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SERCO GROUP PLC
Preliminary results for the year ended 31 December 2003

	2003	2002	
Turnover	£1,556m	£1,326m	up 17.3%
Profit before tax – pre goodwill	£67.0m	£57.0m	up 17.4%
Earnings per share – pre goodwill	11.03p	9.58p	up 15.1%
Profit before tax	£52.9m	£48.9m	up 8.0%
Earnings per share	7.75p	7.66p	up 1.2%
Dividend per share	2.34p	2.08p	up 12.5%

Executive Chairman Kevin Beeston said:

"In another excellent year for Serco we have maintained our consistent record of strong growth in sales and profits. Total turnover was up 17% to £1.6bn. Profit before tax and goodwill amortisation was up 17% to £67m. Free cash flow increased significantly to £47m. Contracts awarded in the year totalled a record £4.6bn and we enter 2004 with our largest-ever forward order book of £10.3bn.

The opportunities in our markets continue to grow, driven by unremitting pressure on governments to deliver value for taxpayers' money. Our proven track record of delivering both value and quality improvement in public services makes us confident that we can sustain continuing strong earnings growth."

- **Strong sales and profits growth for 16th consecutive year**
 - 57% of incremental sales from existing contract base, with success rate in rebids and extensions continuing above 90%
 - 26% of incremental sales from new contract wins, with new bid success rate continuing above 50%
 - 27% underlying profit growth (before goodwill, exceptional items and incremental pension cost of £9m)
- **Significantly enhanced cash generation**
 - Free cash flow increased to £47m (2002 – £9.7m)
 - 81% of group EBITDA converted into operating cash (2002 – 45%)
 - £9.9m cash from Great Southern Railway sale and leaseback and Norfolk and Norwich University Hospital refinancing
- **Succession of sales records broken**
 - Total contracts awarded in 2003 – £4.6bn
 - Largest new contract – 25-year Merseyrail Electrics contract – Serco share valued at £1.8bn
 - Significant rebids and extensions awarded – new 10-year National Physical Laboratory contract valued at £500m, 11-year contract at Goose Bay, Canada, valued at over C\$440m and 15-year extension to the Atomic Weapons Establishment contract valued at over £1bn
 - Largest North American contract – 10-year Ontario driver examination services contract valued at C\$600m
 - Largest Middle East contract and first PFI in the region – preferred bidder for 30-year Oman Joint Technical College valued at approximately US\$1.4bn – Serco's share of the consortium is 50%
- **Continued high visibility of earnings**
 - Forward order book stands at £10.3bn
 - 93% of 2004, 77% of 2005 and 70% of 2006 planned turnover already secured
- **Substantial range of future opportunities**
 - Bids worth £5bn submitted and under evaluation
 - Over £14bn of further opportunities identified

Note: Profit before tax - pre goodwill is stated before the impact of FRS10 *Goodwill Amortisation*, (£14.1m). Full detail is provided in section one of the Finance review. Free cash flow is reconciled in section four of the Finance review. EBITDA is defined in the Chairman's statement.

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WEBCAST

A webcast of the results presentation will be available on www.serco.com from 1800 hrs (GMT) on the 2 March 2004. To pre-register for viewing please visit www.axisto.com/webcast/media/serco/020304/

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Kevin Beeston – Executive Chairman
Andrew Jenner – Finance Director
Kevin Johnson – Head of Media and Public Relations



Chairman's statement

The successful £500m rebid of our contract to run the UK's National Physical Laboratory completed an excellent year for Serco. We maintained our unbroken record of double-digit growth in sales and profits before goodwill, strengthened our free cash flow and balance sheet, and entered 2004 with our largest-ever forward order book of £10.3bn.

During the year we were awarded contracts valued at a record total of £4.6bn.

The key to Serco's sustained success is a high rate of organic growth from extending the scope and scale of existing contracts. Over 50% of the year's incremental sales were achieved in this way. We maintained our above 90% success rate on rebids and won a large number of extensions including our largest-ever.

We were awarded a record £2.4bn of new contracts – including our biggest ever – as we continued to win over half our bids. There is ample scope for further growth: we currently have bids with a potential value of £5bn under evaluation and are addressing further opportunities valued at over £14bn.

Financial performance

Double-digit sales and profit growth

Turnover grew 17% to £1,556m. Pre-tax profit was up 17% to £67m before goodwill amortisation and 8% to £52.9m after goodwill amortisation. Gross margin was maintained at 13.7% of sales.

Earnings per share rose 15% to 11.03p before goodwill and 1% to 7.75p after goodwill.

Pre-tax profit before goodwill amortisation and exceptional items was up 11% to £63.4m. The exceptional items consisted of gains totalling £8.1m from the sale and leaseback of Great Southern Railway (GSR) rolling stock and the refinancing of Norfolk and Norwich University Hospital, partially offset by reorganisation costs of £4.5m.

Strong cash performance

Free cash flow increased to £47m, compared with £9.7m in 2002. Operating cash generation continued to strengthen: we converted 81% of group EBITDA (earnings before interest, tax, depreciation and goodwill amortisation) into cash, compared with 45% in 2002. This is a significant achievement as our strong growth brings an accompanying demand for working capital – typically equivalent to a month's incremental turnover each year.

As part of our continuing focus on cash management we released significant cash value from capital assets. The sale and leaseback of the remaining GSR rolling stock in Australia generated £5.8m of cash and £4m of profit. This followed a similar arrangement completed in June 2001.

A further £4.1m cash and profit came from the refinancing of the Norfolk and Norwich University Hospital. This was possible because of the success of the project's construction phase, which delivered a major teaching hospital within budget and 20 weeks ahead of schedule.

Reorganisation

As our businesses grow, we need to back them with efficient and consistent support processes. As part of a continuing review of our organisational model, we announced in our interim report that we had restructured our UK support operations, bringing them together on a single business campus in Hampshire. This new arrangement is working well: although redundancy and relocation costs resulted in an exceptional charge of £4.5m in 2003, it will generate ongoing savings of some £1.5m a year.



Chairman's statement (continued)

Dividend

Continuing strong profit growth has enabled us to maintain double-digit dividend growth. The recommended final dividend of 1.62p per share gives a total for the year of 2.34p – an increase of 12.5% over 2002. It will be paid on 12 May 2004 to shareholders on the register on 12 March 2004.

Balance sheet

Maintaining a strong balance sheet is a priority for us, because of the continuing growth of the business and the scale of opportunities ahead. In August, we took advantage of historically low interest rates by issuing £117m of 8-12 year loan notes. This provides assured funding for the future and allows a mixed portfolio of debt. It has also enabled us to repay the short term facilities we used to acquire the remaining 50% of Premier Custodial Group. Following this restructuring of debt we now have a very strong balance sheet with increased long term debt capacity.

During the year we acquired full control of two PFI projects by buying-out joint venture partners' interests, together with a further five PFI projects through the acquisition of Premier. This has put us in a better position to manage the long term operating contracts and develop the potential for future organic growth.

