

Serco Group plc

Interim results for the six months ended 30 June 2005

	2005	2004	
Revenue	£1,074.9m	£804.5m	up 33.6%
Profit before tax and amortisation	£43.7m	£34.4m	up 27.0%
Earnings per share before amortisation	6.78p	5.53p	up 22.6%
Profit before tax	£37.3m	£30.7m	up 21.5%
Earnings per share	5.61p	4.84p	up 15.9%
Dividend per share	0.91p	0.81p	up 12.3%

Strong organic growth

- Revenue before acquisitions and disposals up by 20.8%
- Profit before tax, amortisation and acquisitions up 14.5%
- Continued win rates of over 90% on rebids and over 50% on new bids
- Contracts signed valued at £0.7bn in the period, appointed preferred bidder on contracts worth a further £1.5bn

Continuing focus on cash generation

- Group EBITDA to cash conversion of 70% (2004 – 58%) contributing to Group free cash flow of £19.4m (2004 – £23.5m)

Acquisitions' performance on target

- Completed purchase of ITNET in February and RCI in March
- Acquisitions added £134.4m of revenue and £9.3m (£4.3m after funding costs) of profit before tax and amortisation
- Management reorganisations complete, integration proceeding well and customers responding positively

High visibility of future revenues

- Forward order book of £12.9bn at 30 June 2005
- 99% of 2005 planned revenue secured, 85% for 2006 and 74% for 2007
- Bids worth £4.5bn submitted and under evaluation, including £1.7bn at preferred bidder
- In excess of £18bn of further opportunities identified

Note: Group EBITDA is earnings from subsidiaries before interest, tax, depreciation and intangible amortisation. Group free cash flow is from subsidiaries and is reconciled in Section 4 of the Finance Review

Executive Chairman Kevin Beeston said:

"This has been another excellent period for Serco. Our service delivery record has enabled us to deliver organic revenue growth of 21% and our acquisitions have made the expected contribution in their first few months under our ownership. Market conditions remain strongly in our favour and we see numerous opportunities to grow in the UK and internationally. Our actions to develop leadership, streamline our structure and improve efficiency will contribute to growth and enhance our profitability, resulting in increasing margins over time. We look forward to further strong performance in the second half and are confident of achieving double digit growth for the foreseeable future."

- Ends -

For further information please contact Serco Group plc: +44 (0) 1256 745 900

Dominic Cheetham, Corporate Communications Director

Richard Hollins, Head of Investor Relations

www.serco.com

Conference Call

A conference call for investors will be held today at 14.30 UK time.

Participants outside the US should call: +44 (20) 7019 0810

US participants should call: +1 210 795 0466

The passcode for the conference call is 'Serco'

Copies of the presentation slides will be available from 12.00 UK time from www.serco.com.

Further Announcements

Separately today, Serco has released its Business Review for the six months ended 30 June 2005. This includes further details of the Group's markets, contract wins and operating performance.

In addition, a separate announcement today (Transition to International Financial Reporting Standards ("IFRS")) sets out the impact of IFRS on the Group's results and financial position.

Chairman's statement

Serco Group plc ("Serco") has had an excellent first half, achieving significant growth both organically and from our recent acquisitions. A strong operating performance saw profits before tax and amortisation rise by 27.0% on revenue that rose 33.6%. Our cash performance remains robust, with Group EBITDA to cash conversion of 70% (2004 – 58%) contributing to a Group free cash flow of £19.4m in the first half.

Business summary

Serco's growth is being fuelled by the continuing shift towards private provision of public services in our chosen markets, combined with our ability to deliver customers' desired outcomes. This ability has helped us develop long-term relationships with clients and build trust and credibility with the people who ultimately use our services.

Excellent service delivery is key to driving the organic growth that remains the cornerstone of our strategy. Our track record does more than position us to retain business. It also gives our clients the confidence to enable us to expand the scope and scale of our services to them, leveraging our expertise across national borders and industry sectors.

During the six months, organic revenue growth was 20.8%. On rebids, our success rate was maintained at over 90%, while we continued to win more than 50% of new bids.

Our two recent acquisitions, ITNET and RCI, had the anticipated positive impact, adding £134.4m to revenue and £9.3m (£4.3m after funding costs) to profit before tax and amortisation.

We have maintained the high visibility of our future revenue. At 30 June 2005, our forward order book stood at £12.9bn, nearly eight times 2004's revenue. To date, we have secured 99% of planned revenue for 2005, 85% for 2006 and 74% for 2007. In addition, at the half year we had a further £1.7bn of contracts at preferred bidder stage and another £2.8bn of bids – where we are down to the last two or three bidders – are under evaluation by customers. We have also identified a pipeline of opportunities exceeding £18bn.

Organic Growth

During the first half, we signed contracts and extensions valued at £0.7bn and were appointed preferred bidder on contracts worth a further £1.5bn.

Early in the year, we secured one of our most significant defence wins, the 23-year, £400m Defence Academy Campus Integrator contract to deliver a world-class academic centre of excellence for senior commanders and staff from the Ministry of Defence ("MoD").

In March, our joint venture with SNC-Lavalin was appointed preferred bidder to operate a rapid rail transit link in Vancouver, Canada – a project worth C\$16-20m per annum to Serco, over 30 years.

Our joint venture with Equion, a division of John Laing plc, was appointed preferred bidder for a 35-year agreement worth around £1.2bn to support three Leicester hospitals as part of the city's Pathway private finance initiative.

Serco was also successful in winning or extending more than 100 smaller and medium-sized contracts during the first half such as the Dubai Airport air traffic services rebid, the contract to supply the MoD's Integrated Sensor Management System, and the contract to support the Mechanical and Electrical Engineering Departments of the European Space Agency.

Meanwhile, Northern Rail, our largest-ever contract, delivered strong operational performance in its first few months under our joint venture's management. Northern has consistently exceeded service performance targets, delivering real improvements for the thousands of passengers who use the network daily. As the consolidation of the two previous franchises into Northern continues on schedule, we expect to achieve further performance enhancements while maximising efficiencies.

We have also continued to expand our consulting business. As well as contributing to our profits, consulting helps us to shape our markets through the provision of advice to existing and potential clients at a senior level. In conjunction with the Serco Institute, this helps to position us as thought leaders in our field.

Since the start of the second half, our joint venture with BNFL and Lockheed Martin has signed a contract that significantly increases the scale of our work for the MoD at the Atomic Weapons Establishment. The organic growth from this contract is valued at over £350m to Serco over the next three years.

Serco has also been appointed preferred bidder on important contracts in the early part of the second half. These include a strategic partnership with the Defence Science and Technology Laboratory ("Dstl"), which will be worth around £400m to us. Serco will manage the design and build of new facilities for Dstl, the migration of 1,600 scientists to these facilities, and provide support services ranging from laboratory set-up to travel management across the entire Dstl estate for 15 years.

