

Issued: 3 September 2003  
 Release: 3 September 2003  
 Contact: Please see below



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**SERCO GROUP PLC**  
**Interim results for the six months ended 30 June 2003**

	<b>6 months to 30.06.03</b>	6 months to 30.06.02		
Turnover	<b>£722.6m</b>	£625.9m	Up	15.4%
Profit before tax – pre goodwill*	<b>£31.3m</b>	£28.4m	Up	10.2%
Earnings per share – pre goodwill	<b>5.15p</b>	4.84p	Up	6.4%
Dividend per share	<b>0.72p</b>	0.64p	Up	12.5%

\*Profit after goodwill and before tax for the six months to 30.6.03 was £27.0m (2002: £24.5m).  
 More detail is provided in the financial review.

**HIGHLIGHTS**

- **Double-digit increases in sales and profits for the 16th consecutive year**
  - Over 70% of increase in turnover came from extensions to the scope and scale of existing contracts
  - Profit before goodwill, tax and an incremental pension cost of £4.5m resulting from an increase in long term contribution is up 26%
- **Succession of sales records broken**
  - Largest new contract – 25-year Merseyrail Electrics contract worth £1.8bn
  - Largest rebid – 11-year contract at Goose Bay, Canada worth C\$400m
  - Largest contract extension – 15-year extension to the Atomic Weapons Establishment contract worth over £1bn
  - Largest North American contract – 10-year Ontario driver examination services contract worth C\$600m
- **Strong cash performance**
  - First half year free cash inflow £14.2m (2002: outflow of £11.5m)
  - Great Southern Railway sale and leaseback generated £5.8m of cash
- **Acquisition of remaining 50% share in Premier Custodial Group successfully completed in July**
- **Restructuring and review of underperforming businesses**
  - Business reorganisation resulted in exceptional charge of £4.5m while generating ongoing savings of £1.5m a year
  - Agreement reached with Network Rail to terminate East Midlands track maintenance contract in January 2004
- **Continued high visibility of earnings**
  - Forward order book up from £7.1bn to £9.9bn
  - 99% of 2003 turnover already secured
  - 86% of 2004 turnover already secured
- **Substantial range of future opportunities**
  - Bids worth £6bn submitted and under evaluation
  - £8bn of further opportunities identified

**Kevin Beeston, Executive Chairman, said:**

"We have had an outstanding six months, continuing the Group's double-digit growth record. After breaking a succession of sales records we've increased our forward order book by £2.8bn to £9.9bn while delivering a strong profit and cash performance.

We are confident that our standing among customers and potential customers remains high, and our credibility is underpinned by a track record of delivery. We look forward to sustained, profitable growth - in the second half and for the foreseeable future."

– Ends –

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### **INTERIM REPORT**

A copy of the 2003 Interim Report will be available on [www.serco.com](http://www.serco.com) from 0730 hrs (BST). Hard copies of the report can be obtained on request from the registered office:

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### **CONFERENCE CALL**

Following a briefing to analysts there will be a teleconference for analysts and investors on the day of announcement. This will begin promptly at 1500 hrs (BST).

#### **Dial-in telephone numbers**

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**Password** Serco

### **WEBCAST**

A webcast of the results presentation will also be available on [www.serco.com](http://www.serco.com) from 1700 hrs (BST) on the day of announcement. To pre-register for viewing please visit <http://clients.tornadonetWORKS.net/serco-001/>

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Kevin Beeston – Executive Chairman  
Andrew Jenner – Finance Director  
Ben Woodford – Corporate Communications Director



## Chairman's statement

**Serco has had an excellent six months. While maintaining double-digit growth in sales and profits, we have won major new contracts that will contribute to the business for years to come. Trading, margins and cash generation remain strong.**

Our forward order book grew from £7.1bn in December 2002 to £9.9bn as we broke a succession of sales records: our largest new contract, largest rebid and largest contract extension. A high rate of organic growth is our principal objective, and over 70% of the first half's incremental sales came from extensions to the scope and scale of existing contracts. Our success rate in rebids and contract extensions remained above 90%, and we continued to win over half of our new bids.

The keys to our record of dependable organic growth are the diversity of our markets, extending across many sectors and geographies, and the quality of the relationships we build with customers. There is no shortage of new opportunities: we currently have bids with a value of £6bn under evaluation and are addressing a further £8bn of opportunities.