It is also the principal reason why the non recourse project debt shown on the group balance sheet rose over the year from £29.7m to £357m. Although shown as a liability on the balance sheet, non recourse debt is ringfenced and secured on assets and income streams of individual projects with future revenues of over £3bn. They do not affect the groups' credit agreement covenants, our risk profile or our ability to fund the group going forward.

Pensions

As previously announced, in February 2003 we merged our two UK defined benefit pension schemes to achieve cost and investment efficiencies. The merged scheme continues to show a net deficit, now reduced to £70m. As announced in last year's report, we have raised our long term contribution rates to reduce the deficit. An additional payment of £9m was made in 2003.

Our underlying growth in pre-tax profit before goodwill, exceptional items and this incremental pension charge was 27% in 2003.

Growing the business

Contract wins

Sales grew by £230m compared with 2002. As usual, the majority of this increase (57%) came from extending the duration or scope of existing contracts. A further 26% came from our record level of new business wins, and 17% from acquisitions.

It was a good year for rebids and extensions. These are a crucial test of customer confidence because we can be judged on the performance and value that we have actually delivered. Our largest-ever contract extension, valued at £1bn, added 15 years to the 10-year contract under which we and our partners are managing the Atomic Weapons Establishment. It extends the contract until 2025.

We were awarded preferred bidder status in our rebid for a further 10-year contract to run the UK's National Physical Laboratory, valued at £500m. This is a vote of confidence in our ability to run the most managerially and technically demanding contracts.

We successfully rebid and broadened our contract with the Canadian Department of National Defence to provide site support services at Goose Bay. The new 11-year contract is valued at over C\$440m.



Chairman's statement (continued)

Our largest-ever new contract, to run Merseyrail Electrics in partnership with the Dutch rail operator Ned Railways, began in July. Serco's share of the £3.6bn contract is valued at £1.8bn over 25 years. Merseyrail Electrics is a self-contained network in and around Liverpool, with 66 stations and over 1,000 staff. When we took it over, it was already achieving Britain's best PPM – the Public Performance Measure by which train services are judged; in the first six months we raised its score even higher, to hit a record level in December.

Another strategically significant win was the public private partnership under which we are providing driver examination services to 12m residents throughout Ontario, Canada. This is the first contract of its kind in the North American market: the model can readily be applied to other activities where governments collect a fee for service, and other provinces are watching our progress with interest. We secured the 10-year franchise for C\$114m, funded mainly with non recourse debt raised in the Canadian market, and expect to generate revenues totalling some C\$600m.

In continental Europe, we have taken over operational management of Gefechtsübungszentrum (GÜZ), Germany's flagship army combat training centre. Valued at €50m, this is our most important German contract win to date and greatly strengthens our position in the country's developing defence outsourcing market.

While remaining very satisfied with our success rate of over 50% in new contract awards, it is nonetheless disappointing when we are not successful, notably with our consortium not winning the very large Future Strategic Tanker Aircraft PFI contract announced in January.

Market development

We are passionate about improving the quality and productivity of public services. In the UK, we have played a leading role in establishing and supporting the CBI's Public Services Strategy Board. The Board works with the government and other stakeholders to stimulate debate, publish research and promote public private partnerships as a means of delivering better value for the taxpaying public. We also promote these ideas internationally through direct contact with governments and opinion leader audiences. During the year, Serco executives addressed public services conferences in Australia, Hong Kong, Italy, Japan and the US.

The Serco Institute will continue to keep Serco businesses and public sector stakeholders alert to market developments and thought leadership, and help us to position Serco appropriately. We have redefined the aims of the Institute to put greater emphasis on understanding private sector delivery of public services around the world and promoting best practice to governments, unions and other stakeholders. In 2003, Institute staff initiated a major research project on contractual performance regimes, using a number of Serco's contracts as the information base.

During the year we recruited management consultants from market leading firms to create Serco Government Consulting. This team is helping to shape the way our markets evolve by demonstrating the benefits of competition within public private partnerships and advising senior civil servants on ways to improve public service delivery through innovative public private partnerships and appropriate procurement strategies. Its strength as a consultancy is that it can deliver practice as well as principles – bringing in people from our operating companies to advise on practical issues and implement solutions.

International strategy

We have a well diversified risk profile. Our business spread – across a range of sectors and countries – enables us to take advantage of areas of opportunity as they arise and offset periods of slower growth in other regions.



Chairman's statement (continued)

We allocate resources in favour of the areas of greatest opportunity at any time. In the past year, the UK has contributed a growing percentage of our business because of a series of exceptionally large contract wins – not least the Merseyrail contract which began in July. But our commitment to international growth and diversity is undiminished: we remain convinced that this strategy is in the best long term interests of our shareholders.

Portfolio management

We regularly review our portfolio of contracts and make adjustments to focus the business on areas with greatest potential and reduce underperforming activities. During the year we disposed of several facilities management, leisure and IT contracts in the Swedish market and reached agreement with Network Rail in the UK to terminate our maintenance contract for the East Midlands zone in January 2004.

In July we acquired our partner's share of Premier Custodial Group, our custodial support services business. This £48.6m deal followed the acquisition of our partner's parent by a competitor. The move has strengthened our position in a market with high growth potential in the UK and overseas. It secures greater synergy with the rest of our justice business and enables us to react to the market more flexibly.

During the year we also bought-out our partners in the Metro Service joint venture, which runs the Copenhagen Metro, and the joint ventures set up to deliver the National Physical Laboratory and Manchester Metrolink PFIs. This has increased our control and ability to deliver change where capital assets have been constructed and projects have moved into the operating phase.

As in the past we will continue to review our portfolio on an ongoing basis.

Private Finance Initiatives

We are enthusiastic but selective participants in PFIs. Our PFI portfolio consists of 12 projects: we have operating contracts in all 12 and equity stakes in all but one. Together, these contracts account for some 9% of our turnover and are now delivering positive cash returns on both equity investment and operating contracts.

PFIs deliver proven benefits to governments and taxpayers. Recent analyses by HM Treasury and the National Audit Office have compared PFIs very favourably with conventional public sector procurement. The Treasury found that 89% of PFIs deliver on time or early, with no construction cost overruns borne by the taxpayer. It contrasted these figures with previous research into conventionally procured projects, which found only 30% delivered on time and 27% within budget.

PFIs are extremely good business for Serco. Our interest in them is primarily for the long term operating contracts that follow the construction or asset procurement phase: we have built a forward order book of operating contracts worth some £3bn. To the end of 2003 we have made capital investments of £15.3m, from which we have already realised cash inflows of £22.6m.

The emergence of a secondary market in PFI equity and debt confirms that the value of PFI stakes is now well recognised and realisable. However, our strategy is generally to retain our stakes as we expect to generate further long term value from the operating contracts.



Chairman's statement (continued)

Corporate social responsibility

Social responsibility has always been part of our culture; now it is an increasingly formalised part. We have a structured approach which delegates accountability for corporate social responsibility (CSR) performance to every contract manager. This ensures that the majority of initiatives are managed at a local level, where they have most impact. Social responsibility is integrated into the Serco Management System.