We are also close to securing more than £180m of opportunities across homeland security and offender management.

More detail on our first half wins and operating performance can be found in the Business Review, which has been released separately today and is also available on our website, www.serco.com.

Acquisitions

The business case underpinning the acquisitions of ITNET and RCI remains compelling. The efficiency of their integration testifies to the strength of the compatibility between the acquisitions and the rest of our business. It also demonstrates our ability to integrate organisations successfully into the Group.

ITNET, now renamed Serco Solutions, is a leading supplier of IT services, business process management, consulting and e-services to UK local authorities and private sector organisations. It has performed in line with our forecasts since its February acquisition, contributing £83.9m in revenue and £6.1m in profit from operations.

Although, as anticipated, its first half revenue was below the corresponding period last year, Serco Solutions continues to receive positive feedback from customers as opportunities for organic growth increase. In June, Serco Solutions announced its selection by IBM as sub-contractor to manage key IT platforms and services for Bradford Council. The award is part of a wider business transformation programme led by IBM, with a contract valued at £158m to the consortium. By the end of the first half, Serco Solutions had also secured important contract extensions and additional work with several clients in the local government sector, including Coventry City Council and the London boroughs of Ealing, Enfield, Richmond and Southwark. It also renewed its contract with Cadbury Schweppes plc and won an extension to its work for Wales & West Utilities.

Serco Solutions has begun to establish itself as the Group's centre of IT excellence. It is working closely with other parts of Serco – notably in home affairs, health and education – and has been shortlisted for a contract worth up to £80m over four years in a joint bid with our science business.

RCI – now renamed Serco Inc. – supplies business process management, IT services, supply chain management, systems engineering and strategic consulting to the US Federal Government, primarily in defence. It has a particularly strong reputation in human resources management programmes for the army and navy. Since the acquisition was completed in March, Serco Inc. has contributed £50.5m in revenue and £3.2m in profit from operations.

Under Serco's ownership, Serco Inc. has maintained its strong position on the US Army's HR Solutions Program through a series of multi-award contracts used by the US Army to acquire personnel-related IT and business process services, studies and analysis, and recruitment and retention support for uniformed staff worldwide. The combined value of the program to Serco is expected to exceed \$300m over the next five years.

In addition, Serco Inc. recently retained its position as provider of the US Army's transition services through the award of the Army Career and Alumni Program task order valued at \$15m annually. Serco was awarded a new contract with the Army to provide services aimed at preventing sexual assault and harassment.

Financial performance

Results

Total revenue during the period increased by 33.6% to £1,074.9m. Of this increase, £136.0m came from organic growth, and acquisitions contributed £134.4m. The effect of last year's contract disposals was to reduce revenue by £26m, thereby resulting in underlying revenue growth of 20.8%.

In the six months to June 2005, profit before tax and amortisation grew 27.0% to £43.7m. Profit before tax, amortisation and acquisitions increased by 14.5%. Earnings per share before intangible amortisation grew 22.6% to 6.78p.

Profit before tax after amortisation grew 21.5% to £37.3m and earnings per share after intangible amortisation grew by 15.9% to 5.61p.

Free cash generation remains a high priority for Serco. During the half year Group free cash flow totalled £19.4m, (2004 – £23.5m), down largely due to one-off tax benefits in the previous year. Group EBITDA to cash conversion was 70% (2004 – 58%). This was a consistent performance and working capital management remains strong.

Dividend

We have increased the interim dividend by 12.3% to 0.91p per ordinary share, from 0.81p in 2004. It will be paid on 19 October 2005 to shareholders on the register at close of business on 9 September 2005.

International Financial Reporting Standards ("IFRS")

This half year is the first period Serco has reported under IFRS. The main areas of impact are covered in the Finance Review. Further detail can be found in our separate announcement released today, which is also available from our website www.serco.com.

Market development – a global vision

Our global outlook – based on our conviction that a balanced and international portfolio will, over time, become essential for sustaining long-term growth – distinguishes us from our competitors. Our ability to transfer our business model and management system across national borders, as well as industry sectors, means that we are able to capitalise on international opportunities as they emerge.

These opportunities are created by two principal factors: the necessity for central and local governments to control their spending; and their need to respond to social pressures for improved public services.

As more governments recognise the value of private sector partnership in the delivery of essential public services, we will continue to establish and grow our presence in the countries with the greatest potential. The climate in the UK, US and parts of Europe is working strongly in our favour. We also see longer term potential in selected countries in the Middle East and Asia Pacific.

In the UK, the Labour government's election manifesto endorsed the private sector's role in delivering public services. Post-election, issues such as transforming homeland security, offender management, transport systems, health and education, are high on the political agenda and offer substantial opportunities for Serco.

The home affairs market - homeland security, law enforcement, offender management and immigration control – is driven by the change in government focus from implementing initiatives to the delivery of outcomes – reducing crime and the fear of crime. At the same time, homeland and border security are critical issues. We are bidding on a number of identified programmes and see others emerging as the market evolves.

New opportunities are also arising in science, with the formation of the Nuclear Decommissioning Agency, a market worth around £2bn per year, with 13 of the 20 nuclear sites being completed by 2008. We have established positions in health and education, which are among the largest and fastest growing areas of government spending. The UK Government will spend some £89bn on health in 2005/6, up 9% on the previous year and education expenditure, at £70bn, will be up 8% resulting in many opportunities within our addressable markets. Other areas of government, in contrast, are seeing budget pressure and in response are changing the way they work. This plays to our strengths. In UK defence, for example, we expect our addressable market to double to £8bn by 2010, as the MoD focuses resources and seeks cost savings.

With the political framework in place where efficiency, choice, competition and diversity are all important factors, we are confident that the drive to improve the UK's public services will continue.

A similar pattern is emerging in North America, the largest services market in the world. The market is estimated at \$2,000bn, of which around one third is at the Federal level and the remainder with state and local governments. The US defence budget is nearly \$400bn and rising, while homeland security spending will be in excess of \$30bn this year. Some market segments, such as transportation, are looking at private sector service provision for the first time and we are bidding in the traffic management arena. More established markets are moving to more sophisticated, performance-based contracting, as the emphasis shifts from lowest cost to best value, a trend which plays to Serco's strengths.

In the US, the Bush Administration is pressing forward with Agency scorecards designed to ensure the use of competitive sourcing for the provision of public service across the US Federal government. The global war on terrorism is also accelerating the shift towards private sector involvement, resulting in long-lasting changes that are moving uniformed military personnel from administrative support functions into more direct roles. By leveraging our worldwide defence expertise, we expect to make a long-term contribution in helping to support the US's homeland defence capability. Other important factors expanding our markets include the US Federal deficit and an ageing civilian workforce. Given the strength of these drivers, we anticipate a strong flow of opportunities.