### Financial performance

#### *Results*

In the six months to 30 June 2003, turnover was £722.6m – 15.4% higher than the first half of 2002. Pre-tax profit (before goodwill) grew 10.2% to £31.3m. Earnings per share (before goodwill) grew 6.4% to 5.15p.

These results include an additional £4.5m of pension costs in the first half as a result of the increased pension funding requirement identified with our 2002 preliminary results. Excluding these costs, pre-tax profits (before goodwill) grew by 26%.

We continue to focus on cash generation. During the first half cash performance was strong, with positive free cash inflow of £14.2m compared with an outflow of £11.5m in the six months to 30 June 2002. This is a significant achievement in a business with consistently high growth, which brings incremental demand for working capital.

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 business in Australia. This generated £5.8m of cash and £4m of profit and followed a similar arrangement completed in June 2001.

Further details of our financial performance are given in the financial review.

#### *Dividend*

We have increased the interim dividend by 12.5% to 0.72p per ordinary share. It will be paid on 10 October 2003 to shareholders on the register at close of business on 12 September 2003.

#### *Balance sheet*

Because of the rapid growth of the business and the scale of opportunities ahead of us, maintaining a strong balance sheet is a priority. 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 profile of debt facilities and maturity. It has also enabled us to repay the short term bank facilities we used to acquire the remaining 50% of Premier Custodial Group.

### Operational performance

Notwithstanding excellent organic growth, the period was particularly notable for four business wins: our largest-ever new contract, rebid and extension plus a strategically important win in North America.

In May we signed our largest-ever contract, worth £3.6bn, to run the Merseyrail Electrics contract for 25 years from July in partnership with the Dutch rail operator NedRailways. Serco's share of the contract is worth £1.8bn.

In February the Canadian Department of National Defence appointed us to provide site support services at its Goose Bay Canadian Forces Base for a second term in our largest-ever rebid: an 11-year contract worth some C\$400m.

In January the UK government announced a 15-year extension to the 10-year contract under which we and our partners are managing the Atomic Weapons Establishment – adding £1bn to our order book and extending the contract to 2025.



In addition to these wins, we broke new ground in North America with a 10-year public private partnership under which we will provide driver examination services throughout the state of Ontario in Canada. This is the first contract of its kind in the North American market and is a model which could be replicated in future.

#### *UK*

The UK continues to be an exceptionally fruitful market for us. Two further important UK wins were a £60m multi-activity contract to provide flight training and support services at RAF Cranwell, and a Private Finance Initiative (PFI) contract to procure a 326-bed immigration detention centre in Colnbrook, Middlesex and operate it for eight years.

The contract at RAF Cranwell further strengthens our position in the buoyant defence market, where we currently have several very large bids under consideration including the £13bn Future Strategic Tanker Aircraft contract and the RAF's Airfield Support Services Project, which covers over 100 UK military bases and airfields.

Our rail business continues to bid for carefully selected contracts. We were disappointed not to win the Wales & Borders franchise after reaching the final shortlist, but our Merseyrail success has encouraged us in our bids for the Northern Rail franchise and the third phase of the Manchester Metrolink.

In the road transport sector we continue to secure new business and are on schedule to open the Highways Agency's Traffic Control Centre in early 2004.

We are also making good progress in civil government. Our leisure, healthcare, education and local authority direct service businesses are all addressing opportunities with innovative solutions and a high rate of success.

We remain enthusiastic but selective participants in PFI contracts, which account for some 12% of our turnover. Our interest in PFIs is focused on the long term operating contracts that follow the construction or asset procurement phase. Over the past few years we have built a PFI forward order book worth some £3.4bn, and we are already generating net positive cash flows after our £13.2m equity and subordinated debt investment in these contracts.

#### *International*

We continue to attach great importance to our international growth strategy, and several of our primary target markets are beginning to show real promise.

In Canada we have achieved a degree of critical mass by securing the Goose Bay rebid and winning the Ontario driver examination services franchise.

In Australia our Great Southern Railway business will gain a further boost in February 2004, when the Alice Springs-Darwin link opens. Ticket sales for the extended journey to Darwin topped A\$5m in the first five weeks after bookings opened – six months before the first train is due to run.

In Europe we continue to gain ground in Italy and Germany. In Germany we are making steady progress in the defence and government sectors; in Italy we have won our first facilities management contract as we build on our early successes in government IT outsourcing to gain entry into new and evolving market sectors.

In the Middle East we are continuing to grow our core air traffic services business while developing newer markets in facilities management, technology and training services. We are on a shortlist of two bidders for the first Omani PFI, to build and operate a joint services technical training college.