The first Business in the Community Corporate Responsibility Index, announced in March 2003, indicates that this approach is delivering encouraging results: Serco was ranked in the second quintile, and our overall score of 79% fell just short of the top quintile.

This year for the first time we are publishing a separate Corporate Responsibility Report, which covers our policies, processes and performance. We have also greatly enlarged the corporate responsibility area of our website, www.serco.com which was recently relaunched.

In 2003 we launched the Serco Foundation to provide additional financial support to community projects.

Board

We reviewed the composition and balance of the board and appointed two new non-executive directors during 2003. In 2004 we see the retirement from the board of one executive and one non-executive director. Mindful of the new Combined Code on Corporate Governance published in July 2003, we believe these changes leave the board appropriately composed and balanced for the future.

In June we appointed David Richardson to the board as a non-executive director. David is finance director of Whitbread Plc, the FTSE 100 leisure group. His previous roles there have included eight years as strategy director.

In October we appointed Margaret Ford as a non-executive director. A successful entrepreneur and specialist in public sector management, she chairs English Partnerships, the national urban regeneration agency, and is a non-executive director of Thus plc.

In March 2004 Iestyn Williams retires as an executive director and in April, Rhidian Jones retires as a non-executive director. Both became directors of Serco in 1987 after the buyout of RCA's UK business, where Iestyn had been Director of Personnel. Each has played a vital role in making Serco what it is today, and we thank them for their commitment, enthusiasm and guidance since Serco's establishment as a plc. Iestyn will remain involved with the company as non-executive chairman of our education business, Serco Learning.

On Rhidian's retirement, DeAnne Julius becomes senior non-executive director and David Richardson takes over as chairman of the Audit Committee.

People

Our continued growth is made possible by the individual commitment of everyone in Serco. We thank them all for their contribution, and this year we will be able to acknowledge exceptional achievements through the new Chairman's Recognition Awards. These cover individual and team contributions to environmental, safety and community initiatives – and other exceptional contributions to Serco's business success. The award winners are listed in our separate Corporate Responsibility Report.



Chairman's statement (continued)

To ensure that our management capabilities keep pace with our growth we continue to enhance leadership training and management development. We supplemented our very successful Institute of Directors and Chartered Management Institute accredited courses with a new Directing our Business programme for almost 240 directors and senior managers. To accelerate the development of managers with high potential we launched the Serco Leadership Programme, which provides fast-track training in a range of skills. Senior managers globally are now beginning to go through a profiling process to generate focused personal development plans.

Outlook

We have made an encouraging start to the new year – notably with our first PFI in the Middle East: to build, manage and deliver education at a new joint technical college in Oman. The consortium, of which we have a 50% share, has been named as preferred bidder for the 30-year contract, with an estimated value of US\$1.4bn. In February we were nominated as preferred supplier to deliver prison escort and custody services for London and South East England. It is pleasing to announce preferred bidder status to our longest-standing contract, now over 40 years old – the solid state phased array radar support contract at RAF Fylingdales – and also the broadening of our multi-activity support role with the Naval Air Command under a new contract valued at about £39m.

At the start of 2004 our forward order book stood at £10.3bn, equivalent to about seven times last year's turnover, with contracts running until 2031. Our consistent success in winning rebids and extensions provides a solid platform for growth. Assuming a continuing 90% renewal rate on rebids, we already have contracts in place to provide 93% of planned revenue this year, 77% in 2005 and 70% in 2006.

The opportunities in our markets continue to grow, driven by unremitting pressure on governments to deliver value for taxpayers' money. Our proven track record of delivering both value and quality improvement in public services makes us confident that we can sustain continuing strong earnings growth.



Finance review

1. Financial performance

2003 has been a year of strong performance. The group has continued to deliver strong growth in both revenue and profit, combined with an improved free cash flow.

Further analysis is provided below:

Year to 31 December	2003 £m	2002 £m	Increase %
Total turnover	1,555.5	1,325.9	17.3%
Group turnover	1,324.3	1,097.3	20.7%
Joint venture turnover	231.2	228.6	1.1%
Gross profit	180.8	150.0	20.6%
Administration expenses	(138.5)	(112.8)	
Exceptional items (net)	3.6	-	
Joint venture profit	24.0	23.9	
Net group interest	(2.9)	(4.1)	
Profit before goodwill and tax	67.0	57.0	17.4%
Goodwill amortisation	(14.1)	(8.1)	
Profit before tax	52.9	48.9	8.0%
Tax	(19.1)	(16.6)	
Profit after tax	33.8	32.3	
Effective tax rate	36.1%	34.0%	
Average number of shares	429.9m	421.8m	
Earnings per share before goodwill	11.03p	9.58p	15.1%
Earnings per share after goodwill	7.75p	7.66p	1.2%
Dividend per share	2.34p	2.08p	12.5%

1.1 Turnover

Total turnover for the year to 31 December 2003 increased by 17.3% to £1,555.5m.

Gross margin on group turnover, representing the average contract margin across the portfolio, was maintained at 13.7% for 2003.

Joint venture turnover increased by 1.1% to £231.2m. Joint venture turnover and profit in the second half of the year was reduced by the acquisition of the remaining 50% share in Premier Custodial Group (Premier) in July 2003, which was fully consolidated from that date.

1.2 Administration expenses

Administration expenses for the year increased by 22.8% to £138.5m. This includes a £9m increase in contribution to our UK defined benefit pension scheme (see 3. Pensions). Excluding this, underlying administration expenses increased by 14.8%.

1.3 Exceptional items

There were three exceptional items during 2003 resulting in a net profit of £3.6m. These items are explained below:

	£m
Reorganisation costs	(4.5)
GSR sale and leaseback	4.0
Norfolk and Norwich refinancing	4.1
Net exceptional profit	3.6



Finance review (continued)

1.3.1 Reorganisation costs

As the group grows, to ensure we have efficient and consistent support processes, we have restructured our UK support operations, bringing them together on a single campus site in Hook, Hampshire. In addition, we have rationalised our Australian support offices to a single centre in Sydney. The resulting redundancy and relocation cost resulted in an exceptional charge of £4.5m in the first half year of 2003, and will generate savings of approximately £1.5m a year going forward.

1.3.2 GSR sale and leaseback

As part of the focus on cash generation we arranged the sale and leaseback of the remaining rolling stock belonging to our Great Southern Railway (GSR) business in Australia. This generated cash of £5.8m and profit of £4.0m, and followed a similar arrangement completed in June 2001.

1.3.3 Norfolk and Norwich University Hospital refinancing

The refinancing of the Norfolk and Norwich University Hospital (Octagon), in which we are a 5% investor, was completed in December 2003. The refinancing released cash from a PFI asset whilst simultaneously providing additional funding to the NHS in Norfolk. This generated cash and profit of £4.1m (see 5. PFIs).

1.4 Profit before tax

Profit before tax and goodwill amortisation increased 17.4% to £67.0m, representing a net margin on turnover of 4.3% (2002 - 4.3%). Profit before tax, goodwill amortisation and exceptional items increased by 11.2%.

Profit before tax and after goodwill amortisation increased by 8.0%.