In March 2005, we established Serco Europe as a standalone division to harness emerging opportunities in two potentially profitable areas: the European scientific agency network and the German public sector.

In Germany, economic conditions are accelerating the trend towards public private partnerships. There is a widening gap between the supply of public funds and demand for investment in the country's essential infrastructure. These pressures are felt at federal, state and local government levels, resulting in a broad range of opportunities emerging for Serco. Our primary focus is in the defence and justice markets, with transport also likely to provide exciting opportunities. Although a general election is scheduled for September, the economic pressures are unlikely to change. As a result, we are confident that the shift towards a growing role for the private sector in Germany will continue.

A further milestone this year was the opening of our new office in Shanghai in May. From there, we are exploring how we can assist the regional government to meet its ambitious public service objectives. As China's growth continues, we are confident that Serco can have a role in unlocking the country's massive potential.

People

As a service organisation, we know that our people will always be the key factor in providing customers with great value and making Serco a great place to work. And our people have demonstrated a strong public service ethos in a number of major events so far this year.

This was so clearly demonstrated during the London bombings, which tragically claimed the life of one of our colleagues. Our hearts go out to his wife and family.

And our thanks go out to all those remarkable Serco people who were directly involved in supporting the emergency services in the series of major incidents that took place in London.

Teams working on the Docklands Light Railway, the London Heliport and the Helicopter Emergency Medical Service played a vital part in the city's calm, prompt and courageous response to these attacks.

Serco people were also involved in managing demonstrations surrounding the G8 Conference in Scotland, and, in more positive circumstances, in the ceremonial review of the Royal Navy commemorating the 200th anniversary of the Battle of Trafalgar.

This year, we introduced a new brand positioning statement for Serco - 'bringing service to life'. This statement links our vision to our daily work. Our people make this statement a reality, every day. I would like to thank each one of them for their commitment, energy and professionalism.

To ensure we have the capability to maintain our growth, we have reinforced the breadth and depth of our management. As well as expanding our executive team, we continue to invest in identifying and developing leadership talent at every level of our business.

Earlier this year, another 12 of our leaders were awarded the Institute of Directors prestigious Certificate in Company Direction, while two other leaders attained the high ranking Diploma. At present, 77 Serco leaders have received the certificate and another 30 hold the diploma – a record that demonstrates our commitment to nurturing strong and capable leaders.

We are committed to developing excellence at every level of our business. Serco's 'Skills for You' programme, for example, offers our employees essential skills training alongside work-based learning. In July 2005, the programme won the Rentokil Initial Skills For Life Award at the annual Business in the Community awards in London.

It is inspiring to see that 'Skills for You' is helping to enrich life beyond work, as more participants take their positive learning experiences back to their homes and communities.

Corporate responsibility

A highly developed sense of corporate responsibility characterises everything that Serco does. We strive to foster a productive dialogue with stakeholders and communities wherever we operate. With an uncompromising emphasis on safety, we seek to have a positive impact on the public and the environment.

Our employees' wholehearted response to last December's tsunami disaster exemplifies this philosophy in practice. With the challenge to match the £100,000 donated by Serco, employee fundraising initiatives exceeded £120,000 within six weeks of the disaster. Serco also provided support to enable 70 employees from businesses in the UK, Middle East, Europe and the Ascension Islands to travel to Sri Lanka with the charity Habitat for Humanity to help rebuild homes for local people. Another 15 employees from other worldwide Serco locations will be undertaking the same project in November.

Meanwhile, and equally importantly, we continue to demonstrate our commitment to safety and the environment, and, as in the past, have received a number of awards recognising our achievements.

Outlook

Serco's culture is infused with the spirit of public service, an ethos that is vital to our growth. By delivering the social outcomes desired by our customers, we encourage them to build long-term relationships with us, and to increase the scale and scope of the work we do for them. Our ethos is helping to expand our addressable markets, as governments consider how to extend the role of the private sector in public services.

Market conditions, including social, political and economic factors, remain strongly in our favour. We see numerous opportunities to grow in the UK and internationally.

In recent years we have put in place the building blocks that will allow us to achieve our vision: to be the leading service company in our chosen markets. We have developed Serco's leadership, ensuring we have the capability to drive the Group forward. We have focused on operational efficiency, withdrawing from areas that do not meet our growth and return criteria, and streamlining our structure. Our two recent acquisitions have given us critical mass in North America and a fuller suite of products. We will continue to drive synergies from the acquisitions, with the aim of turning promising leads into new business wins and reducing the debt associated with the transactions.

Our actions to develop leadership, streamline our structure and improve efficiency will contribute to growth and enhance our profitability, resulting in increasing margins over time.

With the breadth of opportunities available to the Group, we look forward to further strong performance in the second half and are confident of achieving double digit growth for the foreseeable future.

Finance Review

1. Introduction

The Group presents its consolidated results for the first time under International Financial Reporting Standards ("IFRS").

Further explanation of the impact of the transition from previous UK Generally Accepted Accounting Principles ("UK GAAP") to IFRS is covered in a separate announcement 'Transition to International Financial Reporting Standards ("IFRS")', which has been released today. All comparatives throughout the Finance Review and the interim financial statements included on pages 21 to 32 have been restated under IFRS.

2. Financial performance

The performance in the first six months of the year shows continued strong organic growth, together with the contribution from the acquisitions of ITNET plc ("ITNET") and RCI Holding Corp ("RCI"), which were completed in the period.

Analysis of the Group's financial performance in the six months to June 2005, including our joint ventures on a proportionate consolidation basis, is shown in Figure 1.

Figure 1: Income statement

<i>Six months to 30 June</i>	2005 £m	2004 £m	Increase
Revenue	1,074.9	804.5	33.6%
Gross profit	153.5	116.6	31.6%
Administrative expenses	(101.6)	(80.0)	27.0%
Investment income and finance costs	(8.2)	(2.2)	
Profit before intangible amortisation and tax	43.7	34.4	27.0%
Intangible amortisation	(6.4)	(3.7)	
Profit before tax	37.3	30.7	21.5%
Tax	(11.4)	(9.7)	
Profit for the period	25.9	21.0	
Minority interest	(0.5)	(0.2)	
Retained earnings	25.4	20.8	
Effective tax rate	30.5%	31.6%	
Earnings per share before intangible amortisation	6.78p	5.53p	22.6%
Earnings per share after intangible amortisation	5.61p	4.84p	15.9%
Dividend per share	0.91p	0.81p	12.3%

2.1 Revenue

Total revenue in the six months to 30 June 2005 increased by 33.6% to £1,074.9m. Excluding the impact of acquisitions in the period (see 7 Acquisitions) and disposals in the previous period, revenue increased by 20.8%.