### **Strategic developments**

#### *Acquisitions*

During the first half we bought-out our partners in three businesses, two of which are PFI projects. At the National Physical Laboratory we took full control of Laser, formerly a joint venture with Laing Investments Limited. In Manchester we acquired the Altram consortium which had built Phase 2 of the Metrolink system and operates and maintains Phases 1 and 2. In Denmark we made a similar move by buying out the joint venture we formed with Arriva to commission and run the Copenhagen Metro, which opened last October.



In July we also acquired our partner's share of Premier Custodial Group, our custodial support services business. This £48.6m deal followed our partner's acquisition by a competitor and gives us the opportunity to develop the business in the UK and overseas. The custodial market is expanding rapidly and opportunities arising over the next few years in the UK alone will include new prisons, secure training facilities for juvenile offenders, and immigration accommodation centres. Premier has a number of PFI contracts, and its assets and non-recourse debt will be consolidated in the second half.

All our PFI acquisitions bring non-recourse debt onto the Group balance sheet. During the first half, the amount of non-recourse debt on the balance sheet increased from £29.7m to £117.8m. The Premier acquisition will add around £180m. All these debts are long term bank loans secured on the assets held in the companies which operate the PFI concessions and not on the assets of Serco Group. Although we consolidate these non-recourse loans on the balance sheet, they are ringfenced and do not affect our debt facility covenants or our ability to fund the Group going forward.

#### *Restructuring*

In our 2002 preliminary results announcement and at our AGM in May, we referred to the review that we are undertaking to focus the business on areas with greatest potential and to reduce underperforming activities.

As our businesses grow, we need to back them with efficient and consistent support processes. So we have restructured our UK support operations, bringing them together on a single business campus in Hampshire to create Serco Business Services. We have also rationalised our Australian support offices to a single centre in Sydney. The redundancy and relocation costs result in an exceptional charge of £4.5m in the accounts for the first half, but will generate ongoing savings of some £1.5m a year.

A further result of the strategic review was an agreement with Network Rail in the UK to withdraw from our track maintenance contract for the East Midlands zone in January 2004.

#### *New capability*

We have continually encouraged customers to let larger and more sophisticated contracts, and have developed the resources to handle them. Helping customers to develop and manage this type of contract has now become a growth opportunity in its own right. Having already built the financial capability to structure finance for complex, large-scale contracts and to manage our own investment portfolio, we have now supplemented and extended that capability to create a new business, Serco Government Consulting. The team currently includes some 20 management consultants who provide strategic consulting advice and help customers shape, define and implement business solutions. It will also provide strategic advice and management support to our operating businesses.

#### **People**

In June we appointed David Richardson to the board as a non-executive director. David is finance director of Whitbread, the FTSE 100 leisure group. His previous roles there have included eight years as strategy director. He will take over as chairman of the audit committee when Rhidian Jones retires in April 2004.

A further change to the board is planned in March next year, when Iestyn Williams retires as a director. Iestyn has been with the company for 25 years and a board member since 1986. He will continue his association with the company as non-executive chairman of our education business, Serco Learning.

One of our major objectives, as a business employed predominantly by the public sector, is to demonstrate that a private sector business can have a public service ethos. There can be few more convincing examples of this than the conduct of our 500 support staff working in Hong Kong hospitals during the SARS outbreak. Almost 1,750 people caught the disease in Hong Kong – and more than a fifth of them were hospital workers. Many of our people admitted they were scared. But that didn't stop them from delivering much-needed services on the front line throughout the crisis. We respect all of them for their courage and thank them for their dedication.

As always, we also thank all our people for their part in Serco's continuing growth and success.

#### **Corporate social responsibility**

Social responsibility has been an integral part of our culture for over 40 years. We have a structured approach which delegates accountability for corporate social responsibility performance to every contract manager. This ensures that initiatives are managed at a local level, where they have most impact. The first Business in the Community Corporate Responsibility Index, announced in March, indicates that this approach is delivering encouraging results: Serco was ranked in the second quintile, and our overall score of 79% only just fell short of the top quintile.



**Outlook**

Our total order book has increased from £7.1bn to £9.9bn – equivalent to about seven times last year's turnover. We are currently addressing a further £14bn of opportunities. Assuming a continuing 90% renewal rate on rebids, we already have contracts in place to provide 99% of planned revenue this year, 86% in 2004 and 71% in 2005.

The unremitting pressure on governments to deliver value for taxpayers' money plays to our strengths. We are confident that our standing among customers and potential customers remains high, and our credibility is underpinned by a track record of delivery. We look forward to sustained, profitable growth – in the second half and for the foreseeable future.

