Bringing service to life

serco

Press Release

Outstanding year with firm foundations for revenue and margin increases going forward

Serco Group plc – 2005 Preliminary Results

1 March 2006

	2005	2004	
Revenue	£2,260.3m	£1,636.9m	up 38.1%
Profit before tax and amortisation	£91.5m	£71.2m	up 28.5%
Earnings per share before amortisation	14.09p	11.46p	up 22.9%
Profit before tax	£77.9m	£64.0m	up 21.7%
Earnings per share	11.66p	10.11p	up 15.3%
Dividend per share	2.97p	2.63p	up 12.9%

Further strong growth

- Organic revenue growth of 19.4% and organic PBTA growth of 13.1%
- In 2005, contract wins and extensions of £2.6bn secured and appointed preferred bidder on contracts valued at a further £2.4bn
- Continued win rates of over 90% of rebids and over 50% of new bids
- Acquisitions of ITNET and RCI added £333.9m to revenue and £23.6m to PBTA (£10.3m after funding costs)
- Group EBITDA to cash conversion of 90% contributing to Group free cash flow of £73.8m (2004: £55.8m)

Rapidly developing capabilities and markets

- ITNET and RCI have added new skills and capabilities and taken us into new and growing markets
- Leveraging Group-wide capabilities to win large and technical contracts – Cyclamen (£100m) and Small Business Service (£125m)
- Increasing range of drivers expanding our markets around the world

High visibility of future revenue

- Forward order book at a record £13.4bn at 31 December 2005
- 91% of planned revenue for 2006, 77% for 2007, 64% for 2008
- None of our ten largest contracts due for rebid before end of 2010
- Encouraging start to 2006 – appointed preferred bidder for £1.0bn Marine Services rebid

Continuing positive outlook

- Unprecedented range of market opportunities
- In excess of £21bn of opportunities identified across our markets
- Selective bidding, portfolio management and efficiency will contribute to increasing margins
- Confident of double-digit growth for the foreseeable future

Note: Organic growth excludes the impact of acquisitions and disposals, as included in the Finance Review.PBTA is profit before tax and intangible amortisation. Group EBITDA is earnings from subsidiaries before interest, tax, depreciation and intangible amortisation. Cash conversion is the ratio of Group operating cash flow to Group EBITDA. Group free cash flow is from subsidiaries and joint venture dividends and is reconciled in Section 4 of the Finance Review.

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Commenting on the results, Kevin Beeston, Executive Chairman of Serco, said:

“2005 was an outstanding year for Serco. Markets continue to grow, primarily driven by governments' needs to control spending and improve the quality of public services. Our public service ethos and commitment to partnership enable us to win more than 90% of rebids and 50% of new bids. This success is built on a firm foundation: consistent, high quality service to satisfied customers. Our balanced portfolio, spread across our chosen sectors and international markets, allows us to target the best opportunities. The forward order book stands at a record level and none of our ten highest revenue contracts are due for rebid before the end of 2010. We remain confident of continuing double-digit growth and increasing margins.”

- Ends -

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Richard Hollins, Head of Investor Relations

Graham Capper, Head of Media and Public Relations

Dominic Cheetham, Corporate Communications Director

www.serco.com

Presentation and Conference Call

A presentation for investors and analysts will be held at JP Morgan Cazenove, 20 Moorgate, London EC2R 6DA, at 9.30am.

A conference call for investors and analysts 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.

Outstanding year with firm foundations for revenue and margin increases going forward

2005 was an outstanding year for Serco. We grew revenue by 38.1% to £2,260m, with organic growth of 19.4%.

Profit before tax and intangible amortisation (PBTA) also increased strongly, by 28.5% to £91.5m, with organic PBTA growth of 13.1%. Earnings per share before intangible amortisation grew 22.9% to 14.09p. After intangible amortisation, profit before tax grew 21.7% to £77.9m and earnings per share increased by 15.3% to 11.66p.

The recommended final dividend of 2.06p per share gives a total for the year of 2.97p, an increase of 12.9%.

Our cash performance remains strong, with Group EBITDA to cash conversion of 90% (2004: 93%) contributing to a Group free cash flow of £73.8m for the year (2004: £55.8m).

We have continued to retain existing contracts and win new work. We maintained our win rate at more than 90% on rebids, demonstrating the quality of service we deliver to satisfied customers. With the Docklands Light Railway and Marine Services rebids at preferred bidder, none of our ten largest contracts by annual revenue are due for rebid before the end of 2010.

As in previous years, in 2005 we won more than 50% of new bids, showing the strength of our reputation, our ability to be selective in targeting new work and our innovative solutions. In total during 2005, contract wins and extensions were valued at £2.6bn and we were appointed preferred bidder for contracts totalling £2.4bn.

Our two largest acquisitions – ITNET (now Serco Solutions) and RCI (now part of Serco Inc) – had the anticipated positive impact, adding £333.9m to revenue and £23.6m (£10.3m after funding costs) to PBTA. The new skills and capabilities they have brought to the Group are already delivering benefits. For example, Serco Solutions was instrumental in winning the £125m Small Business Service contract from the UK Department of Trade and Industry.

We are leveraging the benefits of our increasing scale and achieving efficiencies by centralising the purchasing of materials and developing a shared services facility for our back office functions such as finance and administration. We have streamlined our management structure, removed unnecessary bureaucracy and begun the implementation of a SAP financial system. These initiatives – together with selective bidding and continued management of our business portfolio – will benefit our PBTA margins in 2006 and beyond.

Visibility of future revenue remains excellent. At 31 December 2005, our forward order book stood at a record £13.4bn and we had visibility of 91% of our planned revenue for 2006, 77% for 2007 and 64% for 2008.

At the same date we had contracts valued at £2.6bn at the preferred bidder stage and a further £2.7bn of bids where we were shortlisted to the final two or three bidders. None of our ten largest contracts by annual revenue are due for rebid before the end of the decade.

Our identified pipeline of further opportunities exceeds £21bn.

Balanced portfolio and service excellence deliver strong growth

We have seen excellent growth across the Group during the year, both in the UK and internationally.

The key developments in each of our markets are discussed below.