Joint venture revenue increased by 111.4% to £254.5m reflecting the full period impact of the Northern Rail franchise which became operational in December 2004 and the continued strong performances of our Merseyrail and AWE joint ventures.

Gross margin on total revenue, representing the average contract margin across the portfolio, is 14.3%.

2.2 Investment income and finance costs

Investment income and finance costs of £8.2m (2004 - £2.2m) have increased principally due to the interest on debt funding for the acquisitions. Also included in investment income and finance costs is the net impact of interest relating to the assets and liabilities of the defined benefit pension schemes (see 6 Pensions).

2.3 Intangible amortisation

Intangible amortisation of £6.4m (2004 - £3.7m) primarily arises from separately identifiable intangible assets acquired as part of the acquisition of ITNET and RCI (see 7 Acquisitions), and the rights to manage and operate contracts and franchises (see 6 Pensions).

2.4 Profit before intangible amortisation and tax

Profit before intangible amortisation and tax increased 27% to £43.7m (2004 - £34.4m), representing a net margin of 4.1% (2004 - 4.3%). Profit before intangible amortisation and the impact of acquisitions and their funding increased by 14.5%.

2.5 Profit before tax

Profit before tax increased by 21.5% to £37.3m.

2.6 Tax

The tax charge of £11.4m (2004 - £9.7m) represents an effective rate of 30.5% (2004 - 31.6%). The decrease is primarily due to changes in the geographical mix of profits.

2.7 Earnings per share ("EPS")

EPS before intangible amortisation increased by 22.6% to 6.78p. EPS after intangible amortisation increased by 15.9% to 5.61p. EPS is calculated on an average share base of 452.7m, which increased during the period primarily due to the issue of 30.4m shares in settlement of the share-for-share element of the acquisition of ITNET.

EPS before intangible amortisation and the effect of acquisitions increased by 16.9% to 6.46p, and on a post amortisation basis increased by 11.9% to 5.42p.

3. Dividends

The proposed interim dividend of 0.91p per share is a 12.3% increase on 2004.

4. Cash flow

Cash flow is analysed consistently with previous periods to show the true operating cash flow of the Group and its use, excluding the proportionate consolidation of joint ventures. Free cash flow is defined as cash generated by the operation of the business, including joint venture dividends. Cash movements on non recourse balances, financing, acquisitions and disposals are accounted for in reconciling Group free cash flow to the movement in Group cash. The adjustment line shown in Figure 2 reconciles this to the cash flow included on page 24, taking account of joint venture cash balances.

Further analysis of the cash flow for the period is shown in Figure 2.

Figure 2: Cash flow

<i>Six months to 30 June</i>	2005 £m	2004 £m
Group profit from operations	29.4	21.7
Non cash items	22.9	16.6
Group EBITDA	52.3	38.3
Working capital movement	(15.5)	(16.0)
Group operating cash flow	36.8	22.3
Interest	(7.7)	(1.0)
Taxation	(3.2)	4.0
Expenditure on tangible and intangible assets	(12.1)	(8.0)
Dividends from joint ventures	7.7	6.2
Other items	(2.1)	-
Group free cash flow	19.4	23.5
(Acquisitions)/disposals	(282.5)	3.6
Other financing	254.4	(10.0)
Dividends paid	(8.3)	(7.0)
Non recourse debt financed assets	(9.2)	(12.7)
Group net decrease in cash and cash equivalents	(26.2)	(2.6)
Adjustment to include joint venture cash impacts	29.3	2.1
Net increase/(decrease) in cash and cash equivalents	3.1	(0.5)

Note: Group EBITDA is earnings from subsidiaries before interest, tax, depreciation and intangible amortisation. Group free cash flow is from subsidiaries.

4.1 Group operating cash flow

There was a net Group operating cash inflow for the period of £36.8m (2004 - £22.3m), an increase of 65.0%. This represents a conversion of 70.4% (2004 – 58.2%) of Group EBITDA into cash. The working capital movement reflects the strong level of organic growth shown by the Group in the period and continues to reflect the trend of increasing by approximately one months' incremental revenue.

4.2 Interest

Net cash interest paid is £7.7m (2004 - £1.0m). The increase reflects the draw down of funds to finance the acquisitions of ITNET and RCI.

4.3 Taxation

Tax paid in the period was £3.2m. The same period last year benefited from a net tax refund of £4.0m arising from the ability to relieve tax losses of subsidiaries which were previously joint ventures.

4.4 Expenditure on tangible and intangible assets

Expenditure on tangible and intangible assets of £12.1m (2004 - £8.0m) represents around 1.5% of Group revenue, a level broadly similar to that of previous periods.

4.5 Dividends from joint ventures

Dividends received from joint ventures during the first half of 2005 of £7.7m (2004 - £6.2m) represents 61% (2004 – 71%) of profit after tax and management charges of joint ventures. This anticipated reduction in conversion on the same period last year is primarily due to a low dividend from Northern Rail as the cash generated has been used to repay shareholder loans. We anticipate a further dividend in the second half of the year.

4.6 Acquisitions in the period

The cash out flow in the period of £282.5m primarily relates to the acquisitions of ITNET and RCI (see 7 Acquisitions).

4.7 Other financing

Other financing of £254.4m primarily relates to the draw down of loans to fund the acquisition of ITNET and RCI (see 9 Treasury).

4.8 Group non recourse debt financed assets

The £9.2m outflow relates to the net movement on expenditure on PFI assets under construction, non recourse loans and other PFI balance movements. Further analysis is provided in Figure 3.

Figure 3: Group non recourse debt financed assets

As at	30 June 2005 £m	30 June 2004 £m
<i>Change in PFI balances</i>		
PFI debtor	4.3	6.0
Assets in the course of construction	(3.0)	(9.1)
Non recourse debt	(7.9)	(7.6)
	(6.6)	(10.7)
<i>Change in other balances</i>		
Non recourse debt: Ontario Driver Examination Services	(2.6)	(2.0)
Group non recourse debt financed assets	(9.2)	(12.7)

The movements on the PFI balances are the result of timing differences between loan repayment/draw-down and asset spend/recovery. Over the lifetime of each PFI contract, we expect these movements to offset each other.

5. Net debt

At the end of June 2005 Group net recourse debt was £315.2m (31 December 2004 - £15.3m). Further analysis is provided in Figure 4.