1.5 Goodwill

Amortisation of goodwill was £14.1m (2002 - £8.1m). The increase results largely from the acquisitions of the Ontario Driver Examination Services (DES) franchise and the remainder of Premier.

1.6 Tax

The tax charge of £19.1m (2002 - £16.6m) represents an effective rate of 36.1% (2002 - 34.0%). The increase in tax rate is largely due to the increased non-deductible goodwill charge discussed above.

1.7 Earnings per share

As a result of the above, earnings per share before goodwill amortisation grew by 15.1% to 11.03p. Earnings per share post goodwill amortisation grew by 1.2% to 7.75p.

2. Dividends

The proposed final dividend of 1.62p per share gives a cumulative dividend for 2003 of 2.34p, a 12.5% increase on 2002.

3. Pensions

The total 2003 pension charge for Serco was £36.8m (2002 - £29.1m), of which the UK defined benefit scheme had a charge of £20.0m (2002 - £12.5m).

In February 2003 we merged our two UK defined benefit pension schemes for cost and investment efficiency reasons. A one-off £15.5m cash contribution was made in 2002 to align the funding levels of the two schemes to facilitate the merger.



Finance review (continued)

For 2003 we have continued to apply the transitional rules and disclosures for the implementation of FRS17 *Retirement Benefits*. This requires the market values of the assets and liabilities for defined benefit schemes to be calculated and disclosed in a note, discussed in more detail in note 33 to the Accounts.

In summary, at 31 December 2003 there was a net deficit in relation to the defined benefit scheme of £69.7m (2002 - £73.6m), and an asset base of approximately £350.4m (2002 - £294.4m). Long term employer contributions into the scheme were increased by £9m in 2003 to address the level of deficit on the scheme.

4. Cash flow

Free cash flow for 2003 was £47m (2002 - £9.7m). At 31 December 2003 net recourse debt was £22.3m (2002 - £6.3m cash).

Further analysis is shown below:

Year to 31 December	2003 £m	2002 £m
Operating profit before exceptional item	28.2	29.1
Exceptional Item: Reorganisation costs	(4.5)	-
Operating profit	23.7	29.1
Non-cash items	33.8	24.4
Group EBITDA	57.5	53.5
Pension fund equalisation payment	-	(15.5)
Working capital movement	(11.1)	(13.9)
Operating cash flow	46.4	24.1
Dividends from joint ventures	12.6	11.1
Interest and taxation	(7.8)	(11.9)
Exceptional item: GSR sale and leaseback	5.8	-
Capital expenditure	(21.8)	(23.6)
Disposal of assets	8.9	8.1
Other items	2.9	1.9
Free cash flow	47.0	9.7
Exceptional item: Norfolk and Norwich refinancing	4.1	-
Acquisitions/disposals	(96.6)	(10.3)
Financing		
- Long term loans	117.5	-
- Net increase in non recourse debt	47.0	-
- Share issues / other financing	(8.0)	114.1
Dividends paid	(9.5)	(8.3)
Net cash flow	101.5	105.2

4.1 Operating cash flow

There was an operating cash inflow for the year of £46.4m (2002 - £24.1m), an increase of 93%. This represents a conversion of 196% of operating profit into cash (2002 - 83%).

As operating profit is calculated after deduction of goodwill amortisation and depreciation, we believe that a more appropriate measure for operating cash flow is the conversion of group EBITDA into operating cash flow. For 2003 this was 81% (2002 - 45%).

The improvement in conversion rates is particularly notable given that our strong level of organic growth brings an accompanying demand for working capital, typically equivalent to a month's incremental turnover each year.



Finance review (continued)

4.2 Joint venture dividends

Dividends received from joint ventures during 2003 of £12.6m (2002 - £11.1m) represent a 78% (2002 - 67%) conversion of profit after tax into cash.

4.3 Capital expenditure

Capital expenditure, excluding investment in PFI Special Purpose Companies (SPC), for the year was £21.8m (2002 - £23.6m). This expenditure represented 1.6% of group turnover, and is broadly similar to prior years.

4.4 Acquisitions / disposals

There were two principal acquisitions during 2003:

In February 2003, we acquired the franchise for the operation of the DES, a Canadian contract for C\$114m, funded by C\$99m of non recourse debt and C\$15m of equity and subordinated debt. We acquired our joint venture partner's share of Premier, our custodial support services business, for £48.6m in July 2003.

Also during 2003, we bought out our partners in three businesses, to increase our direct control over the long term operating contracts. These were Laser (the National Physical Laboratory PFI SPC), Altram (the Manchester Metrolink PFI SPC) and Metro Service (the Copenhagen Metro joint venture).

As part of the review to focus the business on areas of greatest potential and to reduce under-performing activities in October 2003 we disposed of a number of our Swedish contracts for £5.6m.

4.5 Financing

The movement in long term loans arises as a result of the Private Placement (see 6. Treasury) taken out in August 2003.

The net increase in non recourse loans of £47m primarily represents the loan taken out to fund the acquisition of the DES franchise.

4.6 Net debt

	31 Dec 2003 £m	31 Dec 2002 £m
Closing cash	170.9	69.4
Long term loans	(165.3)	(47.4)
Other loans and finance leases	(27.9)	(15.7)
Recourse net (debt)/cash	(22.3)	6.3
Non recourse debt	(357.0)	(29.7)
Total net debt	(379.3)	(23.4)

Non recourse debt (see 5. PFIs) represents long term loans secured on the contracts of PFI and other concessions, and not any other assets of the group. The loans are excluded from all of our credit agreement and other covenants calculations, therefore having no impact on the group's ability to borrow.

5. PFIs

5.1 Profile

At the end of 2003 the group had 12 PFI projects, with 11 equity investments and 12 operating contracts. These contracts contribute £3.0bn to the group's order book of £10.3bn. During 2003 PFIs contributed £133.4m to turnover and £11.9m to gross profit for the year.



Finance review (continued)

At the end of 2003 we had invested £15.3m of equity and subordinated debt into our SPCs. As a result of refinancings and one sale, we have received back £22.6m cash from these investments, representing a net inflow to the group of £7.3m.

5.2 Disclosure

The 100% ownership of eight of our PFI SPCs at the end of 2003 has raised the transparency and visibility of their assets and liabilities on the group's balance sheet. We continue to expand our disclosure of PFIs in this year's Annual Review and Accounts.

5.3 SPC funding

SPC funding is via long term loans which are non recourse to Serco.

At the start of 2003, the Traffic Control Centre (TCC) was the only fully owned PFI, with full balance sheet consolidation of non recourse debt and offsetting PFI asset. All remaining PFIs in which we had an interest were owned 50% or less, and so non recourse debt and PFI assets were included in the share of gross assets and share of gross liabilities of joint ventures, which offset within the fixed asset area of the consolidated balance sheet.