Civil Government

Revenue increased by 28% to £803.6m, representing 36% of Group revenue in 2005 and making it our largest segment, encompassing home affairs, health, regional and local government, education and consulting. Growth benefited from the inclusion of Serco Solutions from 3 February 2005.

In home affairs we secured our first major civil resilience contract win – a ten-year contract valued at around £100m to provide solutions that detect the illicit importation of radiological substances at UK borders. This programme, known as Cyclamen, is central to the UK Government's counter-terrorism strategy. In October we won a five-year contract valued at around £30m to provide electronic monitoring of offenders across Scotland. We now manage three of the six electronic monitoring contracts in the UK.

Among notable developments in health, our joint venture with Equion Ltd, 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 Pathway private finance initiative. In managed healthcare, we acquired a doctors 'out of hours' business in Cardiff and we have since won other contracts in Oxford and Cornwall. The acquisition has provided a platform from which we have won contracts to provide healthcare services to Feltham Young Offenders Institute & Remand Centre and HMP Cardiff, and to improve care for patients with long term-illnesses in the London Borough of Newham.

In local government, the expertise gained in our long-term strategic contracts with councils in Winchester, Canterbury and Woking led to us being appointed preferred bidder for a ten-year streetscene contract valued at around £45m with Restormel Borough Council, and to our securing an environmental services contract with Welwyn Hatfield Council.

We work in partnership with two local education authorities in the UK – Walsall and Bradford. In January 2005 the Office for Standards in Education (Ofsted) declared Bradford's services to be 'satisfactory', and Walsall's to be 'highly satisfactory', significant turnarounds for what were once two of the poorest performing authorities in the country. While there is still a considerable amount of work to be done, both Walsall and Bradford have continued to improve at rates faster than national trends in all indicators.

Since its formation in 2003, our consulting business has grown rapidly and now employs around 80 consultants. It aims to raise awareness of Serco and enhance our reputation by providing high-value advisory services. During 2005, we won new contracts with customers such as the Department of Health,

the Home Office, and the Environment Agency, as well as two global investment banks and one major UK retail bank.

Defence

Revenue grew strongly during the year, increasing by 52% to £565.6m, representing 25% of Group revenue. Growth in the year was both organic and through acquisition, with the RCI element of Serco Inc included from 21 March 2005.

Significant wins in the year included the 23-year Defence Academy Campus Integrator contract, valued at around £400m, to deliver a world-class academic centre of excellence for senior military and civilian personnel for the UK Ministry of Defence (MoD). Serco will manage the existing buildings, integrate the design and building of new premises and integrate IT systems. The contract builds upon the Joint Services Command and Staff College contract, which we also manage at the same site.

Serco was also appointed preferred bidder for a strategic partnership with the UK Defence Science and Technology Laboratories (Dstl). This contract, worth around £400m over 15 years, will see us manage the design and build of new facilities and provide IT and support services across the Dstl estate.

In August 2005, Serco Sodexho Defence Services – our joint venture with Sodexho Alliance – renewed and expanded its contract with the Australian Defence Force to provide garrison support services in the Sydney West South region of New South Wales. The contract is valued at around AUS$200m to Serco over a term of up to nine years.

In February 2006, we became preferred bidder for the MoD's Future Provision of Marine Services contract. This 15-year contract, valued at around £1bn, is to deliver marine support at major UK naval bases.

Transport

Revenue increased by 59% to £548.7m, representing 24% of Group revenue. Growth was driven primarily by the first full year of Northern Rail, our largest contract to date, which we run as a joint venture with NedRailways.

Since we began operating Northern Rail, passengers have benefited from significant enhancements to performance, with train punctuality improving in all but one of the reporting periods during the year. Punctuality is now at its highest level for four years.

Our Merseyrail service, also run as a joint venture with NedRailways, continues to prove itself to be one of the UK's best performing train operating companies. In the January 2006 National Passenger Survey, Merseyrail's overall satisfaction rating was 86%, 6% above the national average, with its punctuality consistently over 92%.

In urban transportation, the key development was our appointment as preferred bidder to continue operating the Docklands Light Railway (DLR). The new contract is valued at around £400m over a period of up to nine years. Serco has operated the DLR since 1997, winning National Rail Awards for six consecutive years including an award for Outstanding Achievement in the rail industry in September 2005. In the last seven years, Serco has consistently improved DLR's performance and it is currently achieving passenger satisfaction scores close to 95% and reliability scores of over 97%.

We operate the National Traffic Control Centre, which helps travellers in England plan and complete their journeys by providing real-time traffic information, including alternative routing advice, direct to the media and the public via a website and interactive phone service. Achieving full implementation has taken longer than envisaged and we are now finalising the implementation phase with our client, the Highways Agency.

Science

Revenue increased by 18% to £342.4m, representing 15% of Group revenue.

The key development in our science business was the expansion of work at the Atomic Weapons Establishment (AWE) sites at Aldermaston and Burghfield in the UK, which we operate as a joint venture with BNFL and Lockheed Martin.

In July 2005, the MoD announced plans for a necessary upgrade to skills and facilities at AWE, in order to provide continued reliability and safety assurance. As a result, the MoD signed an amendment which increased its funding for the project. The additional investment organically grows our business and is valued at around £350m to Serco over three years, further enhancing our position as a key player in the nuclear industry.

Our track record with the MoD means that we are in a good position to bid for new business. We secured a £13m contract to supply the MoD's Integrated Sensor Management System. This intelligent network is designed to detect nuclear, chemical or biological attacks. The technology behind it gives us transferable opportunities to other sectors.

We see potential for strong growth in the nuclear market, in particular following the formation of the Nuclear Decommissioning Authority in the UK. Our position here has been further strengthened by the transfer of around 60 staff, together with an associated income stream, from BNFL Magnox Electric to Serco. The staff are predominantly highly qualified experts in the nuclear field.

The European Space Agency (ESA) provided us with two successful rebids in 2005, for ESA's Earth observation programme – a contract worth €14m over three years – and for engineering support at ESA's technical centre in the Netherlands, worth around €20m over an expected five-year period.

Acquisitions delivering

The acquisitions of ITNET (now Serco Solutions) and RCI (now part of Serco Inc) are delivering the benefits we expected.