Figure 4: Net debt

As at	30 June 2005 £m	31 December 2004 £m
Group - cash and cash equivalents	148.4	173.9
Group - other loans	(440.0)	(168.4)
Group - obligations under finance leases	(23.6)	(20.8)
Group recourse net debt	(315.2)	(15.3)
Joint venture recourse net cash/(debt)	22.3	(4.6)
Total recourse net debt	(292.9)	(19.9)
Group non recourse debt	(248.5)	(256.5)
Joint venture non recourse debt	(45.1)	(47.1)
Total non recourse debt	(293.6)	(303.6)
Total net debt	(586.5)	(323.5)

Within Group net recourse debt the increase in other loans reflects the draw down required to fund the acquisition of ITNET and RCI. These loans contain covenants consistent with our private placements and allow sufficient headroom to fund known commitments and working capital movements.

Non recourse debt (see 8 PFIs) represents long term loans funding the construction or ownership of a specific asset 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 agreements and other covenants calculations, therefore having no impact on the Group's ability to borrow. Group non recourse debt, utilised to fund PFI assets and the acquisition of the DES franchise, reduced during the period to £248.5m (31 December 2004 - £256.5m) due to scheduled repayments of debt across all non recourse debt funded asset projects.

6. Pensions

To provide assistance in understanding the complex impact of accounting for pension schemes under IFRS an overview is provided below, with further detail explained in our separate announcement, the 'Transition to International Financial Reporting Standards ("IFRS")'. Total pension cost included within profit before tax and amortisation for the period is £20.9m (2004 - £16.8m). The net amount included in the balance sheet arising from the Group's obligations in respect of defined benefit pension schemes is £157.8m (31 December 2004 - £124.8m). Further analysis is provided in Figure 5.

Figure 5: Defined benefit pension schemes

<i>As at</i>	30 June 2005 £m	31 December 2004 £m
Group scheme	(145.8)	(122.3)
Other schemes	(72.9)	(54.4)
Joint venture schemes	(72.8)	(66.2)
Retirement benefit liabilities	(291.5)	(242.9)
Intangible asset arising from rights to operate franchises and contracts	20.0	21.1
Reimbursable rights debtor	61.7	56.0
Deferred tax asset	52.0	41.0
Net balance sheet position	(157.8)	(124.8)

Across our business we have three main types of pension schemes which are accounted for as defined benefit pension schemes under IFRS, each with their own accounting treatment in accordance with IAS 19 'Employee Benefits'.

- Non-contract specific schemes, where the actuarial gain or loss for the period is charged to the consolidated statement of recognised income and expense (the 'Sorlie') but no asset is created
- Schemes relating to franchises and specific contracts, where the actuarial gain or loss for the period is charged to the Sorlie, but a recoverable intangible asset is recognised on the balance sheet and amortised to the income statement and
- A contract where there is a right of cost reimbursement, where the deficit is included in both assets and liabilities on the balance sheet

The increase in net liabilities as at 30 June 2005 principally relates to the reduction in the AA bond rate in the period, increasing the liabilities on all defined benefit pensions. These increases, together with the related deferred tax movement, have been reflected in the Sorlie in the period.

7. Acquisitions

The acquisition of ITNET was completed on 3 February 2005 for consideration of £245.5m, comprising £171.3m of cash and the issue of shares worth £74.2m. The share-for-share option was fully subscribed, requiring the issue of 30.4m shares. The acquisition gave rise to goodwill of £262.3m, including fair value adjustments and acquisition costs of £26.4m. Intangible assets arising on the acquisition have initially been recognised at £20m and will be amortised on a straight-line basis over their expected life of eight years. From the date of ownership ITNET contributed £83.9m to revenue and £6.1m to profit before tax and amortisation.

The acquisition of RCI was completed on 21 March 2005 for consideration of £116.3m. The acquisition gave rise to goodwill of £93.0m, including fair value adjustments and acquisition costs of £6.3m. Intangible assets arising on the acquisition have initially been recognised at £2.2m and will be amortised on a straight-line basis over their expected life of five years. From the date of ownership RCI contributed £50.5m to revenue and £3.2m to profit before tax and amortisation.

8. PFIs

8.1 PFI portfolio

The current portfolio of PFIs consists of 11 PFI projects, with 10 equity investments and 11 operating contracts. Seven of the PFI stakes are 100% owned. JSCSC, a 50% joint venture, is now included in our primary statements under proportionate consolidation. During October 2004, we ceased accounting for Laser (the National Physical Laboratory PFI SPC) as a subsidiary due to the transfer of control of the PFI asset to the DTI. This has removed the non recourse debt and corresponding PFI debtor from the balance sheet.

8.2 Accounting for PFI contracts

In March 2005, the International Financial Reporting Interpretations Committee ('IFRIC') issued a draft interpretation on accounting for service concession arrangements (PFI/PPP). The IFRIC is currently considering the comments received on this draft guidance, with the final guidance expected to be issued over coming months. Until the final guidance is issued and endorsed by the EU and in the absence of specific guidance within IFRS, the Group has, from 1 January 2005, recognised the PFI debtors relating to concession arrangements held by PFI companies at amortised costs as defined by IAS 39. The effect of adopting this policy is to maintain an accounting treatment consistent with UK GAAP whilst ensuring that the accounting treatment remains consistent with existing IFRS.

The draft guidance from IFRIC, if it were issued in final form, would potentially require a number of changes to the accounting treatment of service concession arrangements. One of the more

significant aspects would be the requirement to recognise the assets associated with concession arrangements at fair value. This requirement could potentially produce a significant increase in the carrying value of the Group's PFI debtors held within PFI companies.

9. Treasury

9.1 Credit facilities and liquidity management

The £420m bank credit facility raised during December 2004 to provide funding for the acquisitions together with the two existing private placements provide liquidity for the Group. The first private placement for £43.2m was taken out in 1997 and matures in 2007. The second for £117m was taken out in 2003 and amortises from 2011 to 2015.

The Group borrowed £282.3m under the bank credit facility to fund the acquisitions of ITNET and RCI and to cover the costs of acquisition. The loan attracts interest at a rate of 50bp over LIBOR, is unsecured, with covenants and obligations typical of these types of arrangement and expires in December 2009.

9.2 Impact of IAS 39

The Group adopted IAS 39 'Financial Instruments : Recognition and Measurement' from 1 January 2005 with a £26.9m reduction in opening net assets. This principally represents a fair value loss from marking to market the interest rate swaps used by the Group to hedge the interest obligations of PFI special purpose companies into fixed rate obligations, and the cross-currency swaps used to hedge long term loan notes. The Group has obtained hedge accounting for all designated hedges and, as a result, the impact on the income statement for the period was immaterial. Fair value gains of £0.7m have been recognised in the Sorie during the period. The effect of IAS 39 adoption is further explained in our separate announcement, the 'Transition to International Financial Reporting Standards ("IFRS")'.