During 2003 as described, we acquired all remaining share capital in Premier, Laser and Altram, and bought the franchise for the operation of DES. The impact of these changes is to consolidate on our balance sheet a non recourse debt of £357m as at the end of 2003, as shown below:

As at 31 December	2003	2002
Non recourse debt	£m	£m
Traffic Control Centre (TiS)	54.3	29.7
National Physical Laboratory (Laser)	82.4	-
Premier Custodial Group	170.6	-
Ontario Driver Examination Services	49.7	-
Non recourse debt in consolidated balance sheet	357.0	29.7

In addition to the above, non recourse debt of £55.2m (2002 - £205.2m) is included in joint venture gross liabilities.

5.4 SPC refinancing

We are a 5% investor in the Norfolk and Norwich University Hospital. The refinancing of this SPC was completed in December 2003. This generated cash and profit of £4.1m. This is consistent with our philosophy of holding equity stakes in SPCs to increase our direct control over the operating contracts, whilst accelerating our future cash flows on those equity stakes through refinancing.

6. Treasury

6.1 Treasury management

The group's treasury function is responsible for managing the group's exposure to treasury risk, and operates within a defined set of policies and procedures approved and reviewed by the board.

6.2 Liquidity management

The group is funded by a £140m revolving credit facility, and two private placements.

Revolving credit facility

The credit facility of £140m is provided by a syndicate of seven banks and expires in 2007. The facility is floating rate, has unsecured obligations with covenants and obligations typical of these types of arrangement.



Finance review (continued)

Private Placements

The group has taken out two Private Placements. The first Private Placement of £43.2m was taken out in the US in 1997 and matures in 2007. During 2003 a new Private Placement was raised to extend the maturity profile of the group's debt and to take advantage of historically low interest rates. This second Private Placement raised £117m and has a maturity profile of 8-12 years, with an average fixed coupon of 5.8%.

6.3 Foreign exchange risk

Due to the nature of the group's business, which in general does not involve a significant amount of cross-border trade, the group is not exposed to material foreign currency transaction risk, as sales and costs are largely matched within overseas operations.

The group does not hedge the sterling equivalent of the net assets of its overseas operations on the grounds that the market value of these businesses does not represent a significant proportion of the market value of the group and because foreign exchange differences are unlikely to have a material effect on the consolidated net assets value of the group.

An element of the Private Placements was issued in US Dollars and was swapped into sterling consistent with the risk profile set out above.

6.4 Interest rate risk

The group's exposure to interest rate fluctuations on its borrowing and deposits is selectively managed, using interest rate swaps. All short term debt is maintained at floating rates of interest.

7. UITF 38 – accounting for ESOP shares

Urgent Issues Task Force (UITF) Abstract 38 'Accounting for ESOP Trusts' was issued in December 2003 for accounting periods ending on or after 22 June 2004, early adoption is however encouraged. UITF Abstract 38 requires any investment in own shares to be deducted from shareholder funds as opposed to being held as an asset on the balance sheet. This also requires a restatement of the cash flow statement to include the movement on the ESOP shares balance in the non-cash movement section.

We have adopted UITF 38 for 2003 and have restated the 2002 balance sheet and cash flow statement accordingly.

8. International Financial Reporting Standards (IFRS)

The group is in the process of preparing to convert to IFRS in time for application to the 2005 Serco Accounts. It is a complex task to assess the differences between current accounting policies and IFRS, not least since many of the IFRS are themselves in the course of revision. A project team, which is working in conjunction with Deloitte & Touche, has been working for more than a year to identify the major areas of impact with respect to known and anticipated changes to financial statements.



Consolidated Profit and Loss Account

For the year ended 31 December 2003

	Note	2003 Group £'000	2003 Joint Ventures £'000	2003 Total £'000	2002 Group £'000	2002 Joint Ventures £'000	2002 Total £'000
Turnover: Group and share of joint ventures – continuing operations	2	1,324,271	231,255	1,555,526	1,097,278	228,670	1,325,948
Less: Share of joint ventures	2	-	(231,255)	(231,255)	-	(228,670)	(228,670)
Group turnover	2	1,324,271	-	1,324,271	1,097,278	-	1,097,278
Cost of sales		(1,143,418)	-	(1,143,418)	(947,313)	-	(947,313)
Gross profit		180,853	-	180,853	149,965	-	149,965
Administrative expenses		(157,144)	-	(157,144)	(120,862)	-	(120,862)
Amortisation of intangible assets		(14,131)	-	(14,131)	(8,098)	-	(8,098)
Other administrative expenses		(138,516)	-	(138,516)	(112,764)	-	(112,764)
Exceptional item: reorganisation costs		(4,497)	-	(4,497)	-	-	-
Operating profit-continuing operations		23,709	-	23,709	29,103	-	29,103
Exceptional item: GSR sale and leaseback		3,977	-	3,977	-	-	-
Share of operating profit in joint ventures		-	22,700	22,700	-	21,883	21,883
Interest receivable and similar income		16,760	11,397	28,157	1,422	16,894	18,316
Group		12,691	-	12,691	1,422	-	1,422
Exceptional item: Norfolk and Norwich refinancing		4,069	-	4,069	-	-	-
Share of joint ventures		-	11,397	11,397	-	16,894	16,894
Interest payable and similar charges		(15,609)	(10,080)	(25,689)	(5,486)	(14,875)	(20,361)
Group		(15,609)	-	(15,609)	(5,486)	-	(5,486)
Share of joint ventures		-	(10,080)	(10,080)	-	(14,875)	(14,875)
Profit on ordinary activities before taxation		28,837	24,017	52,854	25,039	23,902	48,941
Taxation on profit on ordinary activities				(19,103)			(16,639)
Profit on ordinary activities after taxation				33,751			32,302
Share of joint venture minority interest				(198)			-
Minority interest				(255)			-
Profit for the financial year				33,298			32,302
Equity dividends				(10,050)			(9,441)
Retained profit for the financial year				23,248			22,861

Earnings per share (EPS) per ordinary share of 2p each

Basic EPS, after amortisation of goodwill	3	7.75p	7.66p
Basic EPS, before amortisation of goodwill		11.03p	9.58p
Diluted EPS, after amortisation of goodwill		7.74p	7.63p
Diluted EPS, before amortisation of goodwill		11.02p	9.54p



Consolidated Balance Sheet

As at 31 December 2003

	Note	2003 £'000	Restated 2002 £'000
Fixed assets			
Intangible assets		222,950	147,473
Tangible assets		77,398	62,479
Investments in joint ventures	4	24,886	35,883
Share of gross assets		151,460	317,831
Share of gross liabilities		(126,574)	(281,948)
		325,234	245,835
Current assets			
Stocks		39,543	38,744
Debtors: amounts due within one year	5	278,931	220,042
Debtors: amounts due after more than one year	5	419,589	108,932
Cash at bank and in hand		170,888	71,774
		908,951	439,492
Creditors: amounts falling due within one year			
Bank loans and overdrafts		-	2,386
Trade creditors		81,335	74,377
Other creditors including taxation and social security		90,892	93,843
Accruals and deferred income		177,866	136,766
Proposed dividend		6,958	6,184
		357,051	313,556
Net current assets		551,900	125,936
Total assets less current liabilities		877,134	371,771
Creditors: amounts falling due after more than one year		539,798	87,588
Provisions for liabilities and charges		56,526	34,533
Net assets		280,810	249,650
Capital and reserves			
Called up share capital		8,697	8,697
Share premium account		190,791	190,791
Capital redemption reserve		143	143
ESOP reserve		(16,949)	(18,207)
Profit and loss account		98,128	68,226
Equity shareholders' funds	6	280,810	249,650