The additional skills, capabilities and customer relationships of ITNET and RCI are providing significant opportunities for the Group in new markets and enabling us to compete for larger and higher value contracts in markets where we are well established.

Since its February 2005 acquisition, Serco Solutions has contributed £190.6m to revenue and £14.3m to PBTA, at a margin of 7.5%.

Throughout the year, Serco Solutions secured important contract extensions and additional work with local government and commercial clients. We were delighted to win a place in a consortium shortlisted to bid for the UK Government's e-borders project, which, if successful, could be worth around £360m to us. As well as

being instrumental in our securing a contract worth up to £125m to provide web-based information services to the UK's small businesses on behalf of the government, Serco Solutions was chosen by IBM as a sub-contractor to implement Bradford Council's IT platforms and services. The ten-year programme is worth £158m to the consortium.

However one of the key opportunities in this area is the outsourcing of UK local and central government shared services. This has been slower than anticipated in coming to market. We have invested in enhanced capacity and capability to prepare for the expected rapid expansion in this market.

RCI expanded our position in the world's largest service contracting market, the US federal government. Since the acquisition was completed in March 2005, RCI has contributed £143.3m to Serco Inc's revenue and £9.3m to PBTA, at a margin of 6.5%.

The RCI business continues to grow strongly, receiving numerous new task orders and expanding or extending existing contracts. Among its key wins was the rebid for the US Army's Career and Alumni Program. Valued at around $16m per year, we have held this contract for 17 years – an exceptional achievement in US defence contracting. In November 2005, we were awarded a contract to provide 102 embedded recruiters for the US Army Recruiting Command (USAREC). The base contract is for one year, with two one-year options. Each contract year could be worth up to $5m.

There are significant opportunities for further growth, as the US Department of Defense continues to turn to the private sector for support, and as over time we extend our skills in other markets, such as transport, into North America.

Market development

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

Our balanced portfolio, spread across different sectors and geographic markets around the world, allows us to target our resources towards the best opportunities.

In the UK, the home affairs market is driven by the change in government focus from implementing initiatives to the delivery of outcomes – reducing crime and the fear of crime. We estimate that this market is worth £2.5bn per annum and growing fast.

We have created a new position in healthcare, which is among the largest and fastest growing areas of UK Government spending – some £89bn in 2005/6. The Government spends £70bn on education and we see opportunities in children's services and information and communications technology after the recent Education Bill. In science, the formation of the UK's Nuclear Decommissioning Authority has created a market worth around £2bn per annum. Most areas of the public sector are experiencing budget pressure and in response are changing the way they work. In UK defence, we expect our addressable market to double to £8bn per annum by 2010, as the MoD focuses resources, continues to civilianise and seeks cost savings.

A similar pattern is emerging in North America. The market is estimated at $2,000bn per annum, of which around one third is at the federal level and the remainder with state and local governments. The annual US defence budget is nearly $400bn and rising. Some market segments are looking at private sector service provision for the first time and more established markets such as municipal services and transportation are moving to more sophisticated, performance-based contracting, as the emphasis shifts from lowest cost to best value, a trend which plays to our strengths.

We also see exciting prospects in parts of Europe – notably Germany, where economic and political conditions are accelerating the trend towards public private partnerships – and the Middle East, in particular the United Arab Emirates. In Asia Pacific, the Australian defence and transport markets continue to offer good potential, while the opening of our Shanghai, China office in May 2005 positions us to explore opportunities as the regional government pursues its ambitious public service objectives.

Dedicated professionals

People are at the heart of our business. Throughout 2005, the dedication, expertise and professionalism of Serco colleagues around the world were critical to our performance. Notwithstanding their daily achievements in bringing service to life, their wholehearted response to the tsunami in south-east Asia, the London bombings, the hurricanes in the Gulf of Mexico and the Pakistan earthquake, epitomised the spirit that defines Serco.

Board

Since his appointment as a non-executive director in April 2000, Ralph Hodge has played a vital role in shaping the direction of our business. As he prepares to step down from the Board, we would like to place on record our gratitude for his contribution. We wish him a long and healthy retirement.

We are in the advanced stages of discussions in appointing a successor to Ralph.

Continuing positive outlook

Governments around the world are continuing to face significant pressures to provide better public services at lower cost and our market opportunities are unprecedented. In the UK, our growth is being fuelled by the development of a mixed economy, which incorporates the private sector in the delivery of public services, and our ability to deliver customers' desired outcomes, which enable us to develop long-term relationships which in turn drive our organic growth.

The Group has identified in excess of £21bn of opportunities across our markets. The breadth of these opportunities together with our approach to selective bidding, portfolio management and efficiency will contribute to increasing margins. We are confident of achieving double-digit growth for the foreseeable future.

Finance Review

1. Introduction

2005 is the first year the Group has reported its results under International Financial Reporting Standards (IFRS). Explanation of the impact of adopting IFRS was provided in the Group's announcement 'Transition to International Financial Reporting Standards', which was released on 31 August 2005. All comparatives throughout this report have been restated under IFRS. Effective from 1 January 2005, the Group adopted IAS 32 'Financial Instruments: Disclosure and Presentation' and IAS 39 'Financial Instruments: Recognition and Measurement'.

2. Financial performance

The Group continued to generate strong organic growth during 2005. We also benefited from the contributions of ITNET plc (ITNET) and RCI Holding Corp (RCI), which we acquired in February 2005 and March 2005 respectively.

The Group's income statement for 2005 is shown in Figure 1. This includes the results of our joint ventures, which have been proportionately consolidated.

Figure 1: Income statement

	2005 £m	2004 £m	Increase
Revenue	**2,260.3**	1,636.9	38.1%
Gross profit	**325.0**	242.6	34.0%
Administrative expenses before amortisation	**(214.3)**	(166.2)	28.9%
Investment revenue and finance costs	**(19.2)**	(5.2)	
Profit before tax and intangible amortisation	**91.5**	71.2	28.5%
Intangible amortisation	**(13.6)**	(7.2)	
Profit before tax	**77.9**	64.0	21.7%
Tax	**(23.5)**	(19.5)	
Profit for the year	**54.4**	44.5	22.2%
Minority interest	**(1.0)**	(1.0)	-
Retained earnings	**53.4**	43.5	22.8%
Effective tax rate	**30.2%**	30.5%	
Basic earnings per share before intangible amortisation	**14.09p**	11.46p	22.9%
Basic earnings per share	**11.66p**	10.11p	15.3 %
Dividend per share	**2.97p**	2.63p	12.9%

2.1 Revenue

Revenue increased by 38.1% to £2,260.3m. Excluding the effect of £337.2m of revenue from our acquisitions in 2005 and £26.0m of disposals in 2004, our organic revenue growth was 19.4%.