10. IFRS review

A dedicated report 'Transition to International Financial Reporting Standards ("IFRS")' has been issued separately to provide a more detailed understanding of the transition to IFRS. The report incorporates:

- the impact of IAS 1 'Presentation of Financial Statements' on the financial statements
- the accounting policies adopted and the optional elections made under IFRS 1 'First- time Adoption of International Financial Reporting Standards'
- the financial impact on the consolidated balance sheet as at 1 January 2004, being the date of transition of IFRS
- the financial impact on the consolidated balance sheet as at 30 June 2004 and 31 December 2004, being the comparatives presented in this report
- the financial impact on the income statement for the six months ended 30 June 2004 and the year ended 31 December 2004, being the comparatives presented in this report
- the financial impact on the consolidated balance sheet as at 1 January 2005 as a result of adopting IAS 32 and IAS 39, both relating to 'Financial Instruments', being the opening balance sheet position for the six months ended 30 June 2005
- explanations for key movements included above.

INDEPENDENT REVIEW REPORT TO SERCO GROUP PLC

Introduction

We have been instructed by the company to review the financial information for the six months ended 30 June 2005 which comprises the consolidated income statement, the consolidated statement of recognised income and expense, the consolidated balance sheet, the consolidated cash flow statement and related notes 1 to 8. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

This report is made solely to the company in accordance with Bulletin 1999/4 issued by the Auditing Practices Board. Our work has been undertaken so that we might state to the company those matters we are required to state to them in an independent review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company, for our review work, for this report, or for the conclusions we have formed.

Directors' responsibilities

The interim report, including the financial information contained therein, is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the interim report in accordance with the Listing Rules of the Financial Services Authority which require that the accounting policies and presentation applied to the interim figures are consistent with those applied in preparing the preceding annual accounts except where any changes, and the reasons for them, are disclosed.

International Financial Reporting Standards

As disclosed in Note 1, the next annual financial statements of the Group will be prepared in accordance with IFRS as adopted for use in the EU. Accordingly, the interim report has been prepared in accordance with the recognition and measurement criteria of IFRS and the disclosure requirements of the Listing Rules. The accounting policies are consistent with those that the Directors intend to use in the annual financial statements. There is, however, a possibility that the Directors may determine that some changes to these policies are necessary when preparing the full annual financial statements for the first time in accordance with IFRS as adopted for use in the EU.

Review work performed

We conducted our review in accordance with the guidance contained in Bulletin 1999/4 issued by the Auditing Practices Board for use in the United Kingdom. A review consists principally of making enquiries of group management and applying analytical procedures to the financial information and underlying financial data and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit performed in accordance with International Standards on Auditing (UK and Ireland) and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the financial information.

Review conclusion

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 30 June 2005.

Deloitte & Touche LLP

Chartered Accountants

31 August 2005

Interim Financial Statements

The interim financial statements have been prepared for the first time in accordance with the recognition and measurement criteria of International Financial Reporting Standards (IFRS), which have been adopted from 1 January 2004 with comparative figures restated accordingly. As permitted by IFRS 1 'First-time Adoption of IFRS', the Group has adopted IAS 32 and IAS 39 'Financial Instruments' prospectively from 1 January 2005, and comparative figures have not been restated.

Consolidated income statement for the six months ended 30 June 2005

	6 months to 30 June 2005	6 months to 30 June 2004	Year to 31 December 2004
	£m	£m	£m
Note	(unaudited)	(unaudited)	(audited)
Continuing operations			
Revenue	1,074.9	804.5	1,636.9
Cost of sales	(921.4)	(687.9)	(1,394.3)
Gross profit	153.5	116.6	242.6
Administrative expenses	(101.6)	(80.0)	(166.2)
Other operating expenses	(6.4)	(3.7)	(7.2)
Profit from operations	45.5	32.9	69.2
Investment income	2	16.2	18.6
Finance costs	2	(24.4)	(40.5)
Profit before taxation	37.3	30.7	64.0
Taxation	(11.4)	(9.7)	(19.5)
Profit for the financial period	25.9	21.0	44.5
Attributable to:			
Equity holders of the parent	25.4	20.8	43.5
Minority interest	0.5	0.2	1.0
Earnings per ordinary share (EPS)			
Basic EPS	3	5.61	4.84
Diluted EPS	3	5.51	4.78

Consolidated statement of recognised income and expense
for the six months ended 30 June 2005

		6 months to 30 June 2005 £m	6 months to 30 June 2004 £m	Year to 31 December 2004 £m
	Note	(unaudited)	(unaudited)	(audited)
Net actuarial (loss)/gain on defined benefit pension schemes	7	(33.9)	21.2	(29.4)
Fair value gain/(loss) on reimbursable rights	7	4.0	(10.7)	13.0
Goodwill previously written off, released on sale of subsidiary		-	-	0.2
Expense in relation to share-based payment	7	2.7	1.8	4.5
Net exchange gain/(loss) on translation of foreign operations	7	2.8	(7.3)	(3.3)
Fair value loss on cash flow hedges on transition to IAS 39 on 1 January 2005	7	(37.9)	-	-
Fair value gain on cash flow hedges during the financial period	7	0.7	-	-
Tax credit/(charge) on items taken directly to equity		20.3	(3.6)	5.6
Net (expense)/income recognised directly in equity		(41.3)	1.4	(9.4)
Profit for the financial period		25.9	21.0	44.5
Total recognised (expense)/income for the financial period		(15.4)	22.4	35.1
Attributable to:				
Equity holders of the parent		(15.9)	22.2	34.1
Minority interest		0.5	0.2	1.0

