing based on "time and expenses" or other project-based mechanisms; and revenue linked to that received direct from end users (eg Transport fares). This "non-fixed" revenue base should have relatively direct mechanisms for cost inflation pass-through.
- Whilst our contracting model is therefore dominated by "fixed" pricing, in fact >90% of that has a significant amount of inflationary protection, via
  - Generic adjusters (RPI, RPIx, CPI, etc), wage indices or 'basket of goods' indices
  - In some instances there are specific inflation adjusters for labour rates (eg Barts, re London Living Wage), or for other particular cost categories (eg fuel price adjusters)
- **Whilst any pricing mechanism offset is unlikely to perfectly correlate to the actual cost base pressure, Serco has some significant protection against cost inflation even though our contracting model is largely considered "fixed" in nature**

Revenue base mix



Appendix 14 – American Depository Receipt (ADR) program

Serco Group has a sponsored Level 1 ADR program, for which Deutsche Bank act as the depositary bank and custodian

Ticker: SCGPY

Exchange: OTC

CUSIP: 81748L209

ISIN: US81748L2097

Ratio: 1 ADR : 1 Ordinary Share

ADR key benefits

- Convenient means of trading/holding foreign shares
- USD-denominated security – reducing custody costs
- Trade, clear and settle like other US securities
- Dividends (if declared by the Board) paid in USD
- Purchased or sold through US brokers

For assistance with converting Ordinary Shares into ADRs (or vice versa), please contact Deutsche Bank's ADR broker helpline:

New York: +1 212 250 9100 **London:** +44 207 547 6500 **Hong Kong:** +852 2203 7854

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