Joint venture revenue increased by 109.8% to £536.1m, primarily reflecting a full year of operation of the Northern Rail franchise, which began in December 2004, and continued growth at AWE.

2.2 Gross margin

Gross margin – the average contract margin across our portfolio – was 14.4% in 2005.

2.3 Investment revenue and finance costs

Investment revenue and finance costs totalled a net cost of £19.2m (2004: £5.2m). Included within finance costs was £13.4m of interest on the debt used to fund our acquisitions, the net interest on the assets and liabilities of our defined benefit pension schemes and interest on our underlying net debt, which has reduced compared with 2004.

2.4 Profit before tax and intangible amortisation (PBTA)

PBTA increased 28.5% to £91.5m (2004: £71.2m), representing a net margin of 4.0% (2004: 4.3%). Excluding the profits generated by the acquisitions and their associated funding costs, organic PBTA increased by 13.1%.

2.5 Intangible amortisation

Intangible amortisation was £13.6m (2004: £7.2m). The increase results principally from the amortisation of intangible assets acquired with ITNET and RCI, together with the additional amortisation of pension-related intangible assets arising from the rights to manage and operate certain of our contracts and franchises.

2.6 Profit before tax

Profit before tax increased by 21.7% to £77.9m (2004: £64.0m).

2.7 Tax

The tax charge of £23.5m (2004: £19.5m) represents an effective rate of 30.2%, broadly similar to 2004.

2.8 Earnings per share (EPS)

Basic EPS before intangible amortisation increased by 22.9% to 14.09p. Basic EPS increased by 15.3% to 11.66p.

EPS before intangible amortisation and the effect of acquisitions increased by 15.6% to 13.25p, and on a post-amortisation basis increased by 10.4% to 11.16p.

EPS is calculated on an average share base of 458.1m during the year (2004: 430.1m). The majority of the increase resulted from the issue of 30.4m shares in part consideration for the acquisition of ITNET.

3. Dividends

Our policy is to increase the total dividend per share each year broadly in line with the increase in underlying earnings. The proposed final dividend of 2.06p per share represents a 13.2% increase on 2004. The total dividend for the year is 2.97p, an increase of 12.9%. The dividend will be paid on 17 May 2006 to shareholders on the register at 10 March 2006.

4. Cash flow

Our cash performance in 2005 was strong, with a Group free cash inflow of £73.8m, an increase of £18.0m compared with 2004.

The Group's cash flow is analysed in Figure 2. The presentation is consistent with our analysis in previous years and is designed to show the true cash performance of the Group – the cash flows generated by

Serco's subsidiaries, plus dividends received from joint ventures. It therefore differs from the consolidated cash flow presented on page 22, in which the cash flows of joint ventures have been proportionately consolidated. The adjustment line in Figure 2 reconciles the movement in Group cash to the consolidated cash flow.

Figure 2: Cash flow

	2005 £m	2004 £m
Operating profit excluding joint ventures	**62.4**	43.5
Non cash items	**45.2**	32.1
Group EBITDA	**107.6**	75.6
Working capital movement	**(11.2)**	(5.3)
Group operating cash flow	**96.4**	70.3
Interest	**(15.7)**	(3.8)
Tax	**(1.0)**	(1.5)
Expenditure on tangible and intangible assets	**(31.6)**	(23.4)
Dividends from joint ventures	**25.7**	14.2
Group free cash flow	**73.8**	55.8
Acquisitions	**(281.7)**	(9.1)
Other financing	**269.4**	(7.6)
Dividends paid	**(12.5)**	(10.4)
Group non recourse debt financed assets	**(15.6)**	(25.2)
Group net increase in cash and cash equivalents	**33.4**	3.5
Adjustment to include joint venture cash impacts	**4.1**	12.8
Net increase in cash and cash equivalents	**37.5**	16.3

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

4.1 Group operating cash flow

The Group operating cash inflow for the year was £96.4m (2004: £70.3m), an increase of 37.1%. This represents a conversion of Group EBITDA into cash of 90% (2004: 93%). The Group's cash conversion is particularly notable given the level of organic growth, which typically results in a working capital outflow equivalent to one month's incremental revenue.

4.2 Tax

Tax paid in 2005 was £1.0m, compared with £1.5m in the previous year. The level of tax paid in 2005 reflects a number of factors, including our continued progress in closing previous years' tax returns, with a refund of £8m in the year, as well as residual accelerated capital allowances and other timing differences. Tax paid in 2004 benefited from a repayment of nearly £7m, as we were able to utilise tax losses in subsidiaries which were previously joint ventures. From 2006, we expect our tax paid to be close to the tax charge in our income statement.

4.3 Expenditure on tangible and intangible assets

Expenditure on tangible and intangible assets was £31.6m (2004: £23.4m). This represents around 1.8% of revenue excluding joint ventures. Included within this is £7m of cash spent on designing and building our new SAP accounting system and shared service centre. This programme of expenditure will continue through 2006 and 2007.

4.4 Dividends from joint ventures

Dividends received from joint ventures during 2005 were £25.7m (2004: £14.2m). This is equivalent to 101% (2004: 78%) of our share of joint ventures' profit after tax. The high level of conversion reflects dividend payments made by joint ventures from reserves retained in previous years. We expect a conversion rate in the range of 70% to 80% going forward.

4.5 Acquisitions

The cash outflow in 2005 of £281.7m primarily relates to the acquisitions of ITNET and RCI. The other significant acquisition during the year was our purchase of the outstanding 50% of Defence Management Holdings Limited (DMHL) for £5.9m. DMHL, which owns the special purpose company for the Joint Services Command and Staff College PFI, was previously a joint venture.

4.6 Other financing

Other financing of £269.4m primarily relates to the net draw down of loans to fund the acquisitions of ITNET and RCI.