Consolidated balance sheet
as at 30 June 2005

		As at 30 June 2005 £m	As at 30 June 2004 £m	As at 31 December 2004 £m
	Note	(unaudited)	(unaudited)	(audited)
Non current assets				
Goodwill		539.3	166.8	177.4
Other intangible assets		95.2	70.9	75.0
Property, plant and equipment		104.1	86.9	96.2
Investments		-	-	13.7
Trade and other receivables		388.5	439.1	390.6
Deferred tax assets		93.8	38.7	50.1
		1,220.9	802.4	803.0
Current assets				
Inventories		33.6	30.0	26.9
Trade and other receivables		481.4	374.8	390.1
Cash and cash equivalents	6	204.1	184.1	200.5
		719.1	588.9	617.5
Total assets		1,940.0	1,391.3	1,420.5
Current liabilities				
Trade and other payables		(495.4)	(368.3)	(417.0)
Current tax liabilities		(12.9)	(10.8)	(5.8)
Obligations under finance leases	6	(8.3)	(7.5)	(8.1)
Loans		(50.1)	(16.9)	(46.4)
Financial instruments		(4.2)	-	-
		(570.9)	(403.5)	(477.3)
Non current liabilities				
Trade and other payables		(1.8)	(4.3)	(0.6)
Obligations under finance leases	6	(21.1)	(20.8)	(18.2)
Loans		(711.1)	(561.7)	(451.3)
Financial instruments		(32.1)	-	-
Retirement benefit obligations		(291.5)	(189.7)	(242.9)
Provisions		(26.4)	(6.0)	(6.0)
Deferred tax liabilities		(64.0)	(50.7)	(55.0)
		(1,148.0)	(833.2)	(774.0)
Total liabilities		(1,718.9)	(1,236.7)	(1,251.3)
Net assets		221.1	154.6	169.2
Equity				
Share capital	7	9.3	8.7	8.7
Share premium account	7	266.5	190.9	191.5
Capital redemption reserve	7	0.1	0.1	0.1
Retained earnings	7	118.7	85.4	104.4
Retirement benefit obligations reserve	7	(145.0)	(111.3)	(124.4)
Share-based payment reserve	7	8.9	3.5	6.2
Own shares reserve	7	(16.4)	(16.9)	(16.4)
Hedging and translation reserve	7	(23.2)	(6.6)	(2.6)
Equity attributable to equity holders of the parent		218.9	153.8	167.5
Minority interest		2.2	0.8	1.7
Total equity		221.1	154.6	169.2

Consolidated cash flow statement
for six months ended 30 June 2005

		6 months to 30 June 2005 £m	6 months to 30 June 2004 £m	Year to 31 December 2004 £m
	Note	(unaudited)	(unaudited)	(audited)
Net cash inflow from operating activities	5	67.5	29.0	87.6
Investing activities				
Interest paid		(23.1)	(19.5)	(39.4)
Interest received		15.4	18.6	35.0
Proceeds from reduction in investment in joint ventures		-	1.2	1.8
Disposal of subsidiary and business undertakings		-	3.6	3.2
Proceeds from disposal of property, plant and equipment		0.4	0.1	0.4
Purchase of property, plant and equipment		(11.3)	(8.3)	(21.9)
Increase in development expenditure		(2.4)	-	(4.1)
Acquisition of a franchise		-	-	(4.1)
Acquisition of subsidiaries		(280.9)	-	(13.7)
Net cash outflow from investing activities		(301.9)	(4.3)	(42.8)
Financing activities				
Dividends paid		(8.3)	(7.0)	(10.4)
Decrease in other loans		-	(4.7)	(0.8)
Increase in other loans		260.2	3.7	10.2
Capital element of finance lease repayments		(3.4)	(5.7)	(9.0)
Proceeds from issue of share capital		1.4	0.1	0.7
Decrease in non recourse loans		(12.4)	(11.6)	(19.2)
Net cash inflow/(outflow) from financing activities		237.5	(25.2)	(28.5)
Net increase/(decrease) in cash and cash equivalents		3.1	(0.5)	16.3
Cash and cash equivalents at start of period		200.5	184.6	184.6
Effect of foreign exchange rate gain/(loss)		0.5	-	(0.4)
Cash and cash equivalents at end of period		204.1	184.1	200.5

Notes to the accounts

1. General information

The basis of preparation and accounting policies are set out in the 'Transition to International Financial Reporting Standards (IFRS)', a separate announcement issued by the Group today.

The accounting policies used in the interim financial statements are consistent with those that the Directors intend to use in the annual financial statements, but some changes to these policies may be necessary as a result of the IFRIC's proposed interpretations on service concessions or those standards yet to be endorsed by the European Commission.

The interim financial statements are unaudited and do not constitute statutory accounts within the meaning of Section 240 of the Companies Act 1985. The statutory accounts for the year ended 31 December 2004, which were prepared under UK GAAP, have been delivered to the Registrar of Companies. The auditor's opinion on these accounts was unqualified and did not contain a statement made under Section 237(2) or Section 237(3) of the Companies Act 1985. The interim financial statements for both 2005 and 2004 are unaudited, but have been reviewed by the auditors and their report to the company is set out on page 19 and 20.

2. Investment income and finance costs

	6 months to 30 June 2005 £m (unaudited)	6 months to 30 June 2004 £m (unaudited)	Year to 31 December 2004 £m (audited)
Interest receivable by PFI companies	13.3	16.4	31.8
Interest receivable on other loans and deposits	2.9	2.2	3.5
Investment income	16.2	18.6	35.3
Interest payable on non recourse loans	(11.2)	(14.3)	(32.9)
Interest payable on other loans	(10.7)	(4.9)	(4.5)
Other – finance leases and net interest retirement benefit obligations	(2.5)	(1.6)	(3.1)
Finance costs	(24.4)	(20.8)	(40.5)

3. Earnings per share

Basic and diluted earnings per ordinary share have been calculated in accordance with IAS 33 'Earnings Per Share'. Earnings per share (EPS) is shown both before and after amortisation of intangible assets to assist in the understanding of the impact of IAS 38 'Intangible Assets' on the Group financial statements.

The calculation of the basic and diluted EPS is based on the following data:

Number of shares	6 months to 30 June 2005 millions		6 months to 30 June 2004 millions		Year to 31 December 2004 millions	
	Weighted average number of ordinary shares for the purpose of basic EPS	452.7		429.9		430.1
Effect of dilutive potential ordinary shares: share options	8.3		4.8		5.3	
Weighted average number of ordinary shares for the purpose of diluted EPS	461.0		434.7		435.4	

Earnings	6 months ended 30 June 2005		6 months ended 30 June 2004		Year ended 31 December 2004	
	Earnings	Per share amount	Earnings	Per share amount	Earnings	Per share amount
	£m (unaudited)	pence (unaudited)	£m (unaudited)	pence (unaudited)	£m (audited)	pence (audited)
Earnings for the purposes of basic EPS being net profit attributable to the equity holders of Serco Group plc	25.4	5.61	20.8	4.84	43.5	10.11
Add back : Amortisation of intangible assets, net of tax	5.3	1.17	3.0	0.69	5.8	1.35
Basic earnings before amortisation of intangible assets	30.7	6.78	23.8	5.53	49.3	11.46
Earnings for the purposes of diluted EPS	25.4	5.51	20.8	4.78	43.5	9.99
Diluted earnings before amortisation of intangible assets	30.7	6.65	23.8	5.47	49.3	11.32

4. Acquisitions

a) Acquisition of ITNET plc

On 3 February 2005 the Group acquired ITNET plc for consideration of £245.5 million comprising cash and the issue of shares. This transaction has been accounted for in accordance with IFRS 3 'Business Combinations'.