3 September 2003



## Financial review

### 1 Financial performance

The first half of 2003 has been another period of strong performance. Further analysis is provided below:

Six months to 30 June	2003 £m	2002 £m	Change
Total turnover	<b>722.6</b>	625.9	15.4%
Group turnover	<b>608.6</b>	522.0	
Joint venture turnover	<b>114.0</b>	103.9	
Gross profit	<b>83.2</b>	71.1	16.9%
Administrative expenses	<b>(61.8)</b>	(50.4)	
Exceptional items (net)	<b>(0.5)</b>	-	
Joint venture profit	<b>11.8</b>	10.1	
Net Group interest	<b>(1.4)</b>	(2.4)	
<b>PROFIT BEFORE GOODWILL AND TAX</b>	<b>31.3</b>	28.4	10.2%
Goodwill	<b>(4.3)</b>	(3.9)	
Profit before tax	<b>27.0</b>	24.5	10.0%
Tax	<b>(9.2)</b>	(8.3)	
Profit after tax	<b>17.8</b>	16.2	
Effective tax rate	<b>34%</b>	34%	
Average number of shares	<b>429.6m</b>	414.1m	
Earnings per share before goodwill	<b>5.15p</b>	4.84p	6.4%
Earnings per share after goodwill	<b>4.14p</b>	3.91p	5.9%

#### 1.1 Turnover

Total turnover in the six months to 30 June 2003 increased by 15.4% to £722.6m. This includes £114.0m of turnover relating to joint ventures, an increase of 9.7%. Group turnover increased by 16.6% to £608.6m.

#### 1.2 Gross profit

Gross profit of £83.2m increased by 16.9% and represents a return on group turnover of 13.7% (2002: 13.6%).

#### 1.3 Pre-tax profit

Pre-tax profit before goodwill amortisation increased 10.2% to £31.3m.

#### 1.4 Exceptional items

Two exceptional items during the period result in a net charge of £0.5m.

The sale and leaseback of the remaining rolling stock belonging to our Great Southern Railway (GSR) business in Australia generated cash of £5.8m and profit of £4.0m.

We have also undertaken a fundamental review of our support office and underperforming operations, resulting in a number of redundancies, office closures and relocations. The £4.5m cost of this restructuring has been charged to the profit and loss account in the first half of the year.

#### 1.5 Pensions costs

As disclosed in our 2002 Accounts, to address the net deficit on our UK defined benefit scheme we have increased our long term contribution rates. For 2003 we have increased our pension contribution by £9m, which is accounted for evenly over the year. Excluding this additional cost, our first half profit before goodwill and tax increased by 26%.

#### 1.6 Tax

The tax charge of £9.2m (2002: £8.3m) represents an effective rate of 34% (2002: 34%).



1.7 *Earnings per share*

Earnings per share before goodwill amortisation grew by 6.4% to 5.15p. The average number of shares increase reflects the impact of a share placement in March 2002.

2 **Dividends**

The proposed interim dividend of 0.72p per share is a 12.5% increase on 2002.

3 **Cash flow**

During the six months to 30 June 2003 we generated free cash inflow of £14.2m against an outflow of £11.5m in the first six months of 2002.

This is further analysed below:

	2003 £m	2002 £m
Six months to 30 June		
Operating Profit before exceptional item	17.1	16.8
Exceptional item: Reorganisation costs	(4.5)	-
Operating profit	12.6	16.8
Non cash items: Depreciation and goodwill	13.7	11.5
Group EBITDA	26.3	28.3
One-off pension fund contribution	-	(15.5)
Working capital movement	(10.9)	(16.6)
Operating cash flow	15.4	(3.8)
Dividends from joint ventures	4.6	6.2
Interest and taxation	(5.1)	(5.4)
Capital expenditure/disposals of assets	(7.6)	(7.9)
Exceptional item: GSR sale and leaseback	5.8	-
Other items	1.1	(0.6)
<b>FREE CASH FLOW</b>	<b>14.2</b>	<b>(11.5)</b>
Acquisitions/disposals	(5.3)	(3.2)
Share issues/other financing	(1.5)	116.0
Dividends paid	(6.2)	(5.5)
Net cash flow	1.2	95.8
Closing cash	70.6	60.0
Long term loans	(48.2)	(45.3)
Other loans and finance leases	(22.2)	(17.5)
Net cash/(recourse debt)	0.2	(2.8)
Non-recourse debt to fund PFI assets	(117.8)	(19.7)
Total net debt	(117.6)	(22.5)

3.1 *Operating cash flow*

There was an operating cash inflow for the period of £15.4m (2002: outflow of £3.8m). This converts 122% (2002: n/a) of our operating profit and 59% (2002: n/a) of Group EBITDA into cash.