4.7 Group non recourse debt financed assets

The £15.6m outflow is the net of expenditure on PFI assets under construction, the movement on non recourse loans and changes in other PFI balances.

Over the life of each PFI contract, we expect these movements to offset each other.

5. Net debt

At 31 December 2005, Group recourse net debt was £264.0m (31 December 2004: £15.3m). Further analysis is provided in Figure 3.

Figure 3: Net debt

As at 31 December	**2005 £m**	2004 £m
Group - cash and cash equivalents	**210.0**	173.9
Group - recourse debt	**(453.1)**	(168.4)
Group - obligations under finance leases	**(20.9)**	(20.8)
Group recourse net debt	**(264.0)**	(15.3)
Joint venture recourse net cash/(debt)	**18.0**	(4.6)
Total recourse net debt	**(246.0)**	(19.9)
Group non recourse debt	**(326.8)**	(256.5)
Joint venture non recourse debt	**(22.4)**	(47.1)
Total non recourse debt	**(349.2)**	(303.6)
Total net debt	**(595.2)**	(323.5)

Included within Group recourse net debt is £16.8m (2004: £15.3m) of cash securing credit obligations in relation to PFI and other project companies.

5.1 Group recourse net debt

The strength of our cash flow resulted in a reduction in Group recourse net debt in the second half of the year, from £315.2m at 30 June 2005 to £264.0m at the year end.

The net increase in the Group's other loans during the year reflects the debt funding for the acquisitions of ITNET and RCI. These loans have covenants consistent with our private placements and allow sufficient headroom to fund known commitments and working capital requirements.

5.2 Group non recourse debt

Group non recourse debt, which we have utilised to fund PFI assets and the acquisition of the DES franchise, increased during the year to £326.8m (31 December 2004: £256.5m). This was the result of our acquisition of the remaining 50% share of DMHL. Since the acquisition, we have consolidated 100% of DMHL's non recourse debt in our balance sheet. The increase was partly offset by the scheduled repayments of debt across all our non recourse debt funded projects.

The Group's debt is non recourse if no Group company other than the relevant borrower – typically a special purpose company for a PFI – has an obligation to repay the debt under a guarantee or other arrangement. The debt is excluded from all of our credit agreements and other covenant calculations, and therefore has no impact on the Group's ability to borrow.

6. Pensions

To assist understanding of the complexities of accounting for pension schemes under IFRS, we have provided an overview. Further detail was provided in our announcement 'Transition to International Financial Reporting Standards', on 31 August 2005.

The total pension cost included within PBTA for 2005 was £55.6m (2004: £39.5m). At the year end, the net amount included in the balance sheet arising from our obligations in respect of defined benefit pension schemes was £149.9m (31 December 2004: £124.7m). Further analysis is provided in Figure 4.

Figure 4: Defined benefit pension schemes

As at 31 December	**2005** **£m**	2004 £m
Group schemes - non contract specific	**(200.4)**	(164.6)
Contract specific schemes		
– reimbursable	**(84.9)**	(56.0)
– not certain to be reimbursable	**(21.3)**	(22.3)
Net retirement benefit liabilities	**(306.6)**	(242.9)
Intangible asset arising from rights to operate franchises and contracts	**19.0**	21.2
Reimbursable rights debtor	**84.9**	56.0
Deferred tax asset	**52.8**	41.0
Net balance sheet position	**(149.9)**	(124.7)

Under IFRS, Serco has three main types of scheme which are accounted for as defined benefit pension schemes. Each type has its own accounting treatment under IAS 19 'Employee Benefits'. These are:

- Schemes which do not relate to specific contracts or franchises – principally the Group scheme. For these schemes, the actuarial gain or loss for the period is charged to the consolidated statement of recognised income and expense (the SORIE)

- Schemes relating to specific contracts or franchises, where the deficit will pass back to the customer or to the next contractor at the end of the relevant contract. For these schemes, the actuarial gain or loss for the period is charged to the SORIE, and a recoverable intangible asset is recognised on the balance sheet and amortised to the income statement over the contract or franchise life, and
- The AWE contract, where there is a right of cost reimbursement, and where the pension scheme deficit and offsetting debtor are both included the balance sheet.

The increase in net liabilities during the year resulted primarily from the reduction in the AA bond rate, which increased the liabilities on all defined benefit pensions. These increases, together with the related deferred tax movement, have been reflected in the SORIE.

Figure 5 shows the approximate sensitivities of the liabilities on our defined benefit pension schemes to movements in the discount rate, and to changes in our actuarial assumptions regarding the rate of inflation, the rate of increase of scheme members' salaries and life expectancies.

Figure 5: Pension assumption sensitivities

	Change in assumption	Change in liability
Discount rate	+0.5%	(10)%
	(0.5)%	+11%
Price inflation	+0.5%	+8%
	(0.5)%	(7)%
Salary	+0.5%	+3%
	(0.5)%	(3)%
Longevity	Increase by one year	+2.5%

The main Group defined benefit pension scheme accounts for around two thirds of our net balance sheet position. In recent years, we have taken action to manage the liabilities of the Group scheme. We have closed the scheme to new members, other than those joining the Group as a result of TUPE transfers. We increased employer contributions to the scheme from 2003, and employee contributions from 2004. We have also introduced annual actuarial valuations, which ensure that we have up-to-date information on the position of the scheme.

During 2006, in conjunction with the scheme's trustees, we will further consider the funding and risk profile of the Group scheme.

7. Acquisitions

We completed the acquisition of ITNET on 3 February 2005. The consideration of £245.5m comprised £171.3m of cash and 30.4m shares worth £74.2m. The acquisition gave rise to goodwill of £260.9m, including fair value adjustments and acquisition costs of £28.1m. Intangible assets arising on the acquisition have been recognised at £20.6m and will be amortised on a straight-line basis over their expected life of eight years. From the date of ownership ITNET contributed £190.6m to revenue and £14.3m to PBTA.

Our acquisition of RCI was completed on 21 March 2005 for consideration of £116.3m in cash. The acquisition gave rise to goodwill of £93.7m, including fair value adjustments and acquisition costs of £7.0m.

Intangible assets arising on the acquisition have 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 £143.3m to revenue and £9.3m to PBTA.