This preliminary announcement was approved by the Board of Directors on 2 March 2004 and signed on behalf of the Board:

Kevin Beeston Executive Chairman

Andrew Jenner Finance Director



Consolidated Cash Flow Statement

For the year ended 31 December 2003

	2003 £'000	Restated 2002 £'000
Operating profit before exceptional item	28,206	29,103
Exceptional item: reorganisation cost	(4,497)	-
Operating profit	23,709	29,103
Depreciation and amortisation of goodwill	32,532	23,632
Movement in ESOP investment	1,258	776
Net increase in working capital	(11,111)	(13,900)
One-off pension fund contribution	-	(15,500)
Net cash inflow from operating activities before PFI asset expenditure	46,388	24,111
Movement in PFI debtor *	3,680	-
Expenditure on PFI assets under construction *	(33,001)	(14,950)
Net cash inflow from operating activities after PFI asset expenditure	17,067	9,161
Dividends received from joint ventures	12,630	11,095
Returns on investments and servicing of finance		
Interest received	5,652	1,223
Interest paid	(6,054)	(7,362)
Exceptional item: Norfolk and Norwich refinancing	4,069	-
Net cash inflow/(outflow) from returns on investments and servicing of finance	3,667	(6,139)
Taxation		
Tax paid	(7,354)	(5,738)
Capital expenditure and financial investment		
Purchase of tangible and intangible fixed assets	(21,835)	(23,596)
Sale of tangible fixed assets	8,878	8,125
Exceptional item: GSR sale and leaseback	5,761	-
Net cash flows with joint ventures	2,969	1,235
Net cash outflow from capital expenditure and financial investment	(4,227)	(14,236)
Acquisitions and disposals		
Acquisitions †	(107,463)	(11,353)
Net cash acquired with acquisitions	12,843	397
Net cash redeemed upon disposal	(3,141)	-
Subscription for shares in joint ventures	(3,354)	(370)
Proceeds on disposal of subsidiary undertakings	4,471	-
Proceeds on disposal of joint ventures	-	1,030
Net cash outflow from acquisitions and disposals	(96,644)	(10,296)
Equity dividends paid		
Dividends paid	(9,529)	(8,283)
Net cash outflow from equity dividends paid	(9,529)	(8,283)
Net cash outflow before financing	(84,390)	(24,436)
Financing		
Issue of ordinary share capital	-	117,929
Debt due within one year: (Decrease) in other loans	(1,709)	(300)
Debt due beyond one year: Increase in:	193,787	15,624
Other loans	117,502	24
Non recourse debt financing – DES †	49,774	-
Non recourse debt financing PFI assets *	26,511	15,600
Capital element of finance lease repayments	(6,188)	(3,594)
Net cash inflow from financing	185,890	129,659
Increase in cash in the year	101,500	105,223
Balance at 1 January	69,388	(35,835)
Balance at 31 December	170,888	69,388

* PFI assets and debtor financed by non recourse loans

† Acquisitions include DES that is partly funded by non recourse debt



Consolidated Statement of Total Recognised Gains and Losses

For the year ended 31 December 2003

	2003 £'000	2002 £'000
Profit for the financial year	33,298	32,302
Currency translation differences on foreign currency net investments	6,654	(1,911)
Total recognised gains and losses for the year	39,952	30,391
Prior year adjustment	-	(806)
Total gains and losses recognised since last annual report and accounts	39,952	29,585



Notes to the Preliminary Announcement

For the year ended 31 December 2003

Basis of preparation – preliminary announcement

The basis of preparation of this preliminary announcement and the effect of the prior year restatement is set out in note 1.

The financial information in this announcement, which was approved by the board of directors on 2 March 2004, does not constitute the company's statutory accounts for the years ended 31 December 2003 or 2002, but is derived from these accounts. Statutory accounts for 2002 have been delivered to the Registrar of Companies and those for 2003 will be delivered following the company's annual general meeting. The auditors have reported on these accounts; their reports were unqualified and did not contain statements under S237 (2) or (3) Companies Act 1985.

1. Accounting policies

This preliminary announcement been prepared in accordance with applicable UK accounting standards. These have all been applied consistently with prior years with the exception of investment in own shares which is explained in the restatement below.

ESOP reserve

The ESOP reserve represents shares in Serco Group plc held by the Serco Group plc 1998 Employee Share Ownership Trust (the Trust).

The Trust is a discretionary trust for the benefit of the employees, and shares are held to satisfy the group's liabilities to employees for share options and long term incentive plans. In accordance with UITF 38, the difference between the market value of the shares at the date of award and any consideration to be paid for the shares in respect of these schemes is charged to the profit and loss account over the performance period during which the benefits are earned by employees.

Restatement

The 2002 Accounts have been restated to reflect the early adoption of the Urgent Issues Task Force Abstract 38 (UITF 38) – Accounting for ESOP trusts. Investment in own shares which was previously disclosed in Fixed Assets is now classified as an ESOP reserve and is shown as a reduction in the shareholders' funds.



Notes to the Preliminary Announcement (continued)

For the year ended 31 December 2003

2. Segmental report

Classes of business	Group £'000	Joint Ventures £'000	Total £'000
2003			
Turnover			
Civil government	444,875	42,897	487,772
Defence	252,469	151,496	403,965
Transport	385,793	36,862	422,655
Science	111,004	-	111,004
Private sector	130,130	-	130,130
Total	1,324,271	231,255	1,555,526
Profit before taxation and other costs/income			
Civil government	17,025	4,195	21,220
Defence	17,878	15,968	33,846
Transport	18,976	2,537	21,513
Science	11,619	-	11,619
Private sector	8,697	-	8,697
Total	74,195	22,700	96,895
Other (costs)/income			
Common costs			(31,858)
Exceptional items - reorganisation costs and GSR sale and leaseback			(520)
Amortisation of intangible assets			(14,131)
Net interest - group			(2,918)
Exceptional item - Norfolk and Norwich refinancing			4,069
Net interest - joint ventures			1,317
Profit on ordinary activities before taxation			52,854
Net assets			
Civil government			43,749
Defence			53,127
Transport			59,173
Science			64,508
Private sector			32,436
Total			252,993
Unallocated assets			27,817
Total			280,810



Notes to the Preliminary Announcement (continued)

For the year ended 31 December 2003

2. Segmental report (continued)

Classes of business	Group £'000	Joint Ventures £'000	Total £'000
2002			
Turnover			
Civil government	267,127	89,220	356,347
Defence	228,579	134,654	363,233
Transport	347,815	4,796	352,611
Science	115,603	-	115,603
Private sector	138,154	-	138,154
Total	1,097,278	228,670	1,325,948
Profit before taxation and other costs/income			
Civil government	17,796	5,287	23,083
Defence	13,259	15,956	29,215
Transport	15,126	640	15,766
Science	9,845	-	9,845
Private sector	6,909	-	6,909
Total	62,935	21,883	84,818
Other (costs)/income			
Common costs			(25,734)
Amortisation of intangible assets			(8,098)
Net interest - group			(4,064)
Net interest - joint ventures			2,019
Profit on ordinary activities before taxation			48,941
Net assets			Restated
Civil government			43,269
Defence			53,400
Transport			45,716
Science			69,771
Private sector			31,679
Total			243,835
Unallocated assets			5,815
Total			249,650