The working capital increase of £10.9m (2002: £16.6m) reflects the continuing strong level of organic growth shown by the Group in 2003 and equates to approximately one month's incremental period on period turnover, reflecting the typical invoicing cycle of our contracts.

3.2 *Joint ventures*

Dividends received from joint ventures in the first six months of 2003 of £4.6m (2002: £6.2m) represent a 56% (2002: 88%) conversion of profit after tax of joint ventures into cash. Dividends received in 2002 included a dividend of £3.3m from a refinancing of the Joint Services Command and Staff College PFI.

3.3 *Capital expenditure*

Capital expenditure, excluding investment in PFI Special Purpose Companies (SPCs), for the six months to 30 June 2003 was £12.5m (2002: £8.2m). As a proportion of Group turnover this expenditure represents 2% and has remained at a similar level to previous years.



### 3.4 Pensions

A £15.5m pension payment in 2002 was made to assist the merger of Serco's two defined benefit schemes by achieving a similar funding level across both schemes.

Operating cash flow for the six months to 30 June 2003 includes an additional £4.5m of pension costs as a result of the increased pension funding requirement referred to in 1.5.

### 3.5 Non-recourse debt

At 30 June 2003 non-recourse loans totalled £117.8m (2002: £19.7m). These loans fund the construction and development of the Traffic Control Centre and the National Physical Laboratory.

The completion of the acquisition of our partner's share in Premier Custodial Group in July, together with the funding of the Ontario driver examination services franchise payment, will lead to additional non-recourse loans being included in our balance sheet, along with the related assets at the end of 2003.

Non-recourse debt is excluded from the Group's banking facility covenants but is consolidated on the Group's balance sheet. The corresponding asset is included within 'Debtors: amounts due after more than one year' in the balance sheet. The loans are secured on those assets held within the SPC to operate the PFI concessions and not on the assets of Serco Group.

## 4 Pensions

We continue to apply the transitional rules and disclosures of FRS 17 Retirement Benefits. This required the market value of assets and liabilities for defined benefit schemes to be calculated and disclosed in a note to the 2002 Group accounts. At 31 December 2002 we identified a net deficit of £74m in relation to the main UK defined benefit schemes and an asset base of approximately £295m, while the Minimum Funding Rate (MFR) funding level was 100%. While we are not required to undertake a full actuarial valuation of the scheme at 30 June 2003, it is estimated that the net deficit is approximately the same.

As noted above, the two principal defined benefit schemes in the UK were merged in February 2003. The investment profile of the merged scheme will be changed such that equities will become a smaller proportion of total assets to help achieve a closer matching of the asset and liability profiles.

## 5 Treasury

### 5.1 Treasury management

The Group's tax and treasury function is responsible for managing the Group's exposure to financial risk. It operates within policies approved and reviewed by the board, which include controls on the use of financial instruments. The Group reviews the credit quality of counterparties and limits individual aggregate credit exposures accordingly.

### 5.2 Liquidity management

The Group funds its operations through bilateral bank credit facilities and a long term US private placement of loan notes ('the US notes'). Borrowings under the bank facilities are floating rate, unsecured obligations with covenants and obligations typical of these types of arrangements. The US notes mature in December 2007.

At the end of June 2003 bank facilities totalled £160m, of which £50m was committed funding. The committed bank facilities mature in November 2005.

On 20 August 2003, the Group completed a private placement for £117m sourced from a number of institutions. This private placement is designed to lengthen the maturity profile of the Group's debt, with a final maturity of 12 years and an average term of 10 years. The placement will be used to refinance the debt used to acquire Premier Custodial Group and to help position the Group for future growth. The debt was issued in Sterling and US Dollars at a fixed average coupon of 5.7%. The debt issued in US Dollars has been swapped into Sterling.

## 6 Auditors

While there is no statutory requirement to do so, the financial statements and notes in the Interim Report have been reviewed by our auditors, Deloitte & Touche LLP. Their review conclusion is included on page 23 of our Interim Report.



**7 Events after 30 June 2003**

On 2 July we completed the acquisition of Wackenhut Corrections UK Limited's 50% share in Premier Custodial Group ('Premier'). Serco paid £48.6m for the shares, which represents 90% of their fair market value, as determined by independent valuation.