	Book value	Fair value adjustments	Fair value
	£m	£m	£m
Goodwill	12.8	(12.8)	-
Other intangible assets	-	20.0	20.0
Property, plant and equipment	10.0	(1.4)	8.6
Deferred tax assets	7.7	3.2	10.9
Inventories	6.3	(0.3)	6.0
Trade and other receivables	44.7	(5.2)	39.5
Overdraft	(1.0)	-	(1.0)
Trade and other payables	(42.5)	(4.8)	(47.3)
Current tax liabilities	(0.4)	(1.0)	(1.4)
Provisions	(3.9)	(18.8)	(22.7)
Loans	(3.0)	-	(3.0)
Retirement benefit obligations	(15.3)	-	(15.3)
	(5.8)	-	(5.8)
Obligations under finance leases)	-	(5.8)
Net liabilities acquired	9.6	(21.1)	(11.5)
Goodwill			262.3
Total consideration			250.8
Satisfied by:			
Issue of Serco Group plc ordinary shares			74.2
Cash			171.3
Purchase consideration			245.5
Directly attributable costs			5.3
Total consideration			250.8
Net cash outflow arising on acquisition:			
Cash consideration paid in 2004			13.7
Cash consideration paid in 2005			162.8
			176.5

b) Acquisition of RCI Holding Corp (RCI)

On 21 March 2005, the Group acquired all of the issued share capital of RCI for cash consideration of £116.3 million. This transaction has been accounted for in accordance with IFRS 3 'Business Combinations'.

	Book value	Fair value adjustments	Fair value
	£m	£m	£m
Goodwill	4.3	(4.3)	-
Other intangible assets	0.1	2.1	2.2
Property, plant and equipment	1.9	-	1.9
Deferred tax assets	1.0	0.1	1.1
Inventories	0.6	-	0.6
Trade and other receivables	35.4	-	35.4
Trade and other payables	(13.7)	(2.3)	(16.0)
Net assets acquired	29.6	(4.4)	25.2
Goodwill			93.0
Total consideration			118.2
Satisfied by:			
Cash			116.3
Directly attributable costs			1.9
Total consideration			118.2
Net cash outflow arising on acquisition			118.2

5. Reconciliation of profit from operations to net cash from operating activities

	6 months to 30 June 2005	6 months to 30 June 2004	Year to 31 December 2004
	£m (unaudited)	£m (unaudited)	£m (audited)
Profit from operations	45.5	32.9	69.2
Adjustments for:			
Share-based payments	2.7	1.8	4.5
Depreciation of property, plant and equipment	15.2	11.5	22.2
Amortisation of intangible assets	6.4	3.7	7.2
Loss on disposal of property, plant and equipment	0.4	-	0.8
Loss on sale of subsidiary undertakings	-	0.4	0.1
Operating cash inflows before movements in working capital	70.2	50.3	104.0
Decrease/ (increase) in inventories	0.2	(1.4)	2.3
(Increase)/decrease in receivables	(19.5)	2.3	(34.4)
Increase/(decrease) in payables	20.0	(19.4)	31.7
Decrease in provisions	(0.8)	-	-
Cash generated by operations before PFI asset expenditure	70.1	31.8	103.6
Movement in PFI debtor	4.7	6.3	7.6
Expenditure on PFI assets in the course of construction	(3.0)	(9.2)	(16.3)
Cash generated by operations after PFI asset expenditure	71.8	28.9	94.9
Income taxes (paid)/received	(4.3)	0.1	(7.3)
Net cash inflow from operating activities	67.5	29.0	87.6

6. Analysis of total net debt

	As at 30 June 2005 £m (unaudited)	As at 30 June 2004 £m (unaudited)	As at 31 December 2004 £m (audited)
Cash and cash equivalents	204.1	184.1	200.5
Other loans – current liabilities	(23.5)	(13.2)	(20.0)
Other loans – non current liabilities	(444.1)	(170.4)	(174.1)
Obligations under finance leases – current liabilities	(8.3)	(7.5)	(8.1)
Obligations under finance leases – non current liabilities	(21.1)	(20.8)	(18.2)
Recourse net debt	(292.9)	(27.8)	(19.9)
Non recourse loans – current liabilities	(26.6)	(3.7)	(26.4)
Non recourse loans – non current liabilities	(267.0)	(391.3)	(277.2)
Non recourse net debt	(293.6)	(395.0)	(303.6)
Total net debt	(586.5)	(422.8)	(323.5)

7. Reserves

	Share capital £m	Share premium account £m	Capital redemption reserve £m	Retained earnings £m	Retirement benefit obligations reserve £m	Share-based payment reserve £m	Own shares reserve £m	Hedging and translation reserve £m	Total £m
As at 31 December 2004 (audited)	8.7	191.5	0.1	104.4	(124.4)	6.2	(16.4)	(2.6)	167.5
Shares issued	0.6	-	-	-	-	-	-	-	0.6
Premium on shares issued	-	75.0	-	-	-	-	-	-	75.0
Profit for the period attributable to equity holders of the parent	-	-	-	25.4	-	-	-	-	25.4
Dividends paid	-	-	-	(8.3)	-	-	-	-	(8.3)
Net actuarial loss on defined benefit pension schemes	-	-	-	-	(33.9)	-	-	-	(33.9)
Fair value gain on reimbursable rights	-	-	-	-	4.0	-	-	-	4.0
Expense in relation to share-based payment	-	-	-	-	-	2.7	-	-	2.7
Fair value loss on cash flow hedges on transition to IAS 39	-	-	-	(3.5)	-	-	-	(34.4)	(37.9)
Fair value gain on cash flow hedges during the period	-	-	-	-	-	-	-	0.7	0.7
Net exchange gain on translation of foreign operations	-	-	-	-	-	-	-	2.8	2.8
Tax credit on items taken directly to equity	-	-	-	0.7	9.3	-	-	10.3	20.3
As at 30 June 2005 (unaudited)	9.3	266.5	0.1	118.7	(145.0)	8.9	(16.4)	(23.2)	218.9

8. Joint ventures

The Group's interests in joint ventures are reported in the consolidated financial statements using the proportionate consolidation method. The effect of the Group's joint ventures on the consolidated income statement is as follows:

Income statement	6 months to 30 June 2005 £m (unaudited)	6 months to 30 June 2004 £m (unaudited)	Year to 31 December 2004 £m (audited)
Revenue	254.5	120.4	255.5
Profit from operations	16.1	11.2	25.7
Profit before taxation	16.3	11.2	25.2
Taxation	(3.6)	(2.6)	(6.3)
Profit for the financial period	12.7	8.6	18.9
Minority interest	(0.4)	(0.1)	(0.6)
Attributable to the parent	12.3	8.5	18.3

Included in the above income statement for the six months to 30 June 2005 is a charge of £4.4m to joint ventures from the Group for management services.