Notes to the Preliminary Announcement (continued)

For the year ended 31 December 2003

2. Segmental report (continued)

Geographical segments	Group £'000	Joint Ventures £'000	Total £'000
2003			
Turnover			
United Kingdom	950,098	174,723	1,124,821
Rest of Europe and Middle East	185,936	8,355	194,291
Asia Pacific	109,627	43,251	152,878
North America	78,610	4,926	83,536
Total	1,324,271	231,255	1,555,526
Profit before taxation and other costs/income			
United Kingdom	43,017	19,274	62,291
Rest of Europe and Middle East	14,414	227	14,641
Asia Pacific	6,982	2,831	9,813
North America	9,782	368	10,150
Total	74,195	22,700	96,895
Other (costs)/income			
Common costs			(31,858)
Exceptional items - reorganisation costs and GSR sale and leaseback			(520)
Amortisation of intangible assets			(14,131)
Net interest - group			(2,918)
Exceptional item - Norfolk and Norwich refinancing			4,069
Net interest - joint ventures			1,317
Profit on ordinary activities before taxation			52,854
Net assets			
United Kingdom			142,166
Rest of Europe and Middle East			41,670
Asia Pacific			42,553
North America			26,604
Total			252,993
Unallocated assets			27,817
Total			280,810

Note: Turnover is shown by geographical origin. Turnover analysed by geographical destination is not materially different.



Notes to the Preliminary Announcement (continued)

For the year ended 31 December 2003

2. Segmental report (continued)

Geographical segments	Group £'000	Joint Ventures £'000	Total £'000
2002			
Turnover			
United Kingdom	752,247	178,207	930,454
Rest of Europe and Middle East	163,218	7,341	170,559
Asia Pacific	116,671	38,406	155,077
North America	65,142	4,716	69,858
Total	1,097,278	228,670	1,325,948
Profit before taxation and other costs/income			
United Kingdom	35,065	19,029	54,094
Rest of Europe and Middle East	12,895	625	13,520
Asia Pacific	9,503	1,750	11,253
North America	5,472	479	5,951
Total	62,935	21,883	84,818
Other (costs)/income			
Common costs			(25,734)
Amortisation of intangible assets			(8,098)
Net interest – group			(4,064)
Net interest – joint ventures			2,019
Profit on ordinary activities before taxation			48,941
Net assets			Restated
United Kingdom			142,821
Rest of Europe and Middle East			43,951
Asia Pacific			40,057
North America			17,006
Total			243,835
Unallocated assets			5,815
Total			249,650

Note: Turnover is shown by geographical origin. Turnover analysed by geographical destination is not materially different.



Notes to the Preliminary Announcement (continued)

For the year ended 31 December 2003

3. Earnings per Ordinary Share

Basic and diluted earnings per Ordinary Share after goodwill have been calculated in accordance with Financial Reporting Standard 14 – Earnings Per Share. Earnings per share is shown both before and after goodwill to assist in the understanding of the impact of FRS10 on the group Accounts.

The calculation of basic earnings per Ordinary Share after goodwill is based on profits of £33,298,000 for the year ended 31 December 2003 (2002 - £32,302,000) and the weighted average number of 429,878,711 (2002 - 421,813,107) Ordinary Shares of 2p each in issue during the year.

The calculation of basic earnings per Ordinary Share before goodwill is based on profits of £47,429,000 (adjusted for the effect of goodwill amortisation of £14,131,000) for the year ended 31 December 2003 (2002 - £40,400,000 adjusted for the effect of goodwill amortisation of £8,098,000) and the weighted average number of 429,878,711 (2002 - 421,813,107) Ordinary Shares of 2p each in issue during the year.

The calculation of diluted earnings per Ordinary Share after goodwill is based on profits of £33,298,000 for the year ended 31 December 2003 (2002 - £32,302,000) and the weighted average number of 430,291,041 (2002 – 423,288,423) Ordinary Shares of 2p each assuming that the options are all exercised.

The calculation of diluted earnings per Ordinary Share before goodwill is based on profits of £47,429,000 (adjusted for the effect of goodwill amortisation of £14,131,000) for the year ended 31 December 2003 (2002 - £40,400,000 adjusted for the effect of goodwill amortisation of £8,098,000) and the weighted average number of 430,291,041 (2002 – 423,288,423) Ordinary Shares of 2p each assuming that the options are all exercised.



Notes to the Preliminary Announcement (continued)

For the year ended 31 December 2003

4. Investments held as fixed assets

	Group £'000
a) Group investments in joint ventures:	
At 1 January 2003	35,883
Acquisitions	4,077
Disposals	(19,460)
Foreign exchange translation difference	976
Share of profits after tax	16,040
Dividends received	(12,630)
At 31 December 2003	24,886

Disposals are further explained in c (i) and c (ii) below.

b) Joint ventures:

The group's share of its joint venture assets is summarised as follows:

	2003 AWE* £'000	2003 Other £'000	2003 Total £'000	2002 AWE* £'000	2002 PCG £'000	2002 Other £'000	2002 Total £'000
Turnover	101,493	129,762	231,255	91,386	52,504	84,780	228,670
Profit before tax	8,984	15,033	24,017	7,801	4,993	11,108	23,902
Tax	(1,584)	(6,195)	(7,779)	(1,832)	(2,070)	(3,425)	(7,327)
Minority Interest	-	(198)	(198)	-	-	-	-
Profit after tax	7,400	8,640	16,040	5,969	2,923	7,683	16,575
Fixed assets	-	19,236	19,236	-	2,288	31,278	33,566
Current assets	28,875	103,349	132,224	21,861	124,266	138,138	284,265
	28,875	122,585	151,460	21,861	126,554	169,416	317,831
Liabilities due within one year	17,207	32,740	49,947	17,660	17,518	27,313	62,491
Liabilities due after more than one year	7,356	69,271	76,627	1,066	94,446	123,945	219,457
	24,563	102,011	126,574	18,726	111,964	151,258	281,948
Share of net assets	4,312	20,574	24,886	3,135	14,590	18,158	35,883

* Atomic Weapons Establishment Management Limited



Notes to the Preliminary Announcement (continued)

For the year ended 31 December 2003

4. Investments held as fixed assets

c) Acquisitions:

All acquisitions made during the year have been accounted for using the acquisition method of accounting. The goodwill arising on all acquisitions made in the year is being amortised over the economic useful life of the asset or a period of 20 years, whichever is shorter.

i) Premier Custodial Group Limited

In July 2003 the group acquired the remaining 50% of the issued share capital of Premier Custodial Group Limited (Premier) for a total cash consideration of £48,600,000. Acquisition costs of £3,481,000 were incurred.