In the year ended 31 December 2002 Premier's turnover was £127.4m and profit before tax was £10.0m. The net assets employed in Premier at 31 December 2002 were £25.0m, which included non-recourse debt of £179.2m. Serco's share of Premier's gross assets and liabilities is included within the share of joint venture assets and liabilities shown on Serco's balance sheet. The acquisition of Premier will result in 100% of these assets and liabilities being consolidated for the second half of 2003.



## Consolidated Profit & Loss Account

For the six months ended 30 June 2003

	<b>6 months to 30.6.03 £'000 (unaudited)</b>	6 months to 30.6.02 £'000 (unaudited)	Year to 31.12.02 £'000 (audited)
<b>TURNOVER: GROUP AND SHARE OF JOINT VENTURES</b>	<b>722,551</b>	625,936	1,325,948
Less: Share of joint ventures	<b>(113,997)</b>	(103,895)	(228,670)
Group turnover	<b>608,554</b>	522,041	1,097,278
Cost of sales	<b>(525,376)</b>	(450,903)	(947,313)
Gross profit	<b>83,178</b>	71,138	149,965
Administrative expenses	<b>(70,556)</b>	(54,296)	(120,862)
Amortisation of goodwill	<b>(4,330)</b>	(3,870)	(8,098)
Exceptional item: Reorganisation costs	<b>(4,489)</b>	-	-
Other administrative expenses	<b>(61,737)</b>	(50,426)	(112,764)
Operating profit	<b>12,622</b>	16,842	29,103
Exceptional Item: GSR sale and leaseback	<b>3,977</b>	-	-
Share of operating profit in joint ventures	<b>10,384</b>	9,589	21,883
Net interest			
Group	<b>(1,421)</b>	(2,416)	(4,064)
Share of joint ventures	<b>1,394</b>	510	2,019
<b>PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION</b>	<b>26,956</b>	24,525	48,941
Taxation on profit on ordinary activities	<b>(9,165)</b>	(8,339)	(16,639)
<b>PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION</b>	<b>17,791</b>	16,186	32,302
Dividends	<b>(3,092)</b>	(3,257)	(9,441)
<b>RETAINED PROFIT</b>	<b>14,699</b>	12,929	22,861
Earnings per ordinary share (EPS) of 2p each:			
Basic EPS, after amortisation of goodwill	<b>4.14p</b>	3.91p	7.66p
Basic EPS, before amortisation of goodwill	<b>5.15p</b>	4.84p	9.58p
Diluted EPS, after amortisation of goodwill	<b>4.14p</b>	3.90p	7.63p
Diluted EPS, before amortisation of goodwill	<b>5.15p</b>	4.84p	9.54p
Dividend per share	<b>0.72p</b>	0.64p	2.08p



## Consolidated Balance Sheet

As at 30 June 2003

	As at <b>30.6.03</b> £'000 (unaudited)	As at 30.6.02 £'000 (unaudited)	As at 31.12.02 £'000 (audited)
<b>FIXED ASSETS</b>			
Intangible assets	141,130	141,570	147,473
Tangible assets	71,002	51,379	62,479
Investments in joint ventures	41,074	30,650	35,883
Share of gross assets	267,846	320,355	317,831
Share of gross liabilities	(226,772)	(289,705)	(281,948)
Investment in own shares	17,766	18,487	18,207
	<b>270,972</b>	<b>242,086</b>	<b>264,042</b>
<b>CURRENT ASSETS</b>			
Stocks	37,264	29,771	38,744
Debtors: Amounts due within one year	256,597	210,303	220,042
Debtors: Amounts due after more than one year	190,358	84,751	108,932
Cash at bank and in hand	72,815	168,685	71,774
	<b>557,034</b>	<b>493,510</b>	<b>439,492</b>
<b>CURRENT LIABILITIES</b>			
Bank loans and overdrafts	2,190	108,646	2,386
Trade creditors	77,755	68,793	74,377
Other creditors including taxation and social security	94,707	74,244	93,843
Accruals and deferred income	141,976	119,004	136,766
Proposed dividend	3,093	2,831	6,184
	<b>319,721</b>	<b>373,518</b>	<b>313,556</b>
<b>NET CURRENT ASSETS</b>	<b>237,313</b>	<b>119,992</b>	<b>125,936</b>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>			
	<b>508,285</b>	<b>362,078</b>	<b>389,978</b>
Creditors: Amounts falling due after more than one year	182,915	72,847	87,588
Provisions for liabilities and charges	36,987	27,276	34,533
<b>NET ASSETS</b>	<b>288,383</b>	<b>261,955</b>	<b>267,857</b>
<b>CAPITAL AND RESERVES</b>			
Called up share capital	8,697	8,695	8,697
Share premium account	190,791	191,203	190,791
Capital redemption reserve	143	143	143
Profit and loss account	88,752	61,914	68,226
<b>EQUITY SHAREHOLDERS' FUNDS</b>	<b>288,383</b>	<b>261,955</b>	<b>267,857</b>