Our other acquisitions during the year, principally the 50% of DMHL, contributed £3.3m to revenue and £0.8m to PBTA.

8. PFIs

8.1 PFI portfolio

The Group has a portfolio of 11 PFI projects. We have operating contracts for all our PFIs, and equity investments in ten. Following our purchase of 50% of DMHL, we now own 100% of eight of our PFI projects.

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. These are arrangements such as PFIs, under which a government or other body grants contracts for the supply of public services – such as prisons or hospitals – to private operators. The IFRIC is still working towards a final interpretation, which it expects to publish in the second half of 2006.

In the absence of specific guidance within IFRS, from 1 January 2005 we have recognised our PFI debtors at amortised cost, as defined by IAS 39. This maintains an accounting treatment consistent with UK GAAP and existing IFRS.

The draft guidance from IFRIC, if it were issued in final form, could require a number of changes to the accounting treatment of service concession arrangements. This could result in a significant increase in the carrying value of the Group's PFI debtors.

9. Treasury

9.1 Credit facilities and liquidity management

The £420m bank credit facility we used to provide funding for the acquisitions of ITNET and RCI comprises a term loan facility and a revolving credit facility. As at 31 December 2005, term loans totalling £279m were outstanding and the revolving credit facility was undrawn. The bank facility has covenants and obligations typical of these types of arrangement, is unsecured and expires in December 2009. Loans drawn under the bank facility accrue interest at a rate of 50 basis points over LIBOR.

Serco has also issued loan notes under two private placements. The first, for £43.2m, matures in December 2007. The second, for £117m, amortises evenly from 2011 to 2015.

9.2 Impact of IAS 32 and IAS 39

The Group adopted IAS 32 and IAS 39 effective from 1 January 2005. Adopting IAS 39 resulted in a reduction in our opening net assets of £27.1m. This principally represents a fair value loss from marking to market the interest rate swaps we use 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.

All designated hedges are highly effective and, as a result, the impact on the income statement for the period was immaterial. Further details of the effect of applying IAS 32 and IAS 39 can be found in our announcement of 31 August 2005, 'Transition to International Financial Reporting Standards'.

Consolidated income statement
For the year ended 31 December

	Note	**2005 £m**	2004 £m
Continuing operations			
Revenue	**2**	**2,260.3**	1,636.9
Cost of sales		**(1,935.3)**	(1,394.3)
Gross profit		**325.0**	242.6
Administrative expenses		**(214.3)**	(166.2)
Other operating expenses – amortisation of intangibles		**(13.6)**	(7.2)
Total administrative expenses		**(227.9)**	(173.4)
Operating profit	**2**	**97.1**	69.2
Investment revenue	**3**	**33.6**	35.3
Finance costs	**3**	**(52.8)**	(40.5)
Profit before tax		**77.9**	64.0
Tax		**(23.5)**	(19.5)
Profit for the year		**54.4**	44.5
Attributable to:			
Equity holders of the parent		**53.4**	43.5
Minority interest		**1.0**	1.0
Earnings per ordinary share (EPS)			
Basic EPS	**4**	**11.66p**	10.11p
Diluted EPS	**4**	**11.46p**	9.99p

Consolidated statement of recognised income and expense
For the year ended 31 December

	Note	2005 £m	2004 £m
Net actuarial loss on defined benefit pension schemes	8	(58.4)	(29.4)
Actuarial gain on reimbursable rights	8	35.6	13.0
Goodwill previously written off, released on sale of subsidiary		-	0.2
Net exchange gain/(loss) on translation of foreign operations	8	6.9	(3.3)
Fair value gain on cash flow hedges during the year	8	6.1	-
Tax credit on items taken directly to equity	8	2.0	5.6
Net expense recognised directly in equity		(7.8)	(13.9)
Profit for the year		54.4	44.5
Total recognised income and expense for the year		46.6	30.6
Attributable to:			
Equity holders of the parent		45.6	29.6
Minority interest		1.0	1.0
		46.6	30.6

Consolidated balance sheet
At 31 December

	Note	2005 £m	2004 £m
Non-current assets			
Goodwill		**544.5**	177.4
Other intangible assets		**107.8**	75.0
Property, plant and equipment		**103.0**	96.2
Investments		**-**	13.7
Trade and other receivables		**459.8**	390.6
Deferred tax assets		**91.2**	50.1
		1,306.3	803.0
Current assets			
Inventories		**36.4**	26.9
Trade and other receivables		**528.8**	390.1
Cash and cash equivalents		**240.7**	200.5
		805.9	617.5
Total assets		**2,112.2**	1,420.5
Current liabilities			
Trade and other payables		**(531.1)**	(417.0)
Current tax liabilities		**(19.5)**	(5.8)
Obligations under finance leases		**(8.2)**	(8.1)
Loans		**(64.8)**	(46.4)
Financial instruments		**(4.9)**	-
		(628.5)	(477.3)
Non-current liabilities			
Trade and other payables		**(5.0)**	(0.6)
Obligations under finance leases		**(18.2)**	(18.2)
Loans		**(744.7)**	(451.3)
Financial instruments		**(30.8)**	-
Retirement benefit obligations		**(306.6)**	(242.9)
Provisions		**(26.3)**	(6.0)
Deferred tax liabilities		**(92.1)**	(55.0)
		(1,223.7)	(774.0)
Total liabilities		**(1,852.2)**	(1,251.3)
Net assets		**260.0**	169.2
Equity			
Share capital		**9.4**	8.7
Share premium account		**269.5**	191.5
Capital redemption reserve		**0.1**	0.1
Retained earnings	**8**	**132.8**	104.4
Retirement benefit obligations reserve	**8**	**(139.0)**	(124.4)
Share-based payment reserve	**8**	**16.6**	6.2
Own shares reserve	**8**	**(16.4)**	(16.4)
Hedging and translation reserve	**8**	**(15.1)**	(2.6)
Equity attributable to equity holders of the parent		**257.9**	167.5
Minority interest		**2.1**	1.7
Total equity		**260.0**	169.2