The provisional fair value of the net assets acquired was £16,671,000 representing 50% of the book values of the assets and liabilities. The following table sets out the book values of the identifiable assets and liabilities acquired and their provisional fair value to the group:

	Provisional fair value to group £'000
Fixed assets	
Tangible	3,266
Current assets	
PFI debtor	194,878
Stocks	1,994
Debtors	37,751
Cash	15,878
Total assets	253,767
Liabilities	
Trade creditors	17,583
Senior debt financing	169,965
Subordinated debt financing	16,817
Accruals and deferred income	9,149
Provisions	6,911
Total liabilities	220,425
Net assets	33,342
Net assets acquired (50 per cent)	16,671
Goodwill	35,410
Cash consideration	52,081

The following table sets out the summary profit and loss account for Premier for the period 1 January 2003 to 3 July 2003:

	Six months to 3 July 2003 £'000
Turnover	60,660
Operating profit	520
Profit before taxation	3,924
Taxation on profit on ordinary activities	(2,062)
Profit for the period	1,862

The corresponding profit after tax for the full year to 31 December 2002 was £5,857,000.



Notes to the Preliminary Announcement (continued)

For the year ended 31 December 2003

4. Investments held as fixed assets (continued)

ii) Buy-out of other investment partners

During the year the group bought out its partners in the following businesses, two of which are PFI projects. In March 2003 the group acquired the remaining 50% of Laser (Teddington II) Limited, a joint venture with Laing Investments Limited formed to build the new science building for the National Physical Laboratory in Teddington. Also in March 2003 the group acquired the remaining 74% of the Altram consortium company, which had built Phase 2 of the Metrolink system in Manchester and operates and maintains Phases 1 and 2. In June 2003 the group acquired the remaining 33% of Metro Service AS.

The total cash consideration amounted to £2,389,000. The fair value of the net liabilities acquired was £51,000. The total adjustment, required to the book values of the assets and liabilities of the companies acquired in order to present the net assets of those companies at fair values in accordance with group accounting policies, was £2,300,000.

The aggregate goodwill arising on consolidation is £140,000.

iii) Other acquisitions

In February 2003, the group acquired a renewable 10-year franchise (renewable to a maximum 20 year term) from the province of Ontario, Canada, relating to Ontario Driving Examination Services (DES).

Consideration of £47,707,000 was incurred along with £5,248,000 of related acquisition costs. The fair value of the net assets acquired are considered to be the same as their book value and amounted to £1,952,000.

Goodwill arising is £51,003,000.

Prior to acquisition the financial results of the DES business were not separately reported by the Ministry of Transportation, Ontario, and as such, it has not been possible to provide a summarised profit and loss account for the pre-acquisition period in accordance with FRS 6.

The acquisition of Teknical in December 2003 gave rise to goodwill of £746,000.

d) Disposals:

In October 2003 the group sold its 100% interest in the ordinary share capital of Serco Sverige AB. The total sales proceeds of £5,601,000 comprised cash of £4,471,000 and a loan note of SKr 15,200,000 (£1,130,000) payable in two equal annual instalments commencing 31 December 2004. The loan carries interest at 150bp over 3-month LIBOR which is payable semi-annually in arrears commencing 31 December 2003. The net assets disposed of were £4,753,000 and disposal costs amounted to £581,000, resulting in a profit on disposal of £267,000. The profit of Serco Sverige AB up to the date of disposal was £749,000, and for its last financial year was £897,000.



Notes to the Preliminary Announcement (continued)

For the year ended 31 December 2003

5. Debtors

	Group 2003 £'000	Group 2002 £'000
a) Amounts due within one year:		
Amounts recoverable on contracts	198,687	168,820
Other debtors	32,572	18,425
Corporation tax recoverable	1,670	-
Prepayments and accrued income	35,924	30,131
Amounts owed by joint ventures	2,600	2,666
PFI debtor *	7,478	-
	278,931	220,042

	Group 2003 £'000	Group 2002 £'000
b) Amounts due after more than one year:		
Amounts recoverable on contracts	22,043	18,412
Other debtors	21,780	16,297
Pensions prepayment	30,580	28,350
Amounts owed by joint ventures	8,869	12,033
PFI debtor *	260,780	-
PFI assets in the course of construction*	75,537	33,840
	419,589	108,932
Total debtors	698,520	328,974

Included in amounts recoverable on contracts is £12,448,000 (2002 – £7,978,000) in respect of items procured on behalf of customers. This is offset by an amount of £9,933,000 (2002 – £8,792,000) in trade creditors and an amount of £7,659,000 (2002 – £945,000) in accruals.

*PFI contract balances in debtors

The impact of the PFI contract balances in debtors on the group accounts in relation to the Traffic Control Centre, Laser and Premier contracts is summarised as follows:

	Balance at 1 January 2003 £'000	Acquired during the year £'000	Movement during the year £'000	Balance at 31 December 2003 £'000
Balances in relation to PFI contracts:				
PFI assets excluding capitalised interest	32,088	275,498	27,777	335,363
Interest included in PFI debtor	1,752	5,136	1,544	8,432
Total PFI debtor and assets in the course of construction	33,840	280,634	29,321	343,795

The PFI assets analysed above are funded by non recourse loans of £307,205,000 (2002 - £29,700,000).



Notes to the Preliminary Announcement (continued)

For the year ended 31 December 2003

6. Reconciliation of movements in shareholders' funds

	2003 £'000	Restated 2002 £'000
Profit on ordinary activities after taxation	33,751	32,302
Share of joint venture minority Interest	(198)	-
Minority interest	(255)	-
Dividends	(10,050)	(9,441)
	23,248	22,861
Currency translation differences on foreign currency net investments	6,654	(1,911)
New capital subscribed	-	117,929
Exercise of share scheme options	-	(93)
Change in ESOP reserve	1,258	-
Net increase in shareholders' funds	31,160	138,786
Opening shareholders' funds as previously stated	249,650	129,071
Restatement	-	(18,207)
Opening shareholders' funds as restated	249,650	110,864
Closing shareholders' funds as restated	280,810	249,650

7. Analysis of net debt

	Balance 1 January 2003 £'000	Cash flow Acquired during the year 2003 £'000	Movement during the year 2003 £'000	Other non-cash changes 2003 £'000	Balance 31 December 2003 £'000
Cash at bank and in hand	71,774	12,843	86,271	-	170,888
Overdrafts	(2,386)	-	2,386	-	-
Cash net of overdrafts	69,388	12,843	88,657	-	170,888
Other loans due after more than one year	(47,433)	-	(117,502)	(321)	(165,256)
Other loans due within one year	(372)	-	1,709	(5,810)	(4,473)
Finance leases	(15,291)	(234)	6,422	(14,358)	(23,461)
Recourse net cash / debt	6,292	12,609	(20,714)	(20,489)	(22,302)
Non recourse debt	(29,700)	(250,994)	(76,285)	-	(356,979)
Net debt	(23,408)	(238,385)	(96,999)	(20,489)	(379,281)