## Consolidated Cash Flow Statement

For the six months ended 30 June 2003

	<b>6 Months to 30.6.03 £'000 (unaudited)</b>	6 months to 30.6.02 £'000 (unaudited)	Year to 31.12.02 £'000 (audited)
Operating profit pre exceptional item	17,111	16,842	29,103
Exceptional item: Reorganisation costs	(4,489)	-	-
Operating profit	12,622	16,842	29,103
Depreciation and amortisation of goodwill	13,671	11,494	23,632
Movement in working capital	(10,911)	(16,652)	(13,124)
One-off pension fund contribution	-	(15,500)	(15,500)
<b>NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES BEFORE PFI ASSET EXPENDITURE</b>	<b>15,382</b>	<b>(3,816)</b>	<b>24,111</b>
Expenditure on PFI assets in the course of construction	(13,327)	(5,063)	(14,950)
Net cash inflow/(outflow) from operating activities after PFI asset expenditure	<b>2,055</b>	<b>(8,879)</b>	<b>9,161</b>
Dividends received from joint ventures	4,602	6,172	11,095
<b>RETURNS ON INVESTMENT AND SERVICING OF FINANCE</b>			
Interest received	448	299	1,223
Interest paid	(1,869)	(3,251)	(7,362)
Net cash outflow from returns on investments and servicing of finance	<b>(1,421)</b>	<b>(2,952)</b>	<b>(6,139)</b>
<b>TAXATION</b>			
Tax paid	<b>(3,658)</b>	<b>(2,468)</b>	<b>(5,738)</b>
<b>CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT</b>			
Purchase of tangible and intangible fixed assets	<b>(12,499)</b>	<b>(8,211)</b>	<b>(23,596)</b>
Sale of tangible fixed assets	4,895	343	8,125
Exceptional item: GSR sale and leaseback	5,761	-	-
Net cashflows with joint ventures	780	(1,039)	1,235
Net cash outflow from capital expenditure and financial investment	<b>(1,063)</b>	<b>(8,907)</b>	<b>(14,236)</b>
<b>ACQUISITIONS AND DISPOSALS</b>			
Acquisitions	<b>(829)</b>	<b>(4,213)</b>	<b>(11,353)</b>
Net cash acquired with acquisitions	66	26	397
Subscription for shares in joint ventures	<b>(4,552)</b>	-	(370)
Proceeds on disposal of joint ventures	-	1,000	1,030
Net cash outflow from acquisitions and disposals	<b>(5,315)</b>	<b>(3,187)</b>	<b>(10,296)</b>
<b>EQUITY DIVIDENDS PAID</b>			
Dividends paid	<b>(6,183)</b>	<b>(5,536)</b>	<b>(8,283)</b>
Net cash outflow from equity dividends paid	<b>(6,183)</b>	<b>(5,536)</b>	<b>(8,283)</b>
Net cash outflow before financing	<b>(10,983)</b>	<b>(25,757)</b>	<b>(24,436)</b>
<b>FINANCING</b>			
Issue of Ordinary Share Capital	-	117,945	117,929
Debt due within one year:			
(Decrease)/increase in other loans	<b>(32)</b>	115	(300)
Debt due beyond one year:	<b>14,384</b>	5,270	15,624
Increase/(decrease) in other loans	<b>734</b>	<b>(330)</b>	24
Increase in non-recourse debt financing PFI asset	<b>13,650</b>	<b>5,600</b>	<b>15,600</b>
Capital element of finance lease repayments	<b>(2,132)</b>	<b>(1,699)</b>	<b>(3,594)</b>
Net cash inflow from financing	<b>12,220</b>	<b>121,631</b>	<b>129,659</b>
Increase in cash	<b>1,237</b>	<b>95,874</b>	<b>105,223</b>
Opening balance	<b>69,388</b>	<b>(35,835)</b>	<b>(35,835)</b>
Closing balance	<b>70,625</b>	<b>60,039</b>	<b>69,388</b>