Consolidated cash flow statement

For the year ended 31 December

	Note	**2005 £m**	2004 £m
Net cash inflow from operating activities	**6**	**140.8**	87.6
Investing activities			
Interest paid		**(47.6)**	(39.4)
Interest received		**32.8**	35.0
Disposal of subsidiary and business undertakings		**-**	3.2
Proceeds from disposal of property, plant and equipment		**0.4**	0.4
Proceeds from reduction in investment in joint venture		**-**	1.8
Acquisition of franchise		**-**	(4.1)
Acquisition of subsidiaries, net of cash acquired		**(281.7)**	(13.7)
Purchase of other intangible assets		**(13.1)**	(4.1)
Purchase of property, plant and equipment		**(22.3)**	(21.9)
Net cash outflow from investing activities		**(331.5)**	(42.8)
Financing activities			
Dividends paid		**(12.5)**	(10.4)
Repayment of borrowings		**(5.8)**	(0.8)
New loan advances		**272.0**	10.2
Capital element of finance lease repayments		**(8.4)**	(9.0)
Proceeds from issue of share capital		**4.4**	0.7
Decrease in non recourse loans		**(21.5)**	(19.2)
Net cash inflow/(outflow) from financing activities		**228.2**	(28.5)
Net increase in cash and cash equivalents		**37.5**	16.3
Cash and cash equivalents at beginning of year		**200.5**	184.6
Net exchange gain/(loss)		**2.7**	(0.4)
Cash and cash equivalents at end of year		**240.7**	200.5

Notes to the preliminary announcement

1. General information

The basis of preparation of this preliminary announcement is set out below.

The financial information in this announcement, which was approved by the Board of Directors on 1 March 2006, does not constitute the Company's statutory accounts for the years ended 31 December 2005 or 2004, but is derived from these accounts.

Statutory accounts for 2004 have been delivered to the Register of Companies and those for 2005 will be delivered following the Company's annual general meeting. The auditors have reported on these accounts; their reports were unqualified and did not contain statements under S237 (2) or (3) of the Companies Act 1985.

The preliminary announcement has been prepared in accordance with the accounting policies adopted under IFRS for the first time with a transition date of 1 January 2004. The disclosures required by IFRS 1 'First–time Adoption of International Financial Reporting Standards' concerning the transition from UK GAAP to IFRS can be found in our announcement of 31 August 2005, 'Transition to International Financial Reporting Standards'.

The financial statements have been prepared on the historical cost basis.

The Group has adopted IAS 32 'Financial Instruments : Disclosure and Presentation' and IAS 39 'Financial Instruments: Recognition and Measurement' with effect from 1 January 2005. Derivatives are initially accounted for and measured at fair value on the date a derivative contract is entered into and subsequently measured at fair value. The gain or loss on re-measurement is taken to the income statement except where the derivative is a designated cash flow hedging instrument.

2. Segmental information

This Group manages its business on a market segment basis and these segments are the basis on which the Group reports its primary segment information.

Business segments **Year ended 31 December 2005**	**Civil Government £m**	**Defence £m**	**Transport £m**	**Science £m**	**Total £m**
Revenue	**803.6**	**565.6**	**548.7**	**342.4**	**2,260.3**
Result					
Segment result	**37.5**	**33.3**	**25.0**	**31.4**	**127.2**
Unallocated expenses					**(30.1)**
Operating profit					**97.1**
Investment revenue					**33.6**
Finance costs					**(52.8)**
Profit before tax					**77.9**
Tax					**(23.5)**
Profit for the year					**54.4**

Year ended 31 December 2004	Civil Government £m	Defence £m	Transport £m	Science £m	Total £m
Revenue	629.1	372.3	345.8	289.7	1,636.9
Result					
Segment result	26.6	21.6	20.7	26.5	95.4
Unallocated expenses					(26.2)
Operating profit					69.2
Investment revenue					35.3
Finance costs					(40.5)
Profit before tax					64.0
Tax					(19.5)
Profit for the year					44.5

Geographical segments **Year ended 31 December 2005**	**United Kingdom £m**	**North America £m**	**Europe and Middle East £m**	**Asia Pacific £m**	**Total £m**
Revenue	**1,661.7**	**254.5**	**205.2**	**138.9**	**2,260.3**

Year ended 31 December 2004	United Kingdom £m	North America £m	Europe and Middle East £m	Asia Pacific £m	Total £m
Revenue	1,202.3	94.6	186.7	153.3	1,636.9

3. Investment revenue and finance costs

	2005 £m	2004 £m
Interest receivable by PFI companies	**26.7**	31.8
Interest receivable on other loans and deposits	**6.9**	3.5
Investment revenue	**33.6**	35.3
Interest payable on non recourse loans	**(19.9)**	(23.6)
Interest payable on obligations under finance leases	**(0.8)**	(0.7)
Fair value adjustment on fair value hedges and non IAS 39 designated hedges	**0.4**	-
Interest payable on other loans	**(27.8)**	(13.8)
Net interest payable on retirement benefit obligations	**(4.7)**	(2.4)
Finance costs	**(52.8)**	(40.5)

4. Earnings per share

Basic and diluted earnings per ordinary share (EPS) have been calculated in accordance with IAS 33 '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

	2005 millions	2004 millions
Weighted average number of ordinary shares for the purpose of basic EPS	**458.1**	430.1
Effect of dilutive potential ordinary shares: share options	**8.0**	5.3
Weighted average number of ordinary shares for the purpose of diluted EPS	**466.1**	435.4

Earnings	**2005**		2004	
	Earnings £m	**Per share amount Pence**	Earnings £m	Per share amount Pence
Earnings for the purpose of basic EPS being net profit attributable to the equity holders of the parent	**53.4**	**11.66**	43.5	10.11
Add back :				
Amortisation of intangible assets, net of tax	**11.2**	**2.43**	5.8	1.35
Basic earnings before amortisation of intangible assets	**64.6**	**14.09**	49.3	11.46
Earnings for the purpose of basic EPS	**53.4**	**11.66**	43.5	10.11
Effect of dilutive potential ordinary shares	**-**	**(0.20)**	-	(0.12)
Diluted EPS	**53.4**	**11.46**	43.5	9.99

5. Acquisitions

a) Acquisition of ITNET plc

On 3 February 2005 the Group acquired all of the issued share capital of ITNET plc for purchase consideration of £245.5m comprising cash and the issue of shares. ITNET plc is the parent company of a group of companies involved in information technology solutions. This transaction has been accounted for by the purchase method of accounting. The goodwill arising is attributable to the anticipated profitability arising from new business and the anticipated future operating synergies from the combination.