## Notes

For the six months ended 30 June 2003

### 1 Basis of preparation

The interim financial statements for the six months ended 30 June 2003 have been prepared in accordance with the accounting policies detailed in the financial statements for the year ended 31 December 2002 and were approved by the directors on 3 September 2003. The accounting information contained in the Interim Report for 2003 does not comprise a full set of accounts within the meaning of Section 240 of the Companies Act 1985 and no full accounts have been filed with the Registrar of Companies. The interim results for both 2002 and 2003 are unaudited, but have been reviewed by the auditors and their report to the company is set out on page 23 of our Interim Report. The financial information for the full year 2002 is an abridged version of the financial statements for that year, on which the auditors gave an unqualified report and which did not contain statements under section 237(2) or (3) of the Companies Act 1985. The 2002 full year accounts have been delivered to the Registrar of Companies.

### 2 Earnings per share

The calculation of basic earnings per Ordinary Share after goodwill is based on profits of £17,791,000 for the six months ended 30 June 2003 (2002: £16,186,000) and the weighted average number of 429,640,399 (2002: 414,132,355 ) Ordinary Shares of 2p each in issue during the period.

The calculation of basic earnings per Ordinary Share before goodwill is based on profits of £22,121,000 for the six months ended 30 June 2003 (2002: £20,056,000) and the weighted average number of 429,640,399 (2002: 414,132,355 ) Ordinary Shares of 2p each in issue during the period.

The calculation of diluted earnings per Ordinary Share after goodwill is based on profits of £17,791,000 for the six months ended 30 June 2003 (2002: £16,186,000) and the weighted average number of 429,640,399 (2002: 414,798,700 ) Ordinary Shares of 2p each in issue during the period.

The calculation of diluted earnings per Ordinary Share before goodwill is based on profits of £22,121,000 for the six months ended 30 June 2003 (2002: £20,056,000) and the weighted average number of 429,640,399 (2002: 414,798,700 ) Ordinary Shares of 2p each in issue during the period.



## Notes

For the six months ended 30 June 2003

### 3 Reconciliation of operating profit to net cash inflow/(outflow) from operating activities

	<b>6 Months to 30.6.03 £'000 (unaudited)</b>	6 months to 30.6.02 £'000 (unaudited)	Year to 31.12.02 £'000 (audited)
Operating profit pre exceptional item	17,111	16,842	29,103
Exceptional item: Reorganisation costs	<b>(4,489)</b>	-	-
Operating profit	<b>12,622</b>	16,842	29,103
Depreciation	<b>9,341</b>	7,624	15,534
Amortisation of goodwill and intangible fixed assets	<b>4,330</b>	3,870	8,098
Profit on sale of tangible fixed assets	<b>(1,249)</b>	(136)	(1,948)
Decrease/(increase) in stocks	<b>1,480</b>	6,067	(2,906)
(Increase) in debtors	<b>(9,221)</b>	(20,701)	(41,870)
(Decrease)/increase in creditors	<b>(2,900)</b>	(3,515)	30,795
Increase in provisions	<b>979</b>	1,633	2,805
One-off pension fund contribution	-	(15,500)	(15,500)
<b>NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES BEFORE PFI ASSET EXPENDITURE</b>	<b>15,382</b>	(3,816)	24,111
Expenditure on PFI asset in the course of construction	<b>(13,327)</b>	(5,063)	(14,950)
Net cash inflow/(outflow) from operating activities after PFI asset expenditure	<b>2,055</b>	(8,879)	9,161

### 4 Analysis of total net debt

	<b>As at 30.6.03 £'000 (unaudited)</b>	As at 30.6.02 £'000 (unaudited)	As at 31.12.02 £'000 (audited)
Cash at bank and in hand	72,815	168,685	71,774
Overdrafts	<b>(2,190)</b>	(108,646)	(2,386)
Cash net of overdrafts	<b>70,625</b>	60,039	69,388
Other loans due after more than one year	<b>(48,167)</b>	(45,312)	(47,433)
Other loans due within one year	<b>(340)</b>	(6,562)	(372)
Finance leases	<b>(21,888)</b>	(10,976)	(15,291)
Net cash/(recourse debt)	<b>230</b>	(2,811)	6,292
Non-recourse debt to fund PFI assets	<b>(117,828)</b>	(19,700)	(29,700)
Total net debt	<b>(117,598)</b>	(22,511)	(23,408)