	Book value £m	Fair value adjustments £m	Fair value £m
Net assets acquired			
Goodwill	12.8	(12.8)	-
Other intangible assets	0.6	20.0	20.6
Property, plant and equipment	9.4	(1.4)	8.0
Deferred tax assets	6.3	3.2	9.5
Inventories	6.0	-	6.0
Trade and other receivables	43.6	(4.1)	39.5
Trade and other payables	(39.9)	(7.4)	(47.3)
Current tax liabilities	(0.4)	(1.0)	(1.4)
Provisions	(4.4)	(19.2)	(23.6)
Loans	(4.0)	-	(4.0)
Retirement benefit obligations	(11.5)	-	(11.5)
Obligations under finance leases	(5.8)	-	(5.8)
	12.7	(22.7)	(10.0)
Goodwill			260.9
Total consideration			250.9
Satisfied by:			
Issue of Serco Group plc ordinary shares			74.2
Cash			171.3
Purchase consideration			245.5
Directly attributable costs			5.4
			250.9
Net cash outflow arising on acquisition:			
Cash consideration paid in 2004			13.7
Cash consideration paid in 2005			163.0
			176.7

ITNET plc contributed £190.6m to revenue and £14.3m to the Group’s profit before tax and intangible amortisation for the period between the date of acquisition and the balance sheet date.

5. Acquisitions (continued)

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 £116.3m. RCI is the parent company of a group of companies involved in business process management for the US Federal Government. This transaction has been accounted for by the purchase method of accounting. The goodwill arising is attributable to the anticipated profitability arising from new business.

	Book value £m	Fair value adjustments £m	Fair value £m
Net assets acquired			
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	0.7	-	0.7
Trade and other receivables	35.3	-	35.3
Trade and other payables	(13.7)	(2.8)	(16.5)
	29.6	(4.9)	24.7
Goodwill			93.7
Total consideration			118.4
Satisfied by:			
Cash			116.3
Directly attributable costs			2.1
Net cash outflow arising on acquisition			118.4

RCI contributed £143.3m to revenue and £9.3m to the Group's profit before tax and intangible amortisation for the period between the date of acquisition and the balance sheet date.

6. Reconciliation of operating profit to net cash from operating activities

	2005 £m	2004 £m
Operating profit for the year	**97.1**	69.2
Adjustments for:		
Share-based payments	**5.7**	4.5
Depreciation of property, plant and equipment	**30.3**	22.2
Amortisation of intangible assets	**13.6**	7.2
Loss on disposal of property, plant and equipment	**0.4**	0.8
Loss on disposal of intangible assets	**0.1**	-
Loss on sale of subsidiary undertakings	**-**	0.1
Operating cash inflows before movements in working capital	**147.2**	104.0
(Increase)/decrease in inventories	**(1.9)**	2.3
Increase in receivables	**(47.2)**	(34.4)
Increase in payables	**44.6**	31.7
Cash generated by operations before PFI asset expenditure	**142.7**	103.6
Movement on PFI debtor	**15.3**	7.6
Expenditure on PFI assets in the course of construction	**(7.8)**	(16.3)
Cash generated by operations after PFI asset expenditure	**150.2**	94.9
Tax paid	**(9.4)**	(7.3)
Net cash inflow from operating activities	**140.8**	87.6

7. Analysis of net debt

	At 1 January 2005 £m	Cash flow £m	Acquisitions/ disposals £m	Exchange differences £m	Non-cash movements £m	At 31 December 2005 £m
Cash and cash equivalents	200.5	32.5	5.0	2.7	-	**240.7**
Non recourse loans (related to PFI assets)	(256.0)	20.5	(43.1)	-	0.4	**(278.2)**
Other non recourse loans	(47.6)	1.0	-	(6.9)	(17.5)	**(71.0)**
Other loans	(194.1)	(266.2)	(4.0)	(12.2)	16.2	**(460.3)**
Obligations under finance leases	(26.3)	8.4	(5.8)	(0.2)	(2.5)	**(26.4)**
	(323.5)	(203.8)	(47.9)	(16.6)	(3.4)	**(595.2)**

8. Reserves

	Retained earnings £m	Retirement benefit obligations reserve £m	Share-based payment reserve £m	Own shares reserve £m	Hedging and translation reserve £m	Total £m
At 1 January 2005	104.4	(124.4)	6.2	(16.4)	(2.6)	(32.8)
Fair value loss on hedges on adoption of IAS 39	(3.5)	-	-	-	(34.4)	(37.9)
Tax credit on hedges	0.5	-	-	-	10.3	10.8
Restated at 1 January 2005	101.4	(124.4)	6.2	(16.4)	(26.7)	(59.9)
Dividends paid	(12.5)	-	-	-	-	(12.5)
Net profit for the year	53.4	-	-	-	-	53.4
Net actuarial loss on defined benefit pension schemes	-	(58.4)	-	-	-	(58.4)
Actuarial gain on reimbursable rights	-	35.6	-	-	-	35.6
Credit in relation to share-based payment	-	-	5.7	-	-	5.7
Fair value gain on cash flow hedges during the year	-	-	-	-	6.1	6.1
Net exchange gain on translation of foreign operations	-	-	-	-	6.9	6.9
Tax charge on cash flow hedges	-	-	-	-	(1.4)	(1.4)
Tax (charge)/credit on items taken directly to equity	(9.5)	8.2	4.7	-	-	3.4
At 31 December 2005	**132.8**	**(139.0)**	**16.6**	**(16.4)**	**(15.1)**	**(21.1)**

9. 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:

	2005 £m	2004 £m
Revenue	**536.1**	255.5
Operating profit	**34.7**	25.7
Profit before tax	**36.4**	25.2
Tax	**(10.4)**	(6.3)
Profit for the year	**26.0**	18.9
Minority interest	**(0.5)**	(0.6)
Share of post-tax results from joint ventures	**25.5**	18.3

Operating profit includes £6.6m (2004: £nil) of costs incurred